Factors Influencing the Performance of Emerging Agricultural Cooperatives in Post-Apartheid South Africa

Cesare Cremona

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

Supervisor: Emeritus Professor Frederick Ahwireng-Obeng

Johannesburg, 2013

ABSTRACT

The purpose of this research was to identify the critical factors affecting the performance and sustainability of agricultural cooperatives in post-apartheid South Africa. There is great drive from government to implement a cooperative movement in South Africa (Lyne & Collins, 2008) in order to attempt to redress the legacy left by apartheid. Agricultural cooperatives have generally failed to operate sustainably in South Africa despite government having provided policy frameworks and other forms of assistance. This has significantly inhibited the transition of wealth and skills to the previously disadvantaged in the agricultural sector and rural communities.

Research regarding agricultural cooperatives in South Africa has been conducted by authors such as Chibanda, Ortmann, & Lyne (2009) and Ortmann and King (2007b). These studies were used as a basis from which to identify the challenges faced by agricultural cooperatives as well as the interview questions posed to the respondents. Semi-structured interviews were used to collect data from both public and private organisations involved in agriculture and agricultural cooperatives development. Respondents comprised six senior officials from various organisations and government.

The literature review concluded that a combination of three categories consisting of social and economic issues as well as particular problems inherent to cooperatives, are impacting sustainable agricultural cooperative development in South Africa today. The research confirmed the findings of the literature review but emphasised government's role in the poor state of agricultural cooperatives. In addition, a fourth category emerged from the research. This is the *basis* on which agricultural cooperatives are being established for which both government and society- particularly rural and agricultural communities are responsible.

The nature and complexity of these problems mean that a comprehensive and honest review of the situation by government and the relevant communities is required if the benefits inherent to agricultural cooperatives are to be exploited

and utilised to relieve the dire circumstances facing the large portion of South Africa’s population today.

DECLARATION

I, Cesare Cremona, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Cesare Cremona

Signed at …………………………………………………

On the …………………………….. day of ………………………… 2013

DEDICATION

To Deborah the light of my life, thank you for all your support and understanding during this tough time. Without you I would never have been able to complete this research nor realise any of my dreams. Words cannot express how thankful I am to have you in my life.

ACKNOWLEDGEMENTS

To my father Orlando Cremona, for all his support and understanding, for always pushing me to do better and achieve the goals that I set for myself or that have been set for me.

To my mother Maria Cremona, for always being there and helping me in whatever way she can.

I would like to thank Deborah Levy for helping me with the grammar and spelling.

To my supervisor, Emeritus Professor Frederick Ahwireng-Obeng, for freely sharing his expertise and understanding of cooperatives, and for his support in the preparation and presentation of this research.

To all the respondents who freely gave of their time.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1: INTRODUCTION

1.1 Context of the study

Cooperatives are often created as part of social movements whose purpose is to change the values of the dominant society. The values represented and embodied in cooperatives include self help, self responsibility, democracy, equity, equality and solidarity (Barton, 1989; Fairbairn, 2002; Lyne & Collins, 2008; Ortmann & King, 2007a; Watkins, 1970). The onset of apartheid placed mounting strain on such values even with the Cooperative Act of 1981, which in the end aided in the polarisation of South African society. Pressure was placed on the cooperatives from the government to confirm dominant ideological systems, while at the same time cooperatives were mostly internally divided on ideological lines. This is also true for the current social and political situation in South Africa, a nation divided by apartheid and struggling to come to terms with its past (Philip, 2003; Satgar, 2007).

National government passed the Cooperatives Act into law through consultation with the DTI in 2005, with the hope that cooperatives would be able to redress some of the inequalities created by apartheid. However cooperatives have since failed to take hold in the South African economy despite five years of significant policy development, and have thus failed to achieve all of the goals set by the Presidential Growth and Development summit held in 2003 and subsequently the DTI (Philip, 2003; Satgar, 2007).

Despite the new Cooperatives Act, the widespread debates on the future of cooperatives raise the question of whether conventional cooperatives are the appropriate or most effective organisational form that small scale farmers in South Africa could use to facilitate access to input and product markets. Several large cooperatives in South Africa have converted to companies due to the loss of government support and to avoid the problems inherent in conventional cooperatives. Essentially, the controversy revolves around the question of whether farmers' interests are better served by remaining members of a cooperative owned by them, or by an company that is managed and owned by shareholders (Ortmann & King, 2007a; Satgar, 2007).

In the development context, cooperatives are often driven by hopes that horizontal integration will reduce fixed *ex ante* transaction costs that keep small farmers out of product markets, and which are increasing with mounting concerns about food safety and the environment (Lyne & Collins, 2008; Satgar, 2007). Both vertical and horizontal integration were an important part of the thinking behind South Africa's new Cooperatives Act, 14 of 2005.

Agricultural productivity in Sub-Saharan Africa (SSA) is very low and most countries in the region neither produce enough nor are able to import food for their population (Abebaw & Haile, 2012). This situation has continued to become an important development challenge to African policy makers and the international development community. In 2003, African governments enacted the Comprehensive Africa Agricultural Development Programme (CAADP) that aims at enhancing the performance of agriculture in order to alleviate poverty and food insecurity in the continent through the development of cooperatives and the use of technology (Abebaw & Haile, 2012).

The functions of cooperatives in the economy and society

"Cooperatives empower people to improve the quality of their lives and to enhance their economic opportunities through self-help" (Ortmann & King, 2007a, p. 42). The National Council of Farmer Cooperatives (NCFC) echoes these sentiments by providing the following reasons why cooperatives are formed:

1. To strengthen bargaining power

2. To maintain access to competitive markets

3. To capitalize on new market opportunities

4. To obtain needed products and services on a competitive basis

5. To improve income opportunities

6. To reduce costs

7. To manage risk

This explains that cooperatives are formed by their members when the marketplace fails to provide needed goods and services at affordable prices and acceptable quality (Birchall, 2004; Ortmann & King, 2007a). Essentially then, farmers form cooperatives with the objective of generating greater profits by (1) obtaining inputs and services at lower costs than they could obtain elsewhere or that were not available, and by (2) marketing their products at better prices or in markets that were previously not accessible (Barton, 1989; Watkins, 1970).

The four main types of cooperatives are described in Table 1:

Table 1: The main types of cooperatives (adopted from the South African Cooperative Act No.14 of 2005)

Type	Description
Agricultural cooperatives	Cooperatives whose members either own land as a community or supply agricultural products to a processing facility to add value.
Worker cooperatives	Workers within the cooperative own and control the cooperative on a democratic basis. There are no owner and producer relationships within the cooperative.
Consumer cooperatives	A cooperative that gets and distributes goods to its members, and also provides services to its members.

Social cooperatives	This is a non profit cooperative that provides social services to its members, such as care for the elderly, children and the sick.
Housing cooperative	This is a primary cooperative that provides housing to its members, or a secondary cooperative that provides technical service to primary housing cooperatives.
Cooperative burial society	A cooperative burial society is a cooperative that provides funeral benefits, including funeral insurance and related services to its members and their dependents,
Financial services cooperative	A primary cooperative with the main purpose of providing financial services to its members or a secondary cooperative that provides financial services to a primary cooperative.

Many types of cooperatives have been established worldwide to serve the interests of members. Members may include consumers, producers, workers and service cooperatives. According to the National Cooperative Business Association (NCBA), there are 48,000 cooperatives serving 120 million people in the United States, whereas globally some 750,000 cooperatives serve 730 million members (Ortmann & King, 2007a). The various cooperative types provide members with diverse products and services, including financial services, equipment and farm supplies, marketing of agricultural products, consumer goods, utilities (e.g.

electricity, telephone), housing and other services (e.g. insurance). Barton (2000) points out that although cooperatives are common in many parts of the world, their most extensive and successful use during the last century has been in North America and Europe.

These cooperatives usually vary greatly with regard to functions performed and can also vary greatly in size. Most of the agricultural cooperatives are relatively small businesses. In 1999 for example, 50% of cooperatives in the US had less than $5 million in gross business volume and accounted for about 3% of total agricultural cooperative business, whereas 0.5% of cooperatives had a gross business volume of $1 billion or more and accounted for 43% of total business volume (Ortmann & King, 2007a).

Cooperatives and South Africa, past and present

The concept of cooperatives has been used all over the world from as early as 1848 (Cummings, 1890) in a variety of different formats and has played a key role in the establishment of stable and productive economies. Cooperatives have played an important part in the development of agriculture in industrialised countries as suppliers of farming requisites, marketers of agricultural commodities and providers of services such as grain storage and transport (Philip, 2003; Piesse, Doyer, Thirtle, & Vink, 2005). The modern history of South Africa cannot ignore the role cooperatives have played in the development of its economic foundations, besides the huge conglomerates dominating the radicalised and exploitative landscape in the apartheid economy, cooperatives mainly in the financial, services and agricultural sectors were also a crucial feature of the apartheid economy (Satgar, 2007).

Cooperatives are important vehicles to meet the economic goals of development, broad individual empowerment and sustainable livelihoods for communities (Chibanda, Ortmann, & Lyne, 2009). Cooperatives have been used for decades to balance the social and economic requirements of communities and countries all over the world (Lyne & Collins, 2008). While cooperatives existed in South Africa's apartheid era, their potential uses have recently sparked a renewed interest in the post-apartheid government. The South African government is thus now promoting the use of cooperatives as organisations that could help enhance the development of small-scale farmers and other communities in the country (Ortmann & King, 2007a).

In apartheid South Africa, the success of agricultural cooperatives was promoted because they served as agents of agricultural marketing boards and the Land Bank, which provided subsidised loans to commercial farmers. Small scale farmers in the former homelands did not have access to these cooperatives and their services for political reasons. Although cooperatives were established in the former homelands, many did not survive due mainly to poor management, lack of training, conflict among members and lack of funds (Lyne & Collins, 2008). The high costs of supporting commercial farmers were also not sustainable and a series of economic reforms commenced in the 1980s, including removal of subsidies and tax concessions to commercial reforms, reduced the role and viability of agricultural cooperatives, and several cooperatives converted to investor operated firms (Lyne & Collins, 2008; Ortmann & King, 2007b).

The new Cooperatives Act

The South African (SA) government is promoting the use of cooperatives as organisations that could assist the development of small scale farmers and other communities in South Africa (Ortmann & King, 2007a). However, the new democratic government in South Africa did not consider the Cooperatives Act of 1981 as a suitable vehicle for the development of cooperatives in the new economic and political era, and initiated a process of developing a new act based on international cooperative principles.

In August 2005 a new Cooperatives Act (No.14 of 2005) based on international cooperative principles, was signed into law by the SA government. This act sees a major role for cooperatives in promoting the economic and social development, in particular by creating employment, generating income, facilitating broad-based black economic empowerment and eradicating poverty. Under the new Cooperatives Act a variety of cooperatives can register and the focus is no longer on agricultural cooperatives (Satgar, 2007). This act recognizes the cooperative values such as self-help, self-reliance, self-responsibility and democracy, and argues that a viable, autonomous, self-reliant and self-sustaining cooperative movement can play a major role in the economic and social development of the country, particularly among the previously disadvantaged people (Ortmann & King, 2007a).

The functions of cooperatives in South Africa today

Agricultural cooperatives are often viewed as appropriate vehicles to facilitate vertical coordination with, or horizontal integration between small farmers who would have been excluded from value adding opportunities and discerning markets (Lyne & Collins, 2008). While cooperatives are formed by their members to correct the market, the development of the new Cooperative Act and agricultural cooperatives in South Africa in general should also be seen in the context of other laws and regulations that were implemented during the Apartheid era by the SA government in support of white commercial farmers. The Land Acts of 1913 and 1936, aimed at removing blacks from designated white areas and consolidating the black homelands, were supplemented by other measures to support commercial farmers, including the establishment of the Land and Agricultural Bank (Land Bank) in 1912 to provide subsidised loans to commercial farmers, the Cooperatives Societies Acts of 1922 and 1939 to secure input supply and output marketing services, and the Marketing Act of 1937 to control the marketing of agricultural products. Agricultural cooperatives emerged and thrived in this environment (Ortmann & King, 2007a).

In view of the history and development of cooperatives in South Africa and the political changes that have occurred, the Cooperatives Act of 2005 recognises:

• The cooperative values of self-help, self-reliance, self-responsibility, democracy, equality and social responsibility (Satgar, 2007);

• That a viable, autonomous, self-reliant and self-sustaining cooperative movement can play a major role in the economic and social development of the Republic of South Africa, in particular by creating employment, generating income, facilitating broad-based black economic empowerment and eradicating poverty (Philip, 2003);

• That the South African economy will benefit from increasing the number and variety of viable and sustainable economic enterprises (Satgar, 2007);

• That government is committed to providing a supportive legal environment to enable cooperatives to develop and flourish (Ortmann & King, 2007a).

The Act also aims to:

• Ensure that international cooperative principles are recognised and implemented in the Republic of South Africa (Satgar, 2007);

• Enable cooperatives to register and acquire a legal status separate from their members; and

• Facilitate the provision of targeted support for emerging cooperatives, particularly those owned by women and black people (Ortmann & King, 2007b).

The rapidly changing economic environment is characterised by technological change, industrialisation of agriculture, increasing globalisation and growing individualism. As a result many agricultural cooperatives are adapting their operations and have had to undertake substantial structural changes in order to adapt to the new situation. Royer (1999) for example, mentions that in addition to mergers, consolidations and acquisitions (horizontal and vertical restructuring), cooperatives have become increasingly involved in fundamental institutional changes, e.g. conversion to IOFs (investor owned firms) and joint ventures with corporations). These developments raise the question of whether there are fundamental features intrinsic to the cooperative organisational form that restrict cooperatives from being able to compete effectively in an increasingly complex economy and that ultimately threaten their long-term survival (Ortmann & King, 2007a).

1.2 Problem Statement

1.2.1 *Main Problem*

Agricultural cooperatives have generally failed to operate sustainably in South Africa, despite government having provided good policy frameworks and other forms of assistance, slowing the transition of wealth and skills to historically disadvantaged individuals (HDI) in the agricultural sector.

1.2.2 Sub-problem

It is not known from scientific evidence the main reasons for the poor performance of agricultural cooperatives in South Africa.

1.3 Purpose of the study

The purpose of the study is to discover what the underlying factors are that inhibit agricultural cooperatives from operating sustainably in post apartheid South Africa. Through interviews with experts and individuals that have direct involvement with cooperatives but are not engaged in cooperative activity, the research will highlight the challenges faced by cooperatives by the macro and micro environment.

1.4 Significance of the study

The study fills a gap in that it aims to answer an important question raised by Ortmann and King (2007a) - to determine whether there are fundamental features intrinsic to the agricultural cooperative organisational form that restrict agricultural cooperatives from being able to compete effectively in an increasingly complex economy and that ultimately threaten their long-term survival. There is limited research on the sustainability of agricultural cooperatives in South Africa, with very little research found relating to the initial life cycle and sustainability of agricultural cooperatives in South Africa, specifically to the difficulties they have in raising finance, both capital and operational (Piesse, et al., 2005). Given government's hopes and expectations for cooperatives and the new Cooperatives Act, this study will highlight the challenges faced by cooperatives from the perspective of those not involved in the cooperative, specifically other companies wishing to establish them as a potential source of supply (Philip, 2003).

Agricultural cooperatives have been promoted in many developing countries as a mechanism for driving agricultural growth and rural development (Chibanda, et al., 2009). The International Cooperative Alliance defines a cooperative as an autonomous association of persons united voluntarily to meet their common economic and social needs through a jointly owned and democratically controlled enterprise organised and operated on cooperative principles. The post-apartheid South African government identified cooperatives as a significant means to empower the rural poor with respect to the development of income-generating activities, human resource capacity, and increased savings and investment (Lyne & Collins, 2008).Speaking during his visit to land reform projects in the country's North West province, Deputy Minister of Agriculture and Land Affairs, Dirk du Toit, commented, that it is difficult for individual emerging farmers to survive in this industry. This is why it is important for them to form cooperatives to not only penetrate the market but also be competitive (Lyne & Collins, 2008). One of the purposes of the new Act is to ensure the provision of support programmes for 'emerging' cooperatives, a term used to describe development-oriented cooperatives established to promote the interests of previously disadvantaged people. Investments in secondary agricultural cooperatives are often rationalised by way of reducing transaction costs and alleviating hold-up problems caused by asset specificity through vertical coordination of farmers into processing and marketing activities (Lyne & Collins, 2008).

New institutional economics have cast doubt on whether cooperatives are the correct vehicle for this kind of development, and having failed to take new legislation into account, it is possible that other forms of incorporations might have been better suited for the task (Lyne & Collins, 2008; Nganwa, Lyne, & Ferrer, 2010). If so, recommendations can be made to amend sections of the Act in ways that strengthen the empowerment prospects of development-oriented cooperatives and so improve the effectiveness of public support dedicated to them (Lyne & Collins, 2008). Dedicated support for development-oriented cooperatives is a political reality in South Africa. This support will not be productive if emerging cooperatives are undermined by weak institutions. It is therefore important to establish the origins of institutional problems in traditional cooperatives and the extent to which prevailing legislation can accommodate changes to address these problems.

This study provides guidance to those wanting to establish agricultural cooperatives, as the formation of cooperatives is a complex issue and even more complex is ensuring their sustainability. Modern business wishing to secure their raw materials through cooperatives will need to ensure that they are established and run correctly. Guidance from government agencies and departments with practical and implementable policy will help ensure that more cooperatives get off the ground (Chibanda, et al., 2009).

South Africa's racial and cultural diversity, its history of Apartheid, inequality, poverty (Carter & May, 2001; Nattrass & Seekings, 2001), Black Economic Empowerment (BEE) policies and HIV/AIDS epidemic create the unique South African economic and social context. Other countries with similar economic, racial and/ or cultural diversity may find this research to be of interest.

1.5 Delimitations of the study

- All cooperatives other than agricultural and agricultural value adding cooperatives will be excluded.
- Only agricultural cooperatives that are in operation will be used in study.
- This study is limited to agricultural cooperatives with five or more members.
- Only South African cooperatives will be used.
- Established "white" agricultural cooperatives are excluded from the study, with focus being placed on emerging "black" agricultural cooperatives.

1.6 Definition of terms

Cooperatives: A cooperative is a jointly-owned and democratically-controlled enterprise. It is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations. Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others (Ortmann & King, 2007a; Philip, 2003; Watkins, 1970).

IOF: Investor operated firm that operates as an entity that reports to share holders (Ortmann & King, 2007a).

New Institutional Economics (NIE): a multidisciplinary field which combines economics, law, organisational theory, political science, business organisation and sociology (Chibanda, et al., 2009).

Transaction Cost Economics (TCE): New Institutional Economics that place emphasis on the potential costliness to a transaction (Chibanda, et al., 2009).

Abbreviations

BBBEE- Broad Based Black Economic Empowerment

BKB- Boeremakelaars Koöperatief Beperk

CSR- Corporate Social Responsibility

DTI- Department of Trade and Industry

FCA- Federal Cooperatives Agency

FCC- Federal Cooperative Commission

ICA- International Cooperative Alliance

ILO- International Labour Organisation

IOF- Investor Owned Firm

JSE- Johannesburg Stock Exchange

NCD- National Cooperative Dairies

NGO- Non-Government Organisations

SADC- Southern African Development Community

SENWES- Suid Wes Kooperasie

1.7 Assumptions

- Respondents will accurately understand and interpret the interview questions.
- Respondents will give accurate answers and insights relating to the research questions. This is reasonable to assume since the respondents are experts in their fields and have been chosen for their extensive experience in the fields relating to the research question.
- Since respondents are experts in their fields with many years experience, it is assumed that they will be able to answer the questions about their fields and about the nature of and success criteria of cooperatives and IOFs in South Africa.
- Respondents will provide honest and candid responses to the interview questions which will allow data to be collated and analysed thereby providing insights into the research question.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

Agricultural cooperatives are the potential drivers of agricultural development in developing regions. Governments in other developing countries have often promoted the use of agricultural cooperatives as organisations that could enhance the development of their small-scale farmers, thus reducing poverty and creating employment (Chibanda, et al., 2009; Ortmann & King, 2007a; Philip, 2003). Since 1994, the new democratic government in South Africa has been supporting the growth of agricultural cooperatives, especially among historically disadvantaged South Africans, as a strategy to alleviate poverty and create jobs. The new Cooperatives Act (No. 14 of 2005), under which a variety of cooperatives can register, was signed into law in August 2005. This Act recognises all the cooperative principles (which are outlined later in this report) and argues that a viable, autonomous, self-reliant and self-sustaining cooperative movement can play a major role in the economic and social development of the country, particularly among the previously disadvantaged people. However, the new legislation perpetuates the notion of traditional cooperatives, ignoring trends in developed countries where cooperative legislation has been amended to encourage investment by patron and non-patron members (Lyne and Collins, 2008).

In order to understand the concept of agricultural cooperatives, it is imperative to first understand how cooperatives developed and how they are conceptually defined. An overview of cooperative definitions and principles, and the origin of agricultural cooperatives will facilitate understanding relating to the potential opportunities and inherent challenges of agricultural cooperatives.

It is also imperative to understand the society in which a cooperative exists as cooperatives originate from and operate through members of working communities (Cummings, 1890; Watkins, 1970). The people, structure, characteristics and culture of a community thus play a critical role in the development and operations of cooperatives in their communities. A brief overview of South Africa's unique and diverse society is required in order understand its relationship to the current state of agricultural cooperatives in South Africa and their contribution to the economy.

The literature delves into the current state of agricultural cooperatives in South Africa comparing them to the progress made in other developing nations as well as in the developed world. An overview of their ability and success within the South Africa economy is provided so that a broader understanding of their role in the economy can be obtained.

As agricultural cooperatives operate as part of larger economy, it is vital to understand their contribution from an economic perspective. The literature explores various economic theories related to the operations of agricultural cooperatives and their interaction within the wider economy.

2.2. Evolution, Theory and Practice of Agricultural Cooperatives

Evolution of the Cooperative Concept

The definition and understanding of cooperatives has changed as society's view of social development, social needs and economic needs have changed. There is however, a view as to what the basic principles of a cooperative should be. These have remained stable over many years. While the definition changes according to the type of cooperative, the principles remain largely the same.

1890

The definition of cooperative has evolved, displayed by the purely practical definition from 1890 to the more refined and constricted definitions in subsequent centuries. The immediate cooperation resulting from the association of workmen acting upon their own initiative, and furnishing the labour, the capital, and the management, to the ordinary form of associated enterprise, which may, for convenience be designated as associated production. The production established by distributive societies united for purchase and manufacture on a large scale. The deferred cooperation resulted from the gradual transformation of a profit-sharing regime, in which workmen were permitted or compelled to purchase shares and proportionately to increase their influence in the management of affairs (Cummings, 1890).

1937- The International Cooperative Alliance

The International Cooperative Alliance adopted a more conceptual approach to their definition given in 1937 and it became known as the Rochdale Principles of Cooperation. The Rochdale Principles are a set of ideals for the operation of cooperatives established by a working community. They were first set out by the Rochdale Society of Equitable Pioneers in Rochdale England in 1844, and have formed the basis for the principles on which cooperatives around the world operate to this day (Ortmann & King, 2007a; Philip, 2003; Watkins, 1970).

This definition contained principles such as open membership; democratic control limiting each member to a single vote; distribution of the surplus to the members in proportion to their transactions; limited interest on capital; political and religious neutrality; cash trading and the promotion of education. Other features of the Rochdale system such as trading exclusively with members, voluntary membership and market related pricing for goods and services were endorsed, but not given the status of principles (Watkins, 1970).

1966

In 1966 the Cooperative Principles were further refined to reflect much of the social thinking of the time. The International Cooperative Alliance defined the membership of a cooperative society should be voluntary and available without artificial restriction or any social, political or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership. Cooperative societies are democratic organisations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies the administration should be conducted on a democratic basis in a suitable form. Share capital should only receive a strictly limited rate of interest. Surplus or savings arising out of the operations of a society belong to the members of that society and should be distributed in such manner as would avoid one member gaining at the expense of others (Watkins, 1970).

The International Cooperative Alliance adopted a more conceptual definition that incorporated the principles which now governs cooperatives:

A cooperative 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. Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others (Ortmann & King, 2007a; Philip, 2003; Watkins, 1970).

2.3. The cooperative principles

In terms of legislation, each definition and principle is adjusted to suit the specific economic and social circumstances of the country in which they operate. In Italy for example, the definition focuses on the social objectives of a cooperative (Frascarelli, 2006): any association or company that does not have social responsibility, reform or community self-help as a primary objective is not a cooperative (Giordano, 2010). The interpretation derived from Italian civil code is that cooperative incorporations are distinct from other forms of social associations, Corporate Social Responsibility (CSR) divisions within companies and Non-Government Organisations (NGOs). Cooperatives also have variable capital, and it is this distinction that allows a cooperative to furnish the community and its members with services and opportunities at rates preferential to those supplied by the open market, while still allowing for bottom line profits to be distributed to its members (Frascarelli, 2006).

The two main types of cooperatives found in Italy can be further distinguished by their level of social participation; those with dominant social objectives and those with both social and profitable objectives (Frascarelli, 2006; Giordano, 2010). The main factors distinguishing them are the methods in which reserves can be distributed, the ability to ultimately transform into profit seeking organisations and superior credit payment facilities available to them due to the nature of the organisation (Giordano, 2010).

The cooperative principles are guidelines through which cooperatives put their values into practice and dictate their daily operations. These are the principles established by the International Cooperative Alliance (ICA) and have been widely adopted by law makers and cooperatives all over the world (Watkins, 1970).

1st Principle: Voluntary and Open Membership

Cooperatives 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 (Ortmann & King, 2007a).

2nd Principle: Democratic Member Control

Cooperatives 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 cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organised in a democratic manner (Watkins, 1970).

All major policy decisions are based on the one-member, one-vote principle, regardless of each member’s investment or contribution to the cooperative. Members elect their board of directors from their ranks or a more autocratic president and vice president figure who are charged with the day to day operations of the cooperative (Frascarelli, 2006; Giordano, 2010).

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. 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 cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership (Watkins, 1970).

A cooperative is a user-owned and user-controlled business that distributes benefits equitably on the basis of use or patronage (Barton, 1989). Thus, a farmer member who accounts for 5% of the volume of agricultural products delivered to the cooperative would receive 5% of the net earnings derived from the handling, processing and marketing of those products. This principle is referred to as *business at cost* as such patronage dividends help boost the income of farmers directly or by reducing the effective cost of the goods and services provided (Ortmann & King, 2007a).

Cooperatives return surplus income to members in proportion to their use or patronage of the cooperative, and not proportionate to their investment or ownership share. The cooperative thus encourages loyalty through this means as the farmers net income is dependent on the cooperative's efficiency (Frascarelli, 2006). Member capital contributions are linked to product delivery and marketing rights which attain value and can be transferred and membership is closed or restricted.

4th Principle: Autonomy and Independence

"Cooperatives are autonomous, self-help organisations 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 cooperative autonomy" (Ortmann & King, 2007a, p. 41).

Cooperatives are owned and democratically controlled by their members and not by outside investors or government institutions (Ortmann & King, 2007a). Cooperatives are motivated not by profit, but by providing a service to satisfy members' requirements for affordable and quality goods, market access or services. They also service the community's needs by providing employment and utilising local services and products for their day to day operations (Giordano, 2010).

5th Principle: Education, Training and Information

Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation (Philip, 2003).

6th Principle: Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures (Lyne & Collins, 2008).

7th Principle: Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members (Philip, 2003).

Definition of Cooperatives in South Africa's new Cooperatives Act

The South African government has adopted the ICA's seven principles in the form of the new Cooperatives Act, in which cooperatives are envisaged to play a major role in promoting economic and social development, in particular by creating employment, generating income, facilitating Broad Based Black Economic Empowerment (BBBEE) and eradicating poverty (Ortmann & King, 2007a). The government has committed itself to providing cooperatives with technical support and a supportive legal environment.

The definition of a cooperative according to the South African Cooperatives Act is 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 cooperative principles” (Ortmann & King, 2007a, p. 41). The specific social needs of South Africa are outlined in the Act in part 2(d), which states that the purpose of the Act is to promote equity and greater participation by black persons, especially those in rural areas, women and persons with disability and youth in the formation of, and management of cooperatives.

2.4. The sustainability and efficiency of cooperatives

Ortmann and King have concluded that cooperatives are less efficient than IOFs and that their relative inefficiency is due to the inherent weakness in their property rights structure. They further argue that cooperatives survive, despite their relative inefficiency, because of free services provided by the governments, favourable tax treatment and favourable credit terms. Other studies conclude that there is little credible evidence that cooperatives are less efficient than IOFs (Sexton, 1995). Although there are questions about whether cooperatives can adapt to a rapidly changing environment characterised by technological change, industrialisation of agriculture and growing individualism, many feel that the greatest strength of cooperatives is their ability to generate institutional innovations that allow them to respond to changing conditions and needs (Fulton, et al., 2000; Ortmann & King, 2007a; Royer, 1999).

Performance of agricultural cooperatives in Africa

Agricultural cooperatives have been promoted in many developing countries as instruments of nurturing agricultural development. In the Southern African

Development Community (SADC) region, agricultural cooperatives are considered important for providing services such as market access, extension and technical expertise to small-scale farmers and agribusinesses that contribute to poverty reduction and economic development (Chibanda, et al., 2009). In South Africa agricultural cooperatives in the past have dominated the distribution of agricultural inputs and intermediates such as seed, fertilizer, fuel and repair services (Ortmann & King, 2007b). The establishment of agricultural cooperatives can result in various advantages for their members. Agricultural cooperatives can supply services to their members which other suppliers are unwilling to do or at lower price than available on the market at that point in time. They can also increase the bargaining power of individuals enabling them to obtain services and products at more favourable prices. While increased bargaining power may contribute to the achievement of goals by individuals, the forming of agricultural cooperatives can also contribute to the alleviation of poverty, especially amongst the less privileged communities (Philip, 2003). Several authors, for example Chibanda, et al. (2009), Lyne & Collins (2008), Ortmann & King (2007a) and Philip (2003), consider the agricultural cooperative as an ideal type of business to concentrate on as it contributes to the socio-economic needs of its members, especially in rural communities, where agricultural cooperatives can play an important role as the economic engine for creating jobs and increasing rural income.

The agri-food industry has been rapidly changing and globalising at a rapid pace. Some agricultural cooperatives have thus responded by forming subsidiaries co-owned by external investors in the form of joint ventures such as Coega dairies joint venture with Famous Brands, a listed entity on the Johannesburg Stock Exchange (JSE). They have also opened their own societies to invest by non farmer interest, while other agricultural cooperatives have converted into IOFs (Chibanda, et al., 2009).

Although cooperatives have the potential to supply farm inputs and market farm products which are both important for agricultural development, developing countries' attempts to organise farmers into cooperatives have often failed. The

Department of Trade and Industry (DTI) in its co-operative baseline study published in 2009, provides a brief overview of cooperative development in African countries.

Certain sources suggests that African farmer cooperatives have often failed because of problems in holding management accountable to the members due to the hierarchical nature of their social structures (Ortmann & King, 2007a), leading to inappropriate political activities or financial irregularities in management (Lyne & Collins, 2008). There are many reports that cooperative failures in the former less-developed homelands of South Africa were due mainly to lack of management experience and knowledge, lack of capital resources and disloyalty of members due to ignorance (Chibanda, et al., 2009; Van Niekerk, 1988).

Government policies regarding cooperatives are critical because they can constrain or enhance independent cooperative development (Ortmann & King, 2007a). As far as agricultural cooperatives are concerned, the agricultural sector has lost considerable intellectual and administrative capacity since the Registrar of Cooperatives moved to the DTI, because of a centralization approach with only one department dealing with all cooperatives. The new Act makes it easier than before to establish and operate a cooperative (Ortmann & King, 2007a).

Ethiopia

In Ethiopia, over 95% of agricultural output originate from smallholder farmers, but despite their major contribution to the country's economy, these farmers are commonly characterised by limited access to input and output markets, and low productivity (Abebaw & Haile, 2012). Cognisant of this problem, the government of Ethiopia has given high policy attention to improving agricultural productivity through greater intensification of smallholder farming practices.

In its endeavour to improve agricultural productivity, the Ethiopian government has given substantial policy attention to farmer's cooperatives. While the government established the Federal Cooperative Commission (FCC) in 2002, the commission intended to establish one cooperative per Kebele (the smallest administrative unit) and attained 70% of this goal by 2010. According to Spielman, Byerlee, Alemu, &

Kelemework (2010), the cooperatives play important roles in the delivery of various public agricultural services in the country. In particular they are actively involved in the dissemination of agricultural inputs, collection and sale of members outputs, provision of business loans, and offering training to members (Abebaw & Haile, 2012).

Cooperatives have a long history in Ethiopia, in all forms such as worker and saving and credit associations. These informal associations are still present in the country. However, it was in the 1950s that formal cooperatives were established, and at that time few cooperatives were primarily engaged in producing industrial crops for export market and their members were predominantly large landholders (Abebaw & Haile, 2012).

In the past the Ethiopian government gave special attention to cooperatives as instruments of mass movement to ensure equitable resource mobilisation and distribution in the country. These were mainly service and producers cooperatives that used to organise labour, control production and marketing, and sell inputs and consumer goods to members (Abebaw & Haile, 2012).

These cooperatives were however, characterized by mandatory membership, production quotas and with a tendency to exclude smallholders. With the downfall of the Derg regime, some of these cooperatives were looted and misused by local people for their assets (Spielman, et al., 2010). Between 1991 and 1993, cooperatives did not get any policy attention by the current government, which however, enacted a new cooperatives proclamation in 1994, which stated that cooperatives were independent entities organised to promote common socioeconomic interests of their members (Tangermann, 2005).

The FCC, later named as the Federal Cooperatives Agency (FCA), was established to manage the proper implementation of cooperatives legislation and devise policies and legal measures consistent with international conventions on cooperatives. The current Ethiopian government continued its support to cooperatives in the various poverty reduction strategies of the country. Increased policy attention to cooperatives is also found in the Plan for Accelerated and

Sustainable Development to End Poverty, and in the Growth and Transformation Plan (Abebaw & Haile, 2012).

Improving agricultural productivity is one of Ethiopia's priorities and the cooperative proclamation has been established to encourage and support the establishment and operation of agricultural cooperatives in the country. Agricultural cooperatives are expected to play an important role in achieving growth in the sector, as agricultural cooperatives are involved in the delivery of different services to their members. These services include, among others, dissemination of improved farm inputs such as fertilizers, improved seeds, pesticides and the provision of loans and marketing of members farm products (Abebaw & Haile, 2012).

Interestingly, Abebaw & Haile (2012) suggest that cooperative membership has a statistically significant and positive impact on fertilizer adoption among its members - in the range of 9-10 percent. Testing for the presence of impact heterogeneity, they found that the impact is greater for illiterate households and households located farther away from all-weather roads. From a policy perspective, these differential impacts are compelling as these are among the households who are less likely to adopt new agricultural technologies.

Kenya

Informal producer organisations existed in Kenya before the onset of colonialism, however, the first agricultural cooperative was established by European settlers in the Rift Valley in 1908 (Machethe, 1990). This was the start of a greater cooperative movement that what formalised in 1931 with the passing of the Cooperatives Societies Ordinance. At this point the colonial government began showing interest in cooperatives especially agricultural cooperatives in order to increase the supply of coffee to Europe, as a result Africans were allowed to join cooperatives in 1944 (Department of Trade and Industry, 2009).

Before the Mau Mau rebellion in the 1950's civil servants were encouraging the establishment of cooperatives that numbered over 160, however by the time the rebellion began most of the local Africans left the cooperatives to join the pro independence movement. When the Swynnerton cooperative was established in 1954 it went a long way in alleviating the effects of the rebellion and ushered in a new age that resulted in more than 4000 cooperatives being established by 1958 (Department of Trade and Industry, 2009).

The growth of the cooperative movement during the colonial era was likely the result of government's commitment to foster economic growth through the cooperative sector. Regardless of restrictive legislation and racially bias policies that were similar to apartheid in South Africa (Steven, 2012) .

During the 1960's and 1970's the Cooperative Societies Ordinance continued to be refined until 1997 when the Cooperatives Act was passed on the presumption that cooperatives had matured enough to govern themselves (Steven, 2012) . Governments' withdrawal had a negative effect with poor management and other inefficiencies resulting in the cooperative sector coming under strain. In order to address these challenges government introduced the Economic Recovery Strategy for Wealth and Employment creation as well as Strategy for Revitalising Agriculture in order to support agricultural cooperatives. These are long term strategies intend to last past 2014 (Department of Trade and Industry, 2009) .

South Africa

The development of cooperatives in the New South Africa

When one considers the origins of cooperatives, the potential value that they can add to a country and an economy becomes clear. The development of cooperatives over time has been largely driven by needs of individuals or groups of people within a community as a result of three main types of interrelated events or circumstances. Firstly, economic conditions caused by war, depression, technology, government economic policy and social policies such as apartheid, resulting in an economically depressed nation or high poverty levels which prevent communities from achieving a sustainable lifestyle. Secondly, farmer organisations are developed and are impacted by the quality of their leadership, their motivation and enthusiasm to promote cooperatives, and their power to influence public policy. Thirdly, public policy is determined by government interest, legislative initiative, judicial interpretation and the social needs of the country at that point in time (Philip, 2003).

South Africa's Presidential Growth and Development summit held in 2003, endorsed special measures to support cooperatives as part of strategies for job creation in the South African economy. Responsibility for cooperatives within government structures was thus passed from the Department of Agriculture which had until then, failed to achieve any significant progress, to the DTI where the Cooperative Development division was established (Philip, 2003). This led to the establishment of the Cooperatives Act which was passed into law in 2005 (Chibanda, et al., 2009).

In South Africa, the cooperative movement has remained largely under developed (Lyne & Collins, 2008; Philip, 2003) as the market has relied other mechanisms such as BBBEE (Broad Based Black Economic Empowerment) and land reform to bring about the social and economic changes to offset the effects of apartheid (Satgar, 2007). The success of these mechanisms has been called into question (Philip, 2003), leaving the South African government looking for new and innovative measures to bring about social and economic change.

One of the main reasons why the SA government is advocating the establishment of cooperatives through the Cooperative Act of 2005, is because cooperatives are formed by their members when the marketplace fails to provide needed goods and services at affordable prices and acceptable quality (Ortmann & King, 2007a), which allows them to survive in a market place in which there may be prejudice or some form of social injustice such as apartheid. Cooperatives also allow farmers and farming operations easier access to market places due to their increased buying power and economies of scale.

The post-apartheid challenge of reconstruction and development coincides with an attempt post the Cold War and World War Two, and in the midst of the neo liberalisation of the global political economy, to reclaim the authentic identity of cooperatives. The legal reform of the 1981 Cooperatives Act, which began through a review initiated in 2000, attempted to take onboard the lessons of cooperative development during apartheid and was informed by international standards and universal principles defining cooperatives. In this regard the new Cooperatives Act breaks with the one sidedness of the 1981 Act, which mainly supported the development of agricultural cooperatives, and at the same time affirms the international principles and values of cooperatives as defined in the International Cooperative Alliance Statement of Identity and the International Labour Organisation (ILO) Recommendation 193 (Satgar, 2007).

As far as agricultural cooperatives are concerned, Ortmann and King (2007) believe that the agricultural sector has lost considerable intellectual and administrative capacity since the Registrar of Cooperatives moved to the Department of Trade and Industry (DTI), which adopted a centralised approach with only one department dealing with all cooperatives. However, they consider that the new Act makes it easier than before to establish and operate a cooperative. Moreover, the underlying policy rationale for the development of post-apartheid cooperatives is grounded in the Broad Based Black Economic Empowerment Act (2003), which serves as a basis for the Cooperatives Development Policy and the new Cooperatives Act. While the former Act provides explicitly for cooperatives to be part of socio-economic strategies to empower historically disadvantaged individuals it has thrown up numerous contradictions that constrain cooperatives (Satgar, 2007).

Despite the new Cooperatives Act, the widespread debates on the future of cooperatives raise the question of whether conventional cooperatives are the appropriate or most effective organisational form that small scale farmers in South Africa could use to facilitate access to input and product markets. Several large cooperatives in South Africa have converted to IOFs due to the loss of government support and to avoid the problems inherent in conventional cooperatives. The question of the appropriateness and feasibility of conventional cooperatives for SA small scale farmers is the topic of further research (Ortmann & King, 2007a).

At the end of 2004 there were 459 registered agricultural cooperatives in South Africa, while non-agricultural cooperatives numbered 3,751 (Ortmann & King, 2007a). Although there have been relatively large numbers of new cooperative registrations over the last few years, it is difficult to ascertain how many of these are actually active and thriving (Ortmann & King, 2007a). For 2007 the aggregate figure for cooperatives in the country amounted to 4061, with most cooperatives developing as worker and multipurpose cooperatives followed by agricultural cooperatives. As per the provincial break-down provided it would seem the growth and concentration of cooperatives are mainly in two of South Africa's provinces in which there is a high concentration of poor rural populations: Kwazulu-Natal and Eastern Cape. However, while these quantitative figures point to an important and interesting story these figures are not very reliable and have numerous problems (Satgar, 2007).

First the Registrar's list does not provide for an appropriate classification based on the new Cooperatives Act of 2005. Second, there is no distinction made between primary, secondary and sectorial cooperatives as per the new Act. Finally, this data is not credible because there is no way of confirming whether the cooperatives are engaging in cooperative activity (Satgar, 2007).

In a study of a sample of 54 registered cooperatives in Limpopo province, Van der Walt (2005) found that 65% of these were not operational. Reasons provided include: poor management, lack of training, conflict amongst members, lack of funds and operations which never started after registration. Nearly 50% of respondents admitted that the service provided to clients was inadequate, which could have contributed to conflict among members and failure. Overall, poor management was indicated as the most important reason for cooperative failure.

The research report produced for the DTI in 2009 by The Growth Laboratory in 2009 (Department of Trade and Industry, 2009) failed to provide the reader with a clear sense of the challenges faced by agricultural cooperatives. The research focused on data that had no relevance to agricultural cooperatives. The case studies were mostly focused on developed countries and thus had no bearing on South Africa.

These issues are clearly important for government officials who are promoting cooperatives and for the communities who wish to establish cooperatives. Education and training of managers and members, and mentoring of managers over the short to medium term appear to be critical but insufficiently provided requirements of the establishment and operation of successful cooperatives (Ortmann & King, 2007a).

The society in which South African agricultural cooperatives operate

According to Sexton (1995), different cooperative models are needed in different environments because cooperatives reflect the environments in which they operate. Birchall (2003) confirms that this is both a common and a necessary view that needs to be applied in order to succeed in various economic and social settings around the world.

While South Africa is composed of many different cultures, it has been found that different cultures have different attributes, which inform people's behaviours, orientations, values, philosophies and even business practices (Booysen, 2001; Hofstede, 1983, 1984). Cooperatives originated in Europe in the 1800's (Barton, 1989), and since cooperatives were informed by that particular culture, those ideals, values and philosophies differ inherently and significantly from the cultures found in South Africa today, particularly the rural, traditional African environments to which government has been promoting the development cooperatives.

In addition to the obvious cultural and ideological differences between Europe and Africa are the economic and social disparities, with the majority of rural South Africans facing high rates of illiteracy, poverty, lack of education and little access to resources, health care and information. So while government may understand the potential value that cooperatives have to offer these South Africans, it is questionable whether there is sufficient alignment between the fundamental components of what it takes to create and sustain a cooperative, and where South Africans, particularly rural South Africans find themselves today.

What worked for Euro-centred communities may not necessarily be fitting for Afro-centred communities and it is imperative that the traditionally Euro-centred cooperative models and principles are adapted to South Africa. It is questionable whether South Africa's new Cooperative act, which is based on the international principles and values of cooperatives are sufficiently aligned with post-Apartheid South Africa.

The following examples are evidence of this argument. Ortmann & King (2007 a) explain that while each economic exchange involves a transaction cost, transaction costs are influenced by social and behavioural norms. With regard to a cooperative operating in a rural African environment, this can be problematic due to the hierarchical nature of their social structures. These hierarchical structures are in conflict with the first, second and third cooperative principles, with Helmberger & Hoos' (1962) model where members are to be treated uniformly, as well as with the new Cooperatives Act, part 2(d), which promotes democracy and equity, particularly by black persons, especially those in rural areas, women and persons with disability and youth in the formation of, and management of cooperatives.

Lack of education and literacy is also a considerable concern because as Chibanda, et al. (2009) found, the ability of individuals to process information, deal with complex issues and consider all possible contingencies are vital to the operation of cooperatives. Ortmann & King (2007a) found that asymmetric information and the inability to specify or measure performance inevitably result in opportunism and transaction costs detrimental to the cooperative, while cooperatives that lack business management capacity have had a rather disappointing history in developing countries (Simmons & Birchall, 2008) and find it extremely difficult to gain access to finance (Chibanda, et al., 2009).

According to research conducted by Machethe (1990) on six smallholder agricultural cooperatives in the former homelands of South Africa, the following factors were major reasons for the poor performance of these cooperatives: inadequate capital; lack of membership identity with the cooperatives; and cooperatives failure to provide transport for delivery of members' purchases. In addition, failure of cooperatives to compete with other businesses; inability of cooperatives to keep adequate input stock; and inability of members to dismiss inefficient management were contributory factors (Chibanda, et al., 2009).

2.5. Theory of cooperatives

Although cooperatives have served and are serving an important function for many farmers, problems inherent in conventional cooperatives have given rise to doubts about the sustainability of these cooperatives and have sometimes even given rise to the establishment of other forms of business organisation (Chibanda, et al., 2009; Ortmann & King, 2007a). In light of the history and development of agricultural cooperatives, of problems experienced and the fact that several agricultural cooperatives in South Africa (for example Clover, BKB and SENWES) have converted to IOFs, it is helpful to consider the theory of cooperatives and the new institutional economics approach to cooperative organisation. This may facilitate a deeper insight into the role of institutions in organisational design (Ortmann & King, 2007a).

Company versus cooperative

While several large cooperatives in South Africa such as NCD (National Cooperative Dairies), SENWS and BKB, have converted to IOFs in recent years, there is still considerable controversy in the agricultural community over the merits of cooperatives versus IOFs. Essentially, the controversy revolves around the question of whether farmers' interests are better served by remaining members of a cooperative owned by them, or by an IOF that is managed and owned by shareholders (Lyne & Collins, 2008; Ortmann & King, 2007a)

The arguments in favour of IOFs include their easier access to various sources of capital; their ability to attract top-quality management; the alignment of shareholders' interests with those of customers; and an entrepreneurial flair often missing in cooperatives (Ortmann & King, 2007a; Satgar, 2007). This argument appears to be particularly relevant in light of Van der Walt's (2005) findings that poor management, lack of funds and training and conflict amongst members were the main reasons of the high percentage of failed cooperatives in Limpopo.

Also, as cooperative members are often reluctant to fully capitalize their cooperative because they do not receive a market related return on their capital, it becomes difficult to provide top-quality service to match the competition from IOFs. This problem arises because the members of the cooperatives are the same people that access its services (Chibanda, et al., 2009; Ortmann & King, 2007a).

Thus, cooperative members face the member versus shareholder conflict where they may receive a good service from their cooperative, but the return on their capital invested is poor compared to what shareholders in an IOF may receive on their investment in terms of dividends and the potential for capital growth. Proponents of cooperatives argue that a cooperative exists to serve its members who are able to retain influence over its functions and activities, thus making the argument of capital return irrelevant (Chibanda, et al., 2009).

Philip (2003) supports the establishment of user cooperatives in South Africa and argues that since they can reduce costs, enhance incomes and improve the viability of business activities, they have significant potential to contribute towards reducing poverty, enhancing empowerment and creating jobs.

Economics approach to agricultural cooperatives

There are inherent problems with conventional cooperatives, namely free-rider, horizon, portfolio, control and influence cost problems caused by vaguely defined property rights. An analysis of the future of cooperatives in general, based on a New Institution Economics (NIE) approach, suggests that the life cycles of cooperatives (formation, growth, reorganisation or exit) as they adapt to a changing economic environment characterised by technological change, industrialisation of agriculture and growing individualism (Ortmann & King, 2007a), are subject to a differing set of problems and constraints as those found in traditional IFO's. These problems will be discussed in detail later in this section.

In a mathematical model developed by Helmberger and Hoos (1962), the cooperative's optimisation objective is to maximise benefits to members by maximising the per unit value or average price by distributing all earnings back to members in proportion to their patronage volume or use (Helmberger & Hoos, 1962). At face value the model seems to be less efficient than an IOF but in essence the principle member will obtain a superior return on the market goods which will then allow him to average return equal to that of the market rate which includes capital (Sexton, 1995). The model clearly sets forth a list of assumptions on cooperatives and member behaviour and then derives correctly the equilibrium behaviour given those assumptions which are:

1. The cooperative accepts members' entire production,
2. Members are treated uniformly,
3. Members are bound contractually to deliver their entire production to the cooperative,
4. Members act as price takers in dealings with the cooperative, and
5. The cooperative operates at cost, subject to a break-even constraint.

In this sense, it can be considered to be the first complete mathematical model of behaviour of an agricultural cooperative. It provides a very clear basis for distinguishing short-run versus long-run behaviour in an agricultural cooperative. Along with policy-relevant distinction between the behaviours of cooperatives that maintain open membership versus those that restrict membership.

According to the neoclassical theory of the firm, each firm maximises its profits subject to its cost structure and product demand constraints; in this case the approach is based on the aggregate results, whereas with cooperatives it is based on maximising value for the principle members (Ortmann & King, 2007a).

The transaction costs (i.e. costs of obtaining information about alternatives and costs of negotiating, monitoring and enforcing contracts) are assumed to be zero, as are adjustment costs; and resources are privately held and fully allocated among alternative uses purely in response to financial incentives. How a cooperative would behave under different circumstances can be hypothesised by analysing how changes in the cooperatives constraints affect its profits (Ortmann & King, 2007a).

Criticism of the neoclassical model of the firm was based on the assumption of profit maximisation but, more fundamentally, the model does not explain why these cooperatives exist in the first place, and how the resources within these organisations are employed, allocated and motivated to achieve maximum profits. Various academics also contend that the criticism of neoclassical economics extends to the study of markets because it is ill suited to answering questions about when, why, and how markets evolve, about the institutional infrastructure required to support market activity, and about the structures of the organisations involved in market activity (Ortmann & King, 2007a).

While there are inherent difficulties in linking economic theory and cooperative practice, there have been various debates on whether a cooperative enterprise should be treated as an IOF in terms of decision-making and control, as Helmberger and Hoos (1962) did, or as an organisation that consists of an aggregation of economic units, namely the principle members (Ortmann & King, 2007a). Based on various overviews of the debate on the Helmberger-Hoos (1962) and opposing models such as Emelainoff (1942) and Robotka (1947) the former has the greatest support among economists, although their contribution has also been criticized in various academic circles (Sexton, 1995). Sexton (1995) views this debate as “primarily one of semantics”, and considers the issue unimportant to conceptually understanding cooperatives and their daily and operational goals.

Sexton (1995) sees the development of alternative models as applications of advances in economic theory of cooperatives reflecting the richness of the environments in which cooperatives operate and the need to have alternative models that apply in different settings (Sexton, 1995). This is the most common view taken by those that apply these models practically in order to succeed in various economic and social settings around the world (Birchall, 2003).

The criticisms of the neoclassical paradigm led to the development of alternative models for cooperatives based on the other assumptions of maximising rate of growth and sales and firm size subject to a profit constraint. Focusing on the process of decision-making within the cooperative differs from traditional firms, where maximising behaviour is rejected and some of the unrealistic conditions of the model are eliminated, such as considering utility maximisation, positive transaction and information costs, and alternative property rights structures (Ortmann & King, 2007a). The roles of positive transaction costs and variable property rights have given economists new insights into the existence of cooperatives.

Clearly there is difficulty in linking economic theory and cooperative practice, as the conditions for establishing collective action need to be fairly specific (Ortmann & King, 2007a). Once the agricultural cooperative is established it also opens itself to other economic and operational problems which have been identified through new institutional economics (Royer, 1999). Although cooperatives have served, and are still serving an important function for many farmers, problems inherent in conventional agricultural cooperatives have given rise to doubts about the sustainability of these agricultural cooperatives and sometimes to the establishment of other forms of business organization (Ortmann & King, 2007a) .

Inherent problems with Agricultural Cooperatives

There is a substantial amount of research focused on the problems and issues inherent in the organisation of cooperatives that create disadvantages and complications for cooperative members (Chaddad & Cook, 2004; Chibanda, et al., 2009; Lyne & Collins, 2008; Ortmann & King, 2007a; Piesse, et al., 2005). These problems include:

1. ***Agency problem***

Because contracts are generally incomplete, the agency problem presents itself and causes opportunistic behaviour. The main focus of agency theory is on incentive and measurement problems, but the risk-sharing implications of incentive contracts are also crucial. Agency theory is thus very relevant to the institutional structure of cooperatives because employed agents (i.e. the employees of the principle members of the cooperatives may not act in the best interests of cooperative principle members. Principal-agent problems in a cooperative are likely to give rise to member dissatisfaction, the challenge is to establish ownership and capital structures that can remove the agency problem (Richards, Klein, & Walburger, 1998).

Cooperatives experience greater principal-agent problems than IOFs due to the lack of capital market discipline, a clear profit motive, and the transitive nature of ownership (Ortmann & King, 2007a). Because cooperatives have no market for their equity there is less incentive for members to monitor the actions of their managers. Cooperatives may also have greater difficulty in designing incentive schemes for managers that will align their personal objectives with those of the cooperative (Chibanda, et al., 2009).

Using data from a survey of cooperative members in Alberta, Canada (Richards, et al., 1998), member's objectives and expectations were compared with those they perceived were held by their managers. Younger farmers and large producers felt that managers focused too much on the social role of cooperatives and not enough on profit issues such as higher prices, return on equity and quality of service. These two groups seemed to be least satisfied with their cooperatives managers' performance (Lyne & Collins, 2008).

2. *Asset specificity*

Asset specificity occurs when assets are acquired to support specific transactions over and above the initial contributions of the principle members. Owners of such specific assets cannot use these assets in other transactions without some loss in productivity to the cooperative. Hence, once investments in specific assets have been made, the trading parties involved may have few or no alternative trading parties, which eliminate competitive trading (Chaddad & Cook, 2004). This creates quasi-rents in which a specific asset's earnings are in excess of the minimum required to keep the owner from exiting the relationship, which can lead to opportunistic behaviour (Fulton, et al., 2000).

Asset specificity could provide market power, guarantee market access and possibly provide producers with some advantages in dealing with risk since the potential for opportunistic behaviour from farmers is exacerbated by the risk inherent in agricultural operations (Van Niekerk, 1988).

There are four different forms of asset specificity:

1. Site specificity - assets are located nearby to reduce transport or holding costs.

2. Physical specificity - assets with physical properties are specifically tailored to a particular transaction or process.

3. Dedicated assets - investments based on a promise of a particular customer's business which would make it profitable.

4. Human specificity - acquired skills and knowledge of certain workers which are more valuable within a particular relationship than outside it.

3. Hold up

Another form of specificity of importance to agricultural transactions is temporal specificity. This is due to the time-sensitive value of agricultural products and production processes which creates another margin which may entice opportunistic behaviour by trading parties. This is called the holdup problem and arises when one party in a contractual relationship seeks to exploit the other party's vulnerability due to relationship-specific assets (Ortmann & King, 2007a).

Many of the benefits farmers receive from establishing cooperatives originate from the holdup problem and opportunistic behaviour (Ortmann & King, 2007a). The holdup problem in agriculture is explained by Ortmann and King (2007), where farmers of perishable commodities, such as milk and a processor who has no competition in the region or who dominates the region through economies of scale. At harvest or collection the processor can refuse to accept delivery from farmers in an attempt to force them to accept a lower price or risk spoilage of their product.

On the other hand, the processor who has invested in specific plant and equipment is also prone to the threat of hold up by the farmers should they find alternative buyers or take the product to market on their own. A strategy for producers to eliminate or minimize the holdup problem is for them to purchase the processing plant thus vertically integrating their operations (Chaddad & Cook, 2004).

The characteristics of transactions between farmers and their market represents a hybrid organisational model blending market forces with elements of internal organisation designed to minimize transaction costs (Ortmann & King, 2007a). The holdup problem can be avoided by internalising crucial transactions as a main benefit of a cooperative structure (Satgar, 2007).

4. Free-rider problem

The free-rider problem emerges when property rights are untradeable, insecure or unassigned, or as a type of common property problem when property rights are insufficiently defined and enforced to ensure that individuals bear the full cost of their actions or receive the full benefits they create (Royer, 1999). Both internal and external free-rider problems are often associated with conventional cooperatives (Chibanda, et al., 2009).

The internal free-rider problem includes the common property, the initial capital investment and the initial patronage, since the rights to residual claims in a cooperative are linked to patronage instead of investment the new members receive the same patronage and residual rights as existing members although the new members are not required to make up-front investments proportionate to their use (Ortmann & King, 2007a). This however, is not true for all types of cooperatives as the mandate and nature of a cooperative might require an initial investment to ensure loyalty (Frascarelli, 2006). Specialised assets that have been purchased using the patronage of the principle members will remain proportionally in their names with any new membership, and valuation must be performed in order to ensure the initial patronage is not diluted (Giordano, 2010).

The general tendency of the free-rider problem is to encourage decisions that increase cash flows per member and to maintain their value of the initial patronage (Birchall & Simmons; Ortmann & King, 2007a; Sands & Auyeung, 2002). This creates a disincentive for existing members to invest in their cooperative because of the dilution of their returns. This conflict is created by the first cooperative principle that allows free association, the principle members should limit the amount of members and enter into a straight forward economic transactions with others wishing to use their services (Frascarelli, 2006; Giordano, 2010).

An external free-rider problem is created whenever a cooperative provides its members with collective goods characterised by exclusion of new members which results in the suboptimal provision of these goods (Ortmann & King, 2007a). This occurs when a non-member producer benefits from the terms of trade negotiated by a cooperative, or where the value of a cooperative processing facility is capitalised into the value of a nearby non-member's farm (Royer, 1999).

5. Horizon problem

The horizon problem occurs when a principle member's residual claim on the net income generated by an asset is shorter than the productive life of that asset. The member therefore under-invests in the asset because the return he receives is less than the return generated by the asset, thus affecting their entire investment portfolio (Ortmann & King, 2007a). Cooperatives suffer from the horizon problem due to the structure of the rights to residual claims as well as access to original patronage, which are distributed to members as current payments or maintained in a current account (Chibanda, et al., 2009). The benefits a member receives from an investment are limited to the time period over which the member expects to patronise the cooperative (Royer, 1999). A consequence of this is that cooperatives will tend to under-invest in assets with long-term payoffs. Managers are therefore under pressure to increase current payments or reduce the overall cost of the services to members instead of investing in additional assets, and to accelerate equity redemptions at the expense of retained earnings (Royer, 1999).

6. *Portfolio problem*

This is linked to property rights where property rights are vital for cooperatives to be sustainable, producer-controlled organisations. Before a cooperative can achieve improved market performance, internal stability in a cooperative needs to be achieved with clearly defined property rights. The allocation of property rights may have significant consequences for economic organisation, behaviour and performance (Chibanda, et al., 2009).

According to Cook (1995), the portfolio problem has been referred to as an equity acquisition problem from the cooperative’s perspective. This problem occurs in cooperatives because members invest in the cooperative in proportion to their expected use, and because equity shares in the cooperative generally cannot be freely purchased or sold, members are unable to diversify their individual investment portfolios according to their personal wealth and preferences for risk taking (Royer, 1999). The reason this is a concern for members is due to the lack of control they have in protecting their investment due to the structure of the voting rights within a cooperative (Frascarelli, 2006).

This leads to lower than market related returns on their capital investments, and cooperative members who have more risk will pressure the board of directors and managers to reorganise the cooperative’s investment portfolios to reduce risk (Cook, 1995). The reason the risk is viewed as high is due to the fact that cooperative members have to carry these risks alone because potential outside investors are excluded from investing in a cooperative (Ortmann & King, 2007a).

If the member’s investment in the cooperative represents a high proportion of his off-farm investment and if his farming risks are positively correlated with the cooperative risk, he will perceive that the level of risk does not justify the eventual returns (Royer, 1999). However this relates only to the capital portion of investments and members should average out their operational and capital returns in order to evaluate their investment decision (Ortmann & King, 2007a).

7. Control problem

Most organisations in which ownership and control are separate will experience principal-agent problems due to divergence of interests between the principal and the agent (Fulton, et al., 2000). Preventing this divergence of interests is more of a problem in cooperatives due to the absence of a free and open market equity shares may be exchanged freely and the lack of equity-based management incentives. The absence of an equity market for cooperatives means that members are not able to monitor their cooperatives value relative to bigger firms that are listed on an exchange or evaluate their manager's performance relative to other cooperatives. The lack of equity incentive schemes for managers may be a disadvantage for cooperatives to attract and retain good managers, and may provide managers with an incentive to convert their cooperatives into IOFs (Ortmann & King, 2007a). This can however, be overcome if the cooperatives allow managers a vote based on their contribution to the cooperative. If managers and members separate their required capital returns from the benefits inherent in the operational returns, the control and portfolio problems can be reduced (Frascarelli, 2006). This type of structure has been applied in cooperatives where skills shortages have been a factor restricting the establishment and growth of cooperatives (Birchall, 2003; Fert & Szabo, 2002).

By restricting cooperative membership to producers can contribute to the control problem in that the principle members are increasingly limited in monitoring the performance of managers as the cooperative expands and becomes more market oriented (Royer, 1999). Specialised labour and consultants would have to be employed to better manage the changing circumstances and for the cooperatives to better compete with other organisations operating in the market place. However, restrictions on membership may prevent this from being executed correctly over the long term. However, the control problem may be less serious in cooperatives which are relatively small in size, characterised by singleness of purpose and homogeneous membership, than in IOFs of similar size. Cooperative board members are motivated by vital interest to closely monitor management because the cooperative accounts for most of their income (Ortmann & King, 2007a).

8. Influence cost problem

"Influence costs are those costs associated with activities in which members or groups within an organisation engage in an attempt to influence the decisions that affect the distribution of wealth or other benefits within an organisation" (Royer, 1999: 56). Cooperatives involved in a wide range of activities and diverse objectives among its members can result in costly influence activities since these costs can include the direct costs of influence activities, the costs of poor decisions in terms of misallocation of resources as well as opportunity costs. The size of influence costs is dependent on the existence of a central authority, such as the cooperative president or board of directors who have the ability to influence the distribution of costs and benefits to members, the procedures that dictate decision making, and the degree of homogeneity or conflict among members (Cook, 1995; Ortmann & King, 2007a; Royer, 1999). Cooperatives may experience greater influence costs than other forms of organisation because "the interests of cooperative members, which are linked to individual farm production activities, are more diverse than the interests of corporate stockholders, who share a common objective of maximising wealth" (Royer, 1999, p. 56).

Critical success factors

The critical success factors required to ensure that a cooperative has the greatest probability of survival are closely related to the NIE (New Institutional Economics) concepts as well as to other social and governmental factors. Many of the concepts relate to those used in traditional IOFs. It is important that these concepts are taken into consideration when establishing a cooperative (Chibanda, et al., 2009).

1. Transaction costs

Every exchange involves transaction costs to a greater or lesser extent, with each transaction cost item being influenced by social institutions, norms of behaviour, social conventions, legal institutions (which include definitions and the enforcement of property rights), political institutions (which include mechanisms by which property rights are allocated), and economic institutions (which determine availability and efficiency of markets). According to Ortmann and King (2007a) the reason why so much economic activity occurs in formal organisations and not on spot markets, is due to the inefficiencies of transacting in a world of imperfect information. Thus it may be less costly to coordinate production within a cooperative or in a cooperative environment instead of a market when the transaction costs of market exchange are high.

Due to the possibility of opportunistic behaviour by one or more parties, contracts play a crucial role because they enable the parties to fulfil their obligations by protecting them from opportunistic behaviour, thus decreasing the costs of transacting (Ortmann & King, 2007a). Not all contracts however, are equally effective and the ability of a contract to facilitate exchange depends on the completeness of the contract as well as on the judicial system in which it was conceived (Ortmann & King, 2007a).

Incomplete contracts, caused mainly by bounded rationality, are a considerable concern in cooperatives because there is a limit on the capacity of individuals to process information, deal with complex issues and consider all possible contingencies due to nature of the individuals involved and their possible lack of expertise and training (Chibanda, et al., 2009). Difficulties in specifying or measuring performance and asymmetric information will inevitably result in opportunism and transaction costs (Ortmann & King, 2007a). It is generally contended that in the transactional cost economics framework the incompleteness of contracts is a result of both transaction costs and bounded rationality, which are more prevalent in cooperatives due to the nature of their formation (Cook, 1995). Transaction costs may make it too expensive to write a more complete contract that will better specify the foreseeable contingencies and resultant obligations of each party involved. It is because of this that the cooperative principles should be used as a guiding force in the establishment of cooperatives. The optimal completeness of a contract depends on the trade-off between marginal benefits and costs (Ortmann & King, 2007a).

Opportunism and the related transaction costs can also be associated with asset specificity. Owners may purchase specific assets over and above their initial contributions, where use of these assets outside the cooperative results in loss of productivity to the cooperative while a lack of trading partners eliminates competitive trading. The result is quasi-rents in which the asset's earnings are in excess of the minimum required to keep the owner from exiting the relationship, leading to opportunistic behaviour (Royer, 1999). Sykuta and Chaddad (1999) contend that an asset's specificity is determined more by its value outside the specific relationship than by the motivation for its purchase. An asset is said to be specific if its value in any other use is significantly lower. This decrease in value creates the quasi-rents that attract opportunistic behaviour.

In general, transactional cost economics can help to identify the important dimensions of a transaction and thus assist with the design of the most efficient institutional arrangement for conducting the transaction. Essentially, a firm should select the institutional arrangement that minimizes the sum of its production and transaction costs (Royer, 1999). According to Williamson (1985), frequency, uncertainty and asset specificity are three characteristics of a transaction that are critical in designing the optimal institutional arrangement.

2. Cooperative life cycle

The weaknesses inherent in cooperatives raise the question of whether they can survive in, or adapt to, a rapidly changing economic and political environment. Even though cooperatives may initially serve a useful purpose, some hypothesise that due to their inherent weaknesses, cooperatives will have to exit or reorganise as the market evolves (Chibanda, et al., 2009; Ortmann & King, 2007b; Royer, 1999).

The five stages in a cooperative life cycle explain the formation, growth and eventual decline of a cooperative and are not significantly different to those in IOFs (Cook, 1995).

As the cooperative matures and the members become increasingly aware of the inherent problems and the operational benefits that may be lost if cooperation is ceased, members have to consider their long-term strategic options and decide whether to exit, continue operations or convert into another business entity with a different legal form (Cook, 1995). Under the exit option a cooperative has two alternatives available: to liquidate the business or to restructure it as an IOF. It is most likely that poor-performing cooperatives opt to liquidate or merge with other cooperatives, while high-performing cooperatives restructure as IOFs. The reason leaders of milk cooperatives in Ireland gave for converting to IOFs was that additional capital was required to expand and recapitalise operations, and as members were unwilling to invest that additional capital other sources of financing needed to be considered. Although the cooperative principles and practices placed capital constraints on growth, it was argued that the failure to effectively implement these principles and practices was the reason that debt could not raised (Ortmann & King, 2007a).

Cooperatives are initially useful for correcting or mitigating market failure as illustrated in their life cycles and in society's stage of development. The need for cooperatives decrease as market performance and stability improves due to market success and maturity. As transaction cost theory indicates, inefficient governance structures in competitive markets will over time be replaced by efficient structures. Where cooperatives are less efficient than corporations, there will be transition from the cooperative organisational form to the corporate form (Royer, 1999).

The life cycle model is used to explain the conversion of several Irish dairy cooperatives to IOFs. It suggests that cooperatives would continue indefinitely only in the case of chronic market failure, and that for the Irish dairy industry future competition would best be assured through IOFs. This however creates a paradox in that the cooperatives are responsible for creating the industry and skills in the first place, and had it not been for the cooperatives the dairy industry might not have grown and developed in the way it did (Ortmann & King, 2007a).

Agricultural cooperative finance

One of the largest obstacles faced by agricultural cooperatives is their difficulty to raise the capital necessary to finance long term strategies (Chibanda, et al., 2009). Agricultural cooperatives have constrained access to debt and equity capital, being able to raise it only from owner-patrons who have little incentive to invest because capital is not rewarded at market-related rates, as investors cannot realise capital gains and dividends are capped (Chibanda, et al., 2009; Cook, Iliopoulos, & Chaddad, 2004). Institutions have been hesitant to provide credit to agricultural cooperatives due to the high risks associated with lending to them (Ortmann and King, 2007a). High risks are due to insufficient equity capital, the influence problem, caused by egalitarian voting rights, which prevents the majority investors from influencing investment decisions, poor financial record-keeping and high transaction costs involved in granting small loans (Chibanda, et al., 2009). When equity and debt capital are constrained, agricultural cooperatives are unable to finance investments in growth assets in order to ensure its long-term sustainability.

Agricultural cooperatives need adequate capital for both their initial development and their daily operations (Lyne & Collins, 2008). Difficulty in raising capital implies that agricultural cooperatives in developing regions are usually dependent on government donations or soft loans for initial capital which are extremely difficult to raise (Chibanda, et al., 2009). Birchall (2004) argues that cooperatives that lack capital and business management capacity have had a rather disappointing history in developing countries.

Several authors (Chibanda, et al., 2009; Lyne & Collins, 2008; Ortmann & King, 2007a; Philip, 2003; Satgar, 2007) highlighted some of the factors contributing to agricultural cooperative performance as access to capital for start-up costs, degree and nature of business skills training available to agricultural cooperative members, degree of training and experience in marketing and market analysis, costing, bookkeeping, literacy and management skills, work ethics and degree of cooperative community ethos. The majority of smallholders who engage in cooperative activity do not have access to standard guarantees for loans from financial institutions and they rarely own any property that they could use as collateral or don’t use their own property on behalf of the cooperative. If the cooperative does not have equity or assets financed from equity, borrowing is difficult (Ortmann and King, 2007a). Traditional cooperatives struggle to raise equity capital due to the free-rider, horizon, portfolio and control problems (Lyne and Collins, 2008). In addition, for any given level of equity, lenders discriminate against agricultural cooperatives owing to the influence problem. Financial institutions are profit making organizations that are risk averse and are designed to make as much profit as possible at minimal risk for their shareholders. Hence, the higher the project risk, the less likely the cooperative will get funding without collateral (Ortmann and King, 2007a). According to Chibanda (2009), the history, location, and economic condition of the organisation, regulatory context, the experience of key personnel, and links to other organisations are additional factors that affect performance.

The intensification of the agricultural sector through better use of improved farm inputs has been restrained by several factors as agricultural intensification involves both technical change and the presence of input, seasonal finance and marketing systems to increase farm production and deliver it to consumers at a competitive price (Abebaw & Haile, 2012).

Only 2% of cooperatives surveyed in 2009 are 11 years and older, 18% between 4 and 10 years and the remainder under 3 years of age (Department of Trade and Industry, 2009). Of all the cooperatives 27% are in the food and agriculture sector, which might not seem big but it is the single biggest grouping by far, these cooperatives also account for the largest number of members. According to the DTI in 2009 only 4% of cooperatives produced audited results with 12% producing basic income statements and the remainder just keeping record of income and expenditure. This resulted in only 13% of cooperatives being able to apply for loans of which 76% where totally unsuccessful in their application. Only 34% of the applications related to business expansion the rest were needed to finance the daily operations of the cooperatives.

The impact of property rights on the life cycle

A cooperative that opts to continue operating tends to be undercapitalized due to its property rights structure (Royer, 1999). It generally has two alternatives to raise capital, namely a) raising external equity capital without restructuring as an IOF or b) to generate additional equity capital internally by following a proportionality strategy either by restructuring or using debt instruments (Royer, 1999). Joint ventures and strategic alliances represent opportunities for cooperatives to profit from economies of scale while maintaining their separate business identities. However, for such business arrangements to be effective trust, commitment, open communication, well defined contractual rights and obligations between the parties involved are required (Ortmann & King, 2007a).

New Generation Cooperatives

The formation of a new generation cooperative (NGC) could help deal with the problem of property rights by focusing on value-added processing activities and by linking producer capital contributions to product delivery rights (Royer, 1999). NGC's attempt to correct the property rights problems associated with cooperatives by linking tradable delivery rights to members' equity contributions while preserving the cooperative principles. Here equity shares and the associated delivery rights are tradable subject to approval of the board of directors and the cooperative's constitution, and share prices can appreciate or depreciate, reflecting members expected returns and operational efficiency over time (Fulton, et al., 2000).

An attractive feature of NGCs is that they are financed in proportion to use, allowing members to accurately gauge their return on investment. However, NGCs have their own set of problems, such as a) limiting entry of new members and maintaining the current numbers which goes against one of the fundamental principles of cooperatives, and b) an ineffective governance structure caused by undue pressure exerted by members on management to link voting rights to delivery rights due to the capital nature of the NGCs (Royer, 1999).

NGCs have been established by producers involved in emerging niche markets such as venison processing, tilapia production, organic milling and specialty cheese processing, as well as in other more traditional value-adding activities such as corn sweetener production, sugar beet processing and pasta production (Ortmann & King, 2007a).

2.6. Conclusion of Literature Review

Although agricultural cooperatives have succeeded in developed nations and partly in a few developing nations, their success in South Africa has not been what government and other interested parties had hoped (Chibanda, et al., 2009; Ortmann & King, 2007a; Philip, 2003; Satgar, 2007). Although agricultural cooperatives have performed well in the past in South Africa, since the end of apartheid no new cooperatives have managed to take hold in the agricultural sector. Success in countries such as Kenya and Ethiopia has left government wondering what the main causes of this failure could be.

A review of the literature has revealed that the factors affecting the success and sustainability of agricultural cooperatives in post-Apartheid South Africa fall into two interrelated categories. The first category relates to economic factors and the second category relates to social factors affecting the members themselves.

Economic factors

Analysing agricultural cooperatives through the use of New Institutional Economics and comparing them to investor owned firms revealed inherent weakness in the structure and composition of agricultural cooperatives. However, agricultural cooperatives do also have certain advantages over investor owned firms operating in the agricultural sector, but despite this there has been very little success in capitalising on these strengths (Ortmann & King, 2007a).

The inherent weaknesses of agricultural cooperatives which result from their very nature combined with their lack of prevalence in the market place create a host of misconceptions and perceived risks. This in turn inhibits their ability to raise finance, obtain skilled management and attract equity investors. Their inability to raise finance places them in a conundrum as the patron and members won't have enough resources for either the day to day operations and potential capital expansion, which creates a situation where sustainability is negatively affected (Chibanda, et al., 2009). Their failure can be attributed to a multitude of factors such as government policy, macro economic conditions, access to finance and the cooperative members themselves.

Access to finance is the most critical consideration at the moment as without it cooperatives can even begin to operate let alone plan for the future. During apartheid cooperatives were guaranteed finance through the Land Bank, but this is no longer the case. Currently many cooperatives operating in rural settings are expected to present financials and management accounts to the same standard as a listed company (Chibanda, et al., 2009).

Although cooperatives in Ethiopia may be regarded as having been successful, members were predominantly large landholders (Abebaw & Haile, 2012) and cooperatives were characterized by mandatory membership, production quotas and with a tendency to exclude smallholders. Cooperatives in Kenya suffered when government withdrew its support in 1997.

Ortmann and King have concluded that cooperatives are less efficient than IOFs and that their relative inefficiency is due to the inherent weakness in their property rights structure. They further argue that cooperatives survive, despite their relative inefficiency, because of free services provided by the governments, favourable tax treatment and favourable credit terms. But that's not happening in South Africa. As far as agricultural cooperatives are concerned, the agricultural sector has lost considerable intellectual and administrative capacity since the Registrar of Cooperatives moved to the DTI, because of a centralization approach with only one department dealing with all cooperatives.

Economic and financial factors such as access to markets, operational constraints and raising of adequate finance have placed cooperatives under strain. Controversy also exists around the question of once a cooperative is successfully established, whether farmers' interests are better served by remaining members of a cooperative owned by them, or by an IOF that is managed and owned by shareholders (Lyne & Collins, 2008; Ortmann & King, 2007a) The arguments in favour of IOFs include their easier access to various sources of capital; their ability to attract top-quality management; the alignment of shareholders' interests with those of customers; and an entrepreneurial flair often missing in cooperatives (Ortmann & King, 2007a; Satgar, 2007). This argument appears to be particularly relevant in light of Van der Walt's (2005) findings that poor management, lack of funds and training and conflict amongst members were the main reasons of the high percentage of failed cooperatives in Limpopo. Thus, cooperative members face the member versus shareholder conflict where they may receive a good service from their cooperative, but the return on their capital invested is poor compared to what shareholders in an IOF may receive on their investment in terms of dividends and the potential for capital growth. Proponents of cooperatives argue that a cooperative exists to serve its members who are able to retain influence over its functions and activities, thus making the argument of capital return irrelevant (Chibanda, et al., 2009). While there are inherent difficulties in linking economic theory and cooperative practice, there have been various debates on whether a cooperative enterprise should be treated as an IOF in terms of decision-making and control, as Helmberger and Hoos (1962) did, or as an organisation that consists of an aggregation of economic units, namely the principle members (Ortmann & King, 2007a).

Social factors

As agricultural cooperatives are inclusive organisations whose values and principles promote self help and sustainability through the inclusion of the greater community (Chibanda, et al., 2009; Ortmann & King, 2007a), the South African government has tried to promote the use cooperatives to empower previously disadvantaged communities.

Cooperatives have developed through the ages due to three main factors:

1. Economic conditions caused by war, depression, technology, government economic policy and social policies such as apartheid, resulting in an economically depressed nation or high poverty levels which prevent communities from achieving a sustainable lifestyle (Fairbairn, 2002).

2. Public policy determined by government interest, legislative initiative, judicial interpretation and the social needs of the country at that point in time (Philip, 2003).

3. Farmer organisations which are developed and are impacted by the quality of their leadership, their motivation and enthusiasm to promote cooperatives, and their power to influence public policy (Philip, 2003).

If these three factors are applied to post-Apartheid South Africa, it can be confirmed that the first two abovementioned points are indeed evident through the review of the literature, and are promoting the development of cooperatives in South Africa:

1. The present economic conditions caused by apartheid resulted in an economically depressed portion of the nation with high poverty levels which prevented communities from achieving sustainable lifestyles, and

2. Public policy being determined by government interest and legislative initiative, and the social needs of the country at that point in time.

However, what is not evident from the literature and from the state of cooperatives in South Africa today is the last point:

3. Farmer organisations which are developed and are impacted by the quality of their leadership, their motivation and enthusiasm to promote cooperatives, and their power to influence public policy.

While the new Act makes it easier than ever before to start and operate a cooperative (Ortmann & King 2007a), and while economic conditions may be rife for the development of cooperatives, it is perhaps this last point that is inhibiting the success and sustainability of agricultural cooperatives in South Africa today.

This question of whether the people are motivated and enthused enough to establish a cooperative (Philip, 2003), and whether the members identify enough with the cooperative reflects the very definition of what a cooperative should be according to the South African Cooperatives Act: 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 *cooperative principles*" (Ortmann & King, 2007a, p. 41). From the literature it is evident that South African cooperatives are falling short on at least three points in this definition: members are finding it difficult to be autonomous and to control the cooperatives democratically Ortmann 2007a, Chibanda, and in several ways are unable to operate according to the cooperative principles.

For example, financial irregularities in management (Lyne & Collins, 2008) and the hierarchical social structure, which causes difficulty in holding management accountable to their members (Ortmann & King, 2007a) breach several principles: the first principle of voluntary and open membership where persons accept the responsibilities of membership, without gender, social, racial, political or religious discrimination, the second principle of democratic member control, the third principle of member economic participation where benefits are distributed equitably and the seventh principle where cooperatives have the concern of sustainable development for their communities at heart.

In addition, inappropriate political activity (Lyne & Collins, 2008) conflicts with principle four where cooperatives must be democratically controlled and not by outside investors or government institutions. Members' lack of education and training (Van Der Walt, 2005) creates a vicious circle in that they are unable to apply the fifth principle of cooperatives providing education and training to the members and are unable in turn to contribute effectively to the cooperative. Conflict amongst members (Van Der Walt, 2005) and disloyalty of members (Chibanda, et al., 2009; Van Niekerk, 1988) contravene principles five (where members inform the public about the nature benefits of cooperation (Philip, 2003) and seven (where cooperatives work for the sustainable development of their communities).

Most relevant factors affecting post-Apartheid agricultural cooperatives

It is now possible to identify the most pertinent issues that appear, from the literature, to be affecting the performance of South African agricultural cooperatives.

There have been vigorous debates on whether cooperatives should converted to IOF due to the inherent weakness that were discussed earlier (Ortmann & King, 2007a). Cooperatives experience greater principal-agent problems than IOFs due to the lack of capital market discipline, a clear profit motive, and the transitive nature of ownership (Ortmann & King, 2007a). Because cooperatives do not retain their equity or the same membership based from year to year, there is less incentive for members to monitor the actions of their managers, as they are just seeking short term gains or market access. Cooperatives may also have greater difficulty in designing incentive schemes for managers that will align their personal objectives with those of the cooperative, due to constrained nature of agricultural products (Chibanda, et al., 2009). Difficulties in specifying or measuring performance and asymmetric information will inevitably result in opportunism from the managers and increased transaction costs (Ortmann & King, 2007a)

Agricultural cooperatives need adequate capital for both their initial development and their daily operations (Lyne & Collins, 2008). Difficulty in raising capital implies that agricultural cooperatives in developing regions are usually dependent on government donations or soft loans for initial capital which are extremely difficult to raise (Chibanda, et al., 2009). This has resulted in a situation whereby agricultural cooperatives have to rely on the market demand and price from season to season in order to survive and this impacts the long term sustainability.

Table 2: Factors inhibiting the performance of South African agricultural cooperatives

Problems inherent to Agricultural Cooperatives	Economic	Social
1. Agency problem 2. Asset specificity 3. Hold up 4. Free rider problem 5. Horizon problem 6. Portfolio problem 7. Control problem 8. Influence cost problem 9. The cooperative principles	**1. Operational Issues** • Management and control of operations • Financial management • Long term planning **2. Financial Issues** • Raising of capital finance • Raising operational finance • Financial management • Record keeping • Financial reporting **3. Market Issues** • Access to markets • Access to fair pricing **4. Government** • Policy not translated correctly • No support of policy decisions	**1. Hierarchical structure of communities** • Financial mismanagement • Holding management accountable • Member equality • Democratic member control • Concern for the sustainable development of the community • Transaction costs **2. Lack of education and training** • Contribute effectively • Process information • Deal with complex issues • Consider all possible contingencies • Measure performance • Combat opportunism • Keep financial records • Gain access to finance • Contracts **3. Focus on sustainable development for the community** • Cooperation • Accountability • Loyalty • Democracy • Equality

There is no denying the potential of agricultural cooperatives; they have provided opportunities to millions of rural people all over the world. It does become important to realise that each country has its own set of unique challenges to overcome and its own culture to consider when establishing these agricultural cooperatives, especially a country such as South Africa that has such a rich and diverse history.

CHAPTER 3: RESEARCH METHODOLOGY

This section outlines the methodology that was used to gain understanding and answers to the research question. Firstly, literature about qualitative methodology and its relevance for this study is addressed, followed by a review of the research design, the population and sample, and the research instrument that was utilised. Following that, an explanation of the procedure for data collection and the how the data was analysed is discussed. Finally, the limitations, validity and reliability for this study are described.

3.1 Research Design

The research design is developed by a researcher in order to address a research problem by defining the procedures for sampling, data collection and analysis, as outlined by (Tobin & Begley, 2004). Here it takes the form of a qualitative, interpretive study in order to describe, understand and come to terms with the meaning of the data derived from the respondents in open ended interviews.

Qualitative research makes use of several data collection methods that are interactive and humanistic in nature. The interview method used requires active participation by the respondents as well as the accommodation of the researcher's sensitivity to the respondents. Qualitative procedures make use of open-ended data, based on people's experiences. The researcher then develops a theory from this data, based on outcomes and literature that supports the data. Qualitative research tends to work with smaller sample sizes and is based on the perspectives and interpretation of both the researcher and respondents (Creswell, 2003).

In depth, semi-structured interviews were conducted in order to collect detailed and descriptive information based on the respondents' knowledge, perspectives and experiences (Tobin & Begley, 2004). The respondents were selected on the basis of their expertise in the field of South African agricultural cooperatives. Because their knowledge claims and perspectives emerge from their individual social, political and historical experiences and meanings (Creswell, 2003; Willig, 2008), the in-depth interviews enable intensive and detailed exploration into new issues and their perspectives of the situation. This provides context and a more complete picture of circumstances (Boyce & Neale, 2006). These interviews also allow for interpretive perspectives in which the individual sees relationships and connections between particular events and phenomena.

Advantages of in-depth interviews are that they provide more detailed information that other forms of data collection such as surveys; the interview process may provide a more relaxed and familiar atmosphere than for example filling out a survey; and interviews allow the complexity and detail of an issue to be explored (Willig, 2008). It may also be possible to collaborate with the respondent and to create an agenda for change (Creswell, 2003), which in the case of this study may prove beneficial to the cause of investigating the factors affecting the sustainability of South African cooperatives.

Advantages and disadvantages of semi-structured interviews outlined by Willig (2008) are as follows; It is advantageous that aspects of both structured and unstructured interviews are combined as this allows for adaptability and balance. Here a definite interview agenda, time limit and fixed roles of interviewer and interviewee exist simultaneously with the open-endedness of the questions and focus on narrative and experience. The possible disadvantages include the impact of the researcher’s social identity (such as their age, gender or race) on the respondents’ contributions and on the researcher’s interpretation of data. In addition, linguistic variability may cause the researcher’s and respondents’ meanings to differ, the respondents may be concerned about confidentiality, and the quality of interviewing may depend on the rapport between the researcher and respondent.

3.2 Research Methodology

A qualitative methodology was used to answer the research question. This methodology is relevant because as Creswell (2003) explains, qualitative research is exploratory and explanatory, and through interviews with respondents their knowledge and perspectives can be described and examined. Since qualitative research seeks to understand phenomena in context specific settings (Golafshani, 2003), it is possible to extrapolate and generate understanding relevant to this study (Willig, 2008).

In addition, while new insights and understanding is generated, this methodology allows for the diversity and even contradiction that may emerge from the respondents' perspectives and interpretations (Willig, 2008). This is advantageous particularly in light of South Africa's diverse population and resultant varying perspectives. Willig (2008) adds that researcher objectivity or bias can be a weakness, and that this methodology may not provide certainty as it is concerned with complex social and psychological processes in the interpretation of meaning of the respondents and researcher.

The data was collected in a series of semi-structured, in-depth interviews which lasted for approximately 45-90 minutes for each respondent. Respondents were encouraged to discuss their perspectives openly and liberally, in order to effectively address the research questions. Respondents had the opportunity to respond in detail, thereby allowing a multiplicity of views to emerge from the research.

3.3 Population and sample

3.3.1 Population

The population consisted of individuals who are experts in the field of co-operatives, and have had experience with or in co-operatives pre- and / or post-Apartheid South Africa. A diverse group of experts were interviewed to ensure that a balanced view of the topic was explored.

3.3.2 Sample and sampling method

When in-depth interviews are conducted, the interviewees are considered to be experts in their field (Legard, Keegan, & Ward, 2003). Respondents were therefore selected according to their expertise in the field of South African co-operatives. Interviews are most appropriate for this research because it is adaptive and allows for the exploration of new insights and avenues (Creswell 2008). Complexity and detail in the data is allowed for (Boyce, 2006), and due to the interpretive perspectives connections and relationships between particular events may become evident (Legard, et al., 2003). Thus the development of patterns, themes and/ or a framework in response to the research question is possible.

Respondents were contacted by telephone and email and requested to be interviewed. If named individuals were unable to be interviewed, suitable alternate respondents were contacted. It was anticipated that six respondents were required for the purposes of this study.

Table 3: Profile of respondents

RESPONDENT	INDUSTRY	ASSOCIATION	INVOLVEMENT IN COOPERATIVES
1. A	Finance	ABSA	Provision of finance for small holders and cooperatives
2. B	Government	Department of Rural Development	Provision of development and market access
3. C	Government	Department of Trade and Industry	Cooperative development
4. D	Government	Industrial Development Corporation	Agricultural Development
5. E	NGO	National Cooperative Business Association	Agricultural cooperative development in RSA
6. F	Cooperative Establishment	SANACO	Cooperative development

3.4 The research instrument

The semi-structured, in-depth interview schedule consisted of eighteen open-ended questions. The research instrument is provided in Appendix A. The research instrument has a three pronged approach whereby it:

a. Relates primarily to the three main categories identified in the literature review- namely the problems inherent to cooperatives, economic and social factors. The research instrument is thus designed around the factors detailed in Table 2,

b. Simultaneously ascertains the respondents' own understanding of these factors. This approach is useful because since the respondents are considered experts in this field, determining their level of understanding and knowledge of the issues relating to the research question could be a useful indication of and insight into the context in which cooperatives are operating in South Africa,

c. Explores the respondents' personal experiences of these categories, as well as any other factors that may emerge from the interviews.

3.5 Data collection

Interviews are similar to conversations, however, the interviewee listens for important information relating to the research question while the respondent does most of the talking (Leedy & Ormrod, 2001). Interviews are a rich source of information and create a platform for the researcher to gain information about the respondents' perceptions, beliefs and experiences (Kruger & Welman, 2001).

Semi-structured interviews were used to collect the data. Unstructured and generally open-ended questions were used to obtain the views and opinions of the respondents. An advantage of semi-structured interviews as opposed to completely structured interviews is that the researcher can vary the sequence in which the questions are asked. This gives the interviewer the opportunity to ask further questions in reaction to significant responses (Willig, 2008). Although the respondents were asked the same questions, the researcher had flexibility in the formulation of the interview for example, the order in which different topics were introduced.

The benefit of this type of design is that because the respondents are talking about their field of expertise in an informal interview, they are likely to become talkative. This provides an opportunity to explore the issues in depth. As the interview progresses it may become possible to build good rapport with the respondent. In addition, any complex questions can be explained so that respondents fully understand what is being asked of them (Willig, 2008).

The face-to-face interviews took place at a pre-arranged venue decided on by the respondents. This ensured that the meeting place was suitable and convenient for the respondents, as well as being more likely to allow respondents to feel at ease when talking to the researcher. The researcher had the respondents' permission to record the interviews using handwritten notes recordings. The notes and recordings were used in the analysis and interpretation phase of the study.

3.6 Data analysis

Content analysis was used to analyse and interpret the data collected from the interviews. Since the data was collected using handwritten notes and transcripts, content analysis was appropriate for the analysis because "Content analysis is a detailed and systematic examination of the contents of a particular body of material for the purpose of identifying patterns, themes, or biases" (Leedy & Ormrod, 2001, p. 155).

Leedy and Ormrod (2001) describe the method of content analysis:

- The data used in the content analysis is collected using handwritten notes and transcripts.
- Common themes are identified where each respondent's response is categorised. These categories relate to themes developed from the

literature review. The validity of these responses must be assessed, and any additional detail relating to the research question will be noted.

The role of the researcher

In qualitative research, the role of the researcher is fundamental. Due to the fact that the researcher gathers, analyses and interprets the data, their ability to understand, analyse and interpret the social phenomena under investigation is of vital importance (Creswell 2008). However, the researcher's role as interviewer may bring bias into the research resulting in inaccurate interpretation of the data. This could occur in several ways:

- When responses need to be clarified, it may be necessary to prompt the respondent or ask additional questions other than the planned interview questions.
- During the content analysis and grading of responses, the researcher uses subjective interpretation in order to decide what the best answers for the research questions are.

In order to eliminate as much bias as possible, the following steps were taken as advised by (Kalof & Dan, 2008):

- Respondents were listened to objectively. Their true meanings were reflected on to ensure that the researcher's personal agenda was minimised while respondents meanings were truly captured and understood
- The interviews were accurately recorded by using the transcripts of the interviews as primary data wherever possible in an effort to reduce the bias that may have been introduced during the summarising of the responses while taking notes.

  The data was analysed in terms of Horst Rittel's definition of "wicked and tame problems" (Batie, 2008; Rittel & Webber, 1973). Wicked problems pose a dilemma for normal problem solving activities as multiple solutions need to be implemented in order to solve the problem (Batie, 2008).

Rittel (1973) describes tame problems as follows:

- A clear definition of the problem unveils the solution.
- The outcome is either successful or unsuccessful.
- The problem does not change over time.
- Scientific protocols guide the choice of solutions.
- There are shared values as to the desirability of the outcomes.

Wicked problems are defined as:

- No agreement exists about what the problem is.
- There is no solution to the problem, it can only become better or worse.
- The problem can change over time depending on various external factors.
- The solutions are based on judgements of the various stakeholders.
- There are no shared values with respect to societal goals.

The literature points to a single solution to the research question being unlikely. Thus, the researcher presented multiple solutions in order to ensure the most realistic and practical resolutions for emerging South African agricultural cooperatives and related stakeholders.

3.7 Limitations of the study

- In-depth interviews typically focus on a small sample in-depth, and can therefore not make claims about trends, but can however, generate insights about particular issues relating to this study (Willig, 2008).

- A qualitative methodology may provide less certain answers than a quantitative methodology since it can tolerate diverse and even contradictory perspectives (Willig 2008).

- Researcher and respondent bias may affect the interview process (Willig, 2008).

- Emphasis was placed on *emerging* as opposed to established agricultural cooperatives.

3.8 Validity and reliability

Validity refers to the congruence between the data and the conclusions drawn by the researcher (Kalof, 2008). This is particularly relevant in qualitative research since it is based on the researcher's interpretation of the respondent's meaning. Willig (2008) therefore advises that it is important for the researcher to practice continual quality control by reflecting on and questioning the true meaning and experience of the interviewee, him or herself and the context in order to interpret the meaning of the data accurately.

According to Golafshani (2003), while the terms 'validity' and 'reliability' are treated separately in quantitative methodologies, they can be encompassed by words such as credibility, transferability and trustworthiness in qualitative methodologies. This is because it is the researcher's effort and trustworthiness that determines the validity and reliability in qualitative research, while in quantitative research it is the instrument (survey or questionnaire) that determines the validity and reliability.

3.8.1 External validity

External validity is the ability to apply or generalise the findings of the study to the larger population (Kalof, 2008). Since the data is interpreted by the researcher, some bias and subjectivity is inherent (Willig, 2008), thus reducing the external validity of the study. However, as the researcher followed Willig's (2008) advice on reflection in order to maximise objectivity and accurate interpretation of the data, the external validity can be considered reasonable. The researcher attempted to accurately and objectively interpret the data obtained from the respondents in order to make a valuable and relevant contribution to the field.

3.8.2 Internal validity

Internal validity refers to the appropriate conclusions being drawn from the data obtained from the interviews, and that the research instrument measures what it was intended to measure (Kalof, 2008). In other words, the interview questions needed to be conveyed to the respondents in a manner they could understand and correctly interpret so they could accurately answer the questions relating to the research question. Similarly, the researcher had to accurately interpret the respondents' answers in order to correctly apply the data to answering the research question. This was achieved as Willig (2008) suggested through continual self questioning and reflection so that subjectivity and bias were kept to a minimum, and accurate, objective, honest interpretation of the data was maximised. In addition, the interview structure was similar for each respondent, ensuring uniformity of data throughout the data collection process, even though the adaptive nature of the research drew differing supplementary questions.

3.8.3 Reliability

Reliability means that the research findings are consistent or similar if the research is repeated under similar circumstances (Kalof, 2008). Since qualitative research is an interpretive process, the reliability of the research depends on the researcher's honesty and how truthful the research was (Kalof, 2008). Golafshani (2003) conceptualises reliability in the qualitative realm as trustworthiness, rigour and defensibility. Certain clarifications with respondents and refinements of the data were made after the interviews in order to ensure utmost integrity of the data.

Triangulation is a validity and reliability procedure used by researchers to search for convergence and consistency through other sources of information (Golafshani, 2003). Triangulation was used where possible, using other and supplementary sources of data such as news reports and articles.

CHAPTER 4: PRESENTATION AND INTERPRETATION OF RESULTS

4.1 Introduction

The findings of the research are presented in this section. The analysis of the data obtained using the questionnaire in Appendix A was summarised and discussed. The results are presented in two main sections. The first section explores the basis on which agricultural cooperatives are being developed in South Africa today and the second section consists of the three categories determined from the literature review which inhibit the performance of these cooperatives: inherent problems, economic and social issues.

Due to the fact that some of the respondents have requested anonymity the identities of all the respondents have been concealed and their names replaced with respondent codes that were used in this section. The codes respondent A through F have been use and allocated at random.

All the respondents stated that it would be difficult to limit the failure of cooperatives to just a single factor, but that it is rather a combination of factors that has resulted in the failure of agricultural cooperatives. Most of the respondents pointed out that it is not just agricultural cooperatives that struggle to develop in the post apartheid era, but also other types of business and developmental entities. However, agricultural cooperatives have significantly more challenges due to the nature of the agricultural sector and the social and economic challenges in rural areas.

4.2 The basis for agricultural cooperative development in South Africa

4.2.1 Understanding Agricultural Cooperatives

It is vital to ascertain whether or not those charged or involved with the development of agricultural cooperatives truly understand cooperatives. It is important that there be a clear distinction between a company and a cooperative and that the cooperative principles are understood and adhered to. It is also important that a clear distinction be drawn between the older established agricultural cooperatives such as Senwes, KWV and NTK that have since converted to companies or do not operate as cooperatives and the fledgling agricultural cooperatives which are the focus of this research.

The responses to what the definition of an agricultural cooperative is were varied which indicates a general lack of understanding of cooperatives as per the definition utilised by the Cooperatives Act of 2005 as well as that explored earlier in the literature. There was a general lack of knowledge regarding the principles, which is disconcerting as most of the interviewees are charged with the development of cooperatives in one form or another. While the concept of cooperation is clear, cooperation is only a small part of the cooperative structure and more focus needs to be placed on the inherent values and principles of cooperatives.

All the respondents pointed out that there is clear distinction to be made between the old agricultural cooperatives know as agri-business and the new more rural agricultural cooperatives, which are perceived as subsistence farmers. The distinction relates to factors such as size, access to capital, nature of operations and age with the older or white agricultural cooperatives being formed during the apartheid era and the new agricultural cooperatives being formed since then. All the respondents drew attention to the fact that none of these older agricultural cooperatives could provide the growth that South Africa requires in terms of job creation, food security and wealth creation. Some of the respondents made reference to food security and that agricultural cooperatives could be part of a system of policies whereby government uses agricultural cooperatives to address the issue of food security, thereby addressing poverty reduction, wealth redistribution as well as advancing its BBE (Broad Based Empowerment) goals.

Respondent A defined an agricultural cooperative as an organisation that is member owned, controlled and formed for the benefit of the members. He further stated that a cooperative arises out of a specific economic need that the members have that is currently not being met by their current structures which are more often than not small business structures such as Closed Corporations, partnerships or even companies. The respondent added that cooperatives, in general, are formed because of a social need. The respondent also stated that although members are not required to manage and operate the cooperatives they are usually actively involved.

Respondent B defined a cooperative as an entity that works on the assumption that a group of people who join resources can achieve more than an individual, and that an agricultural cooperative is just more focused in obtaining benefits in the areas of production specifically related to agriculture and agri-processing.

Respondent C defined the new agricultural cooperatives as resource-poor farmers that pool their resources, which could include land, expertise and other physical assets in order to gain economies of scale. They also pool their resources in order to share marketing channels, purchase in bulk and gain technical expertise from consultants and suppliers.

Respondents D and F defined agricultural cooperatives as grouping of no less than 5 natural persons that come together to take part in agricultural activities or form an agricultural processing plant, usually they are very prominent in the wine and maize industries. Both respondents considered agricultural and banking cooperatives to be the two core cooperative structures that government should be focusing on in order to successfully kick start the cooperative movement in South Africa.

According to respondent E an agricultural cooperative is a grouping of farmers that contribute land, skills, and other resources in order to gain economies of scale and a stronger bargaining position in the market. Their contributions don't have to be of equal value, but they will share the profits from the venture equally. The founding members who will have democratic control over the cooperative are also responsible for involving as many members of the local community as possible.

Most of the respondents failed to grasp the wider implication and conceptual understanding of an agricultural cooperative beyond the term 'to cooperate'. Principles such as concern for the community, education and training, democratic control, and cooperation amongst cooperatives were not mentioned. This indicated that there is too much focus on the establishment of the cooperatives as opposed to ensuring that cooperatives are established for the correct reasons, and their continued maintenance and sustainability. This lack of understanding may be indicative of why communities have failed to support agricultural cooperatives- because if the cooperatives could not provide their immediate communities with opportunities then why should the local communities support them.

A failure to understand the other cooperative principles could be a basis for the lack of success of agricultural cooperatives. However, while the cooperative principles are important to the operations of a cooperative they are not the only factor to be considered when establishing an agricultural cooperative. Other macro and micro economic factors as mentioned in the literature review also have a significant influence on agricultural cooperatives.

Although not all the respondents are directly involved in the implementation of agricultural cooperatives their views, understanding and perspectives are likely to filter down to those who are charged with their implementation, which in turn are passed down to those who are wishing to establish agricultural cooperatives. There is a disconnect in the way in which government portrays agricultural cooperatives and the understanding of the people which these cooperatives are meant to benefit.

There is an underlying assumption that everyone knows what agricultural cooperatives are and how their structure differs from that of a company or any other entity, or what makes them unique in terms of their operations. The research has indicated there is a limited understanding of agricultural cooperatives and how they should be operating, which is disconcerting as many of the respondents are charged with the development of agricultural cooperatives in South Africa.

4.2.2 Effects of apartheid on agricultural cooperatives

The respondents reflected on how apartheid affected the economy and how it filtered down into the agricultural sector and then into the agricultural cooperatives themselves. Each respondent provided a unique aspect of how apartheid affected agricultural cooperatives.

Respondent A explained that the biggest affect of apartheid is the influence on the people, in that they no longer believe in themselves. In his experience in working with agricultural cooperatives he noted that previously disadvantaged communities throw the towel in very easily, and often for no apparent reason. He went on to say that this causes a condescending attitude from whites, where they don't believe blacks can run agricultural cooperatives without some form of external intervention. This respondent does advocate external intervention - not from government but rather from the NGO sector in order to transfer expertise to the cooperatives.

Respondent B stated that agricultural cooperatives had been seen as instruments of apartheid before 1994 and that if it had not been for the South African Communist party cooperatives would never have gained the notoriety that they now have. According to him the problem now is that there is a push for cooperatives because of the word "cooperative" and not because of what it actually stands for.

Respondent C described how apartheid created a dualistic system in which black farmers are lagging significantly behind white farmers in terms of skill, capital and access to land. The respondent adds that there is greater need for market protection for agricultural cooperatives to even the playing field and encourage growth in the agricultural sector.

According to respondent D apartheid was directly responsible for the 2005 Cooperatives Act, forcing cooperatives to become social vehicles, hampering their economic viability. Because it was acceptable to subsidise agriculture during the apartheid era, the respondent believes that the Cooperatives Act is being used as vehicle to continue that trend through grants and subsidies.

Respondent E spoke about the perception that during apartheid the farming community had the strongest ties with the Afrikaner government. This created a strong association with farming, apartheid and racial abuse, an association which exists to this very day. The respondent concludes that this is directly inhibiting the establishment of agricultural cooperatives and thus also the people, land ownership, and the greater economy where fewer historically disadvantaged individuals are willing to participate in the agricultural sector for of fear of being abused.

The respondent believes that the prevalence of abuse of farm workers is a common perception due to the way it is covered in the media. In his experience this is not the reality on the ground, however it is this perception that drives the negative sentiment towards agriculture in general. This view is currently being reinforced with the way that the current farm workers' strike in De Doorns in the Western Cape is being covered.

The respondent makes another point that the question of land ownership has totally overshadowed the question of land utilisation. It is one thing to change the ownership of land from white to black, it's another to keep the land productive and functioning efficiently. According to the respondent it is a well known fact that most farms handed over by the Department Land Reform are no longer productive. This has resulted in the perception that agricultural cooperatives will not be able to function even though they are given functioning farms to work with.

Furthermore, because agriculture enjoyed so much protection during apartheid it was allowed grow without any competition from international markets. Once apartheid was abolished the government hastily attempted to join the free market economies so that they could trade in the international markets and reduce dependence on the Boer economy, which was predominantly agriculture. During this process little or no consideration was given to the long term effect on South African agriculture. South Africa is currently a net importer of agricultural products and processed goods. This has made agriculture in the country very difficult especially for start up agricultural cooperatives that do not possess the skills and economies of scale to compete effectively with the import markets.

According to respondent F the absence of the elders and fathers who worked in the mines destroyed the family unit as well as the sense of cooperation amongst communities and has made communities more selfish and survivalist focusing more on the individual that the community has a whole. It has also created division amongst Africans in general with tribalism having become a common problem in communities.

It will always be difficult to gauge the true extent of the effect that apartheid had on agriculture and agricultural cooperatives in South Africa. Apartheid created abject poverty, misery and disempowerment amongst black South Africans. But what is counter intuitive is that these are the main conditions that resulted in the formation of agricultural cooperatives in other parts of the world. It can thus be concluded that there are other factors either social and/or economic that are preventing agricultural cooperatives from taking hold in the South African economy.

4.2.3 Reasons for the formation of agricultural cooperatives in South Africa

A recurring theme amongst the respondents regarding the reason for the formation of agricultural cooperatives was that of resource sharing and economies of scale, other factors such as market access, technical support, training and access to finance were also mentioned. However, the issue of grant funding, specifically the Cooperative Incentive Scheme (CIS) grant was mentioned by all the respondents. Most of the respondents indicated that individuals forming an agricultural cooperative were willing to take a chance, no matter how small, in the hope that they would obtain a grant. According to most of the respondents those individuals have nothing to lose and if the cooperative fails it wouldn't have cost them anything just to try for the grants.

Table 4: Total DTI grant funding for agricultural cooperatives in 2012 (Department of Trade and Industry, 2013)

Province	Number of agri-cooperatives funded	Amount received from CIS* (Rm)	Other grants received	Total funding received (Rm)
Gauteng	7	3.5	2.2	5.7
Mpumalanga	13	3.5	4.5	8
Free State	20	5.8	14.3	20.1
Northern Cape	9	0	0.13	0.13
Eastern Cape	58	2.7	16	18.7
Western Cape	1	3.1	0.5	3.6
Limpopo	51	10.1	29.5	39.6
North West	30	1.6	35.5	37.1
KwaZulu Natal	52	1.2	77	78.2
Total	**241**	**31.5**	**179.63**	**211.13**

*Cooperative Incentive Scheme

According to the information provided by the DTI respondent, less than 3% of all the 10 168 registered agricultural cooperatives and 30% of those that are operational have been successful in their applications for grant funding. Although all of the respondents agreed that grant funding should not be a consideration when forming an agricultural cooperative, they also all agreed that in their experience many agricultural cooperatives were being formed to access grant funding.

The DTI grant is the number one reason for establishing an agricultural cooperative, according to respondent A. Governmental policy is responsible for the formation of many agricultural cooperatives through its DTI grant programs, however, government is pushing for the formation of cooperatives without looking at viability of business plans. According to the majority of the respondents this has caused a situation whereby individuals get together to form a cooperative in order to obtain the R300 000 grant, without having to concern themselves with the cooperative at all. According to Respondent A the nature of the grant is fundamentally flawed as there is no performance tied to it. Once the money is received it is dealt amongst the members and the cooperative ceases to exist. The members themselves don't have to fear any form of repercussion at all from the donor (the DTI in this case).

According to respondent D, access to the DTI grant was the first and foremost reason to establish an agricultural cooperative. People are desperate and will do anything to get hold of easy money, even if it means applying for every type of grant or subsidy possible. According to the respondent agricultural cooperatives are becoming like social grants, once they established the cooperative the members go to other governmental departments in order to seek other forms of grants and incentives. This has become a cycle that doesn't result in any productivity, but merely a system through which members aim to meet various minimum criteria in order to become eligible for grant funding.

Respondent E stated that agricultural cooperatives have become a vehicle to access land through the land reform process. Whether or not the land becomes productive is not important to the founding members; for them it's about obtaining land. According to the respondent this wouldn't even be a bad thing if the land was utilised as a resource, but what happens in most cases is that the land remains unutilised or is used as a dwelling with a bit of subsistence agriculture on the side.

Members also form the cooperatives in order to make their farms more productive and sustainable. Productivity and profitability is the main reason for the formation of cooperatives, specifically if the cooperative is the correct business structure at the time of the venture's life cycle to carry on the operation. According to Respondent A the motive behind the formation of the agricultural cooperative will dictate whether or not principles are adhered to. He indicated that where cooperatives were being pushed by government structures, the principles were in no way being adhered to, as the very principle of the cooperative was being corrupted by having membership forced on the individuals. Respondent A added that until a farm is a viable commercial entity, it is not viable for that farmer to join an agricultural cooperative as there will be little or no business experience in the cooperative. Respondent C added that negotiation power increases when it comes to purchasing equipment and trading stock, as well as lobbying power to external organisations that operate in the agricultural sector.

Although it seems that the motivation behind the formation of agricultural cooperatives is driven by a need to obtain easy money, most of the respondents stated that they did see a few functioning agricultural cooperatives that were formed for reasons other than obtaining grant funding. The fact that such agricultural cooperatives exist and function is an indication that the cooperative concept is able to function, and that the other reasons that cooperatives are formed do serve the sustainability of cooperatives in the long run.

The reason that so many agricultural cooperatives are not adhering to the principles is due to reasons behind their formation. Agricultural cooperatives have always been formed when a real economic reason arose from social, political and economic factors. Although the social and economic factors in rural South Africa are depressive, the agricultural cooperatives in South Africa are being formed by individuals seeking to access governmental funds and support in order to supplement their subsistence farming operations or just to share the DTI grants amongst the members.

4.2.4 Adherence to the cooperative principles by agricultural cooperatives

In order to clarify the distinguishing factors between a company and an agricultural cooperative all of the respondents were asked whether or not they believed that the cooperative principles were being adhered to upon the formation of the agricultural cooperatives. All of the respondents had differing opinions regarding cooperatives' lack of adherence to the seven principles.

The seven principles are:

1st Principle: Voluntary and Open Membership

2nd Principle: Democratic Member Control

3rd Principle: Member Economic Participation

4th Principle: Autonomy and Independence

5th Principle: Education, Training and Information

6th Principle: Cooperation among Cooperatives

7th Principle: Concern for Community

Most of the respondents were not able to identify all of the main cooperative principles. The principles that were known were those of member economic participation, cooperation amongst cooperatives and open membership. All the respondents agreed that not all the cooperative principles were being adhered to within agricultural cooperative structures, though most of the core principles were being adhered to, and if not the principles then the spirit of cooperation was present in the cooperatives.

According to Respondent A the motive behind the formation of the agricultural cooperative will dictate whether or not principles are adhered to. He indicated that where cooperatives were being pushed by government structures, the principles were in no way being adhered to, as the very principle of the cooperative was being corrupted by having membership forced on the individuals. Sector development, specifically agriculture, was being used as an excuse to form cooperatives, in the hope that the cooperatives would boost agricultural production and output, which in turn would create employment and increase the economic output of rural areas. Respondent A stated that all they see is a place to sell their products while sharing some of the distribution costs. The extent of involvement in the agricultural cooperative is only subject to the amount of short term gain that can be obtained.

Respondent B indicated that the principles are being adhered to in a small number of the cooperatives but that the vast majority did not adhere to them. According to the respondent there are many misconceptions about cooperatives which results in them not operating like cooperatives should. The agricultural cooperatives established by governmental agencies run like government projects with bottomless budgets and the bigger agricultural cooperatives are administered like companies. Members also tend to lose interest in the affairs of the cooperative once they realise that there is a significant managerial effort involved with the running of the cooperative that distracts from their main agricultural activities.

Respondent C indicated that there is legislation in place through which cooperatives can be formed and which will provide them with support. According to him most of the principles are being adhered to and that cooperatives are too democratic where the decision making processes are hampered due to a lack of leadership.

Respondent D referred to them more as codes of good practice than principles that should be written into the Act so that there are more distinguishing factors between cooperatives and companies. By writing them into the Act it will be ensured that cooperatives follow the principles and aren’t treated as companies. This however, will be a long process that will require much consultation before it is achieved.

Respondent E stated that the principles should have no bearing on the initial formation of the cooperative, that an agricultural cooperative should be formed out of a need or opportunity to operate in the agricultural sector, or where it would make sense for individuals to pool their resources. The principles should guide the cooperative once the members have realised what it is they want from the cooperative, they should not be establishing the cooperative because of the principles. It is because of that fact that agricultural cooperatives are not adhering to the principles and because their needs and motives are not aligned with the cooperative concept, the members are failing to understand the nature of the cooperative.

Respondent F stated that the reason one can see that agricultural cooperatives are not adhering to the principles is because there is no visible impact of the effects and presence of agricultural cooperatives, especially when compared to other countries where agricultural cooperatives form a greater part of the economy. If the cooperatives had been adhering to the principles then there would be more of them fulfilling South Africa's social needs. According to the respondent there are no mechanisms to identifying compliance or deal with non compliance within cooperatives in South Africa, turning cooperatives into companies with a different form.

According to respondents B, C and D the principles are being neglected because there is a general lack of understanding regarding them, which may be filtering down from behaviour on a political level rather than from the local community. Respondent E further added that it is the misapplication of the principles that cause agricultural cooperatives to fail. The confusion that exists between the cooperative principles and the Companies Act causes conflict amongst the cooperative members when it comes to voting and profit sharing.

The main reasons for which agricultural cooperatives are being formed is an indicator of whether or not the cooperative principles will be adhered to by the members. According to most of the respondents once government became involved the cooperative principles became less important to the members, even though government may push for adherence to these principles.

According to the respondents the failure to understand the principles by members is causing a misalignment of strategies and understanding that is causing agricultural cooperatives to fail.

4.2.5 Performance versus other African countries

All respondents indicated that it is important to differentiate between modern cooperatives, newly established cooperatives and rural agricultural cooperatives. The agricultural sector is one of the most advanced in Africa and the commercial or white agricultural cooperatives are performing very well.

According to respondent A members coming from non economically viable agricultural cooperatives have the same issues as other subsistence farmers in other parts of Africa. The distinguishing factor is the governmental and policy support that the other countries provide to their subsistence farmers. The respondent highlighted that countries such as Kenya and Uganda have a much better cooperative culture in the agricultural sector, despite having less resources and infrastructure to work with.

Respondent B pointed out that South Africa’s cooperative movement is lacking in comparison to Uganda, Kenya and Tanzania mainly due to the fact the cooperative movement has been going on for a longer period there than in South Africa. Those countries have generated a well established secondary cooperative industry as well as better educational structures for cooperatives.

Respondent C related that several other African countries have better out growers schemes and cooperatives are formed around those processing plants for example cotton. According to this respondent, they succeed because of big brothers like processors and fertiliser multinationals.

Respondent E argues that agricultural cooperatives in other African countries, especially the land locked countries do much better because they have to. They do not have the luxury of infrastructure and ports that South Africa has and therefore their survival depends much more on agricultural cooperatives. In this respondent’s opinion, this is why they established more policy and educational support for agricultural cooperatives.

Respondent F asserts that the reason other African countries have more operational agricultural cooperatives is because of the practical support provided to these cooperatives. He gave the example of the fertilisers that the Zambian government provides to agricultural cooperatives that allow them to achieve greater yields. The respondent gave another example of how Kenya has its own Minister of Cooperatives who oversees cooperatives in the country. So even though Kenya is a poorer country than South Africa, due to the cooperative structures there is less disparity and the gap between the various classes is smaller than it is in South Africa.

According to all the respondents agricultural cooperatives in other African countries are operating more sustainably than in South Africa. There was a common sense of disbelief amongst the respondents because even though South Africa is one of the more developed countries on the continent, it has failed to start any movement involving one of the most basic business forms. This contradiction may due to the fact that there is more poverty and a greater need for agricultural cooperatives in other African countries, whereas South Africa can rely on imports, white commercial farmers and agri-business for its food security and job creation.

The systems, policies and methods of support given to agricultural cooperatives by the South African government are very different from those provided by other African countries such as Kenya and Zambia who are more focused on the primary cooperatives and providing them with support. On the other hand South Africa is attempting to pull the primary cooperatives up through secondary and tertiary cooperatives. This is not feasible as secondary cooperatives consist of primary cooperatives.

4.2.6 Training and education of the cooperative concept

There was general consensus amongst the respondents that training and education was very poor both on the cooperative side and on the agricultural side. This is very disconcerting as training and education is one of the cooperative principles and is vital in ensuring the sustainable development of the agricultural sector as well as the development of other cooperatives. If the cooperative concept fails to grow organically through the training and education of the community and members it will struggle to take hold in South Africa.

Respondent A indicated that there a need for a more structured approach to cooperatives and their training; as he put it a "cooperative in a box" approach is required in order to kick start the cooperatives and smooth out the implementation phase. Once the cooperative is functioning it will then be able to implement training and education programs both for the cooperative and for the technical activities that the cooperative is involved in.

According to respondent B proper socialisation of agricultural cooperatives is required so that the concept of cooperatives can be better understood over other forms of business entities such as partnerships. More formal education around agricultural cooperatives is required so that the concept and principles of the cooperative can be passed on correctly. There was also a general failure by the educational institutions especially from universities and FET's regarding the education around cooperatives. According to the respondent no one is teaching the cooperative business model and concept which is causing confusion when it comes to the implementation of the business model. There is also a real lack of attention from a business and economics point of view that further obscures cooperatives.

Respondent C argues that there is no structured approach to training and education, although he has seen instances where agricultural cooperatives link up with agri-business and the older cooperatives such as NTK, and obtain training through their structures. He is however, not sure what kind of compensation, if any, was involved. The benefit is that there is a direct link between first and second economy cooperatives. A big disappointment is that there are no longer good extension services provided by the Department of Agriculture to develop the cooperatives and their technical skills.

Respondent D stated that there are lots of opportunists who pass themselves off as cooperative training specialists and that most of this happens in the agricultural sector. So those few honest agricultural cooperatives end up paying for training and assistance in good faith and getting nothing in return. There are also lots of individuals who apply for accreditation to become cooperative specialists but do not have the skills for that kind of engagement. Tertiary educational institutions are also part of this problem as they do not take cooperative business models seriously, and don't offer them as part of the course work. The respondent stated there was a real need for a cooperative training academy.

Respondent D reports that there is an insistence from governmental departments and organisations to use case studies from developed nations such as Italy and Spain for the implementation of agricultural cooperatives and for guidance on policy issues. According to the respondent many of these case studies are not reflective of the real problems faced by agricultural cooperatives in the South African context.

Respondent E lamented the fact that there are no accredit training programs from the DTI and other governmental departments even though they are the ones who are pushing the hardest for cooperatives. According to the respondent they want it done but all they can do is publish a picture guide on their website. The respondent then asked whether one can really establish a cooperative if one can't read. There should be more involvement from the formal and academic sectors to at least educate the general public about cooperatives.

Respondent F is of the view that levels of training and education around agricultural cooperatives are sufficient and that all cooperatives go through training. The only thing lacking is long term support and mentorship for the cooperatives. However, the lack of agricultural colleges is of great concern as there is no platform from which to launch agricultural cooperatives into the economy.

It is clear from the respondents' statements that there is no real push to disseminate the cooperative concept across South Africa, especially not into the formal sectors of the economy. This is evidenced by the lack of cooperative education in tertiary educational institutions and FET (Further Education and Training) colleges around the country. Agricultural colleges are particularly disappointing as they would be the ideal vehicle for disseminating the cooperative concepts and principles into the agricultural community, thus increasing agricultural production and employment opportunities and reducing poverty.

4.3 Factors inhibiting the performance of agricultural cooperatives

As established in the literature review, factors inhibiting the performance of agricultural cooperatives are characterised by three main issues: problems inherent to agricultural cooperatives, and economic and social issues. Each category will be investigated in detail according to each separate factor in order to ascertain the key issues hampering the success of South African agricultural cooperatives today.

4.4 Problems inherent to agricultural cooperatives

Understanding the problems inherent to agricultural cooperatives before widespread implementation occurs is of the utmost importance. South Africa is in the fortunate position that it can utilise the lessons learnt by other African countries which have been using the cooperative model for rural development for a longer period of time.

4.4.1 Agency problem

The agency problem was identified as one of the major factors contributing to the failure of agricultural cooperatives in South Africa. Although different aspects of the agency problem were identified it came through as one of the most significant problems effecting operations in agricultural cooperatives.

Respondent A suggested that outsiders should be used to manage funds and provide implementation services to the cooperatives instead of the cooperative hiring internal managers in the beginning. In his experience this would clear up the chain of command within the cooperative as managers tend to drive their own agendas and don't follow the orders issued by the members.

Respondent B said that there is real misunderstanding regarding the contractual obligations that principle agents and members have towards the cooperative, which allows this problem to be more prominent than it should be.

According to respondent C most of the agricultural cooperatives that he has dealt with have been too small to have agent acting for it, but that the cooperative leadership is often driven by self interest.

Respondent E stated that the only agents to worry about are consultants, as they tend to come into the cooperatives promising technical skill and access to markets and funding. The respondent stated that he had yet to see a consultant deliver on these promises. It is desperation of the cooperatives that allow consultants to pray on them so easily and this if further compounded by the fact that the cooperatives don't tie performance to the consultants fees.

According to respondent F, cooperative governance is an issue as the members don't understand their cooperatives in either nature or function, and this therefore results in a situation where the members of the cooperatives tend to lose control of the operations. According to the respondent it is common to see situations where the members agree to appoint a party to run their agricultural cooperative only to find that the views and goals of this appointee significantly different from theirs.

The need for reliance on outside parties in agricultural cooperatives is totally unnecessary, as the members should be able to run and manage their operations without any assistance besides the necessary training and education. They should already possess the technical knowledge to perform the core farming operations. All the respondents stated that financial knowledge of the members of agricultural cooperatives is a problem, as is the onerous reporting required. Agricultural cooperatives are thus forced to rely on outside parties such as consultants to produce these reports who then submit them on the cooperative's behalf.

4.4.2 Asset specificity

The nature of agricultural assets only becomes specific as the scale of the operation increase and the crops become less diverse. For start up agricultural cooperatives that depend on maximising the land and asset usage, asset specificity is not a problem. Common assets such as tractors, ploughs, cutters, reapers and discs can be used for a wide variety of crops and operations. Specialised assets such as harvesters, bailers and mills can be leased or purchased if the operation has grown sufficiently, or if a specific off take agreement exists for those products.

According to respondent A, the cooperative must consider whether or not the asset suits their operations and end goal and whether it fits the economic opportunity for which they are forming the agricultural cooperative. The question of asset specificity does not really affect small holder agricultural cooperatives as the assets used in that type of agriculture can be easily transferred to other types of operations.

Respondent B state that the asset specificity problem doesn't really feature in the formative years of the cooperative as it is the members running it at that point. It may however become an issue once the cooperative begins to expand, and more members join requiring a new managerial structure.

Respondents C and F stated that the asset specificity problem doesn't really concern agricultural cooperatives in South Africa as they tend to utilise Department of Agriculture assets in order to run their operations. These agricultural cooperatives are mainly survivalists in nature and do not require specialised assets in order to perform their daily activities, allowing them to rely on assets from outside sources.

Respondent D reported that asset disputes are common in an agricultural cooperative, especially if the asset was acquired by the cooperative and wasn't part of a members contribution. Members often tend to use assets for their own benefit, especially tractors and vehicles. This causes a great deal of conflict within the cooperative as those members expect a greater return.

Respondent E stated that the asset specificity problem doesn't really concern agricultural cooperatives in South Africa as they tend to be too small to concern themselves with specialist assets that are built for a specific purpose.

4.4.3 Hold up problem

The holdup problem was identified by most of the respondents as a serious problem faced not only by agricultural cooperatives but by the agricultural and agri-processing industries in general. The holdup problem has further reaching repercussions as it affects the cash flows of agricultural cooperatives which in turn impacts on their ability to raise finance and repay debts. South Africa's retail market functions using the negative working capital model, which means that it is not uncommon for buyers of agricultural products to withhold payments for periods of up to 90 days. For a cooperative that has waited six months to get its crops off the land, another 90 days is devastating for its cash flow. Structured markets do exist for products such as maize, soy and wheat, but for other products that don't require great economies of scale to farm the market doesn't provide a uniform and tradable price.

According to respondent B it depends on the bylaws of the cooperatives, but shouldn't really be a problem at basic level agricultural cooperatives as cooperatives are flexible entities. Whereas this may have been a problem during apartheid due to the controlled market, the present day free market should alleviate this concern.

Respondent C stated that as a banker the holdup problem was not of real concern as agricultural cooperatives have multiple options through which to sell their produce since the market has various channels through which to market.

Respondent E stated that most of the agricultural cooperatives he worked with had off take agreements with their suppliers, fixing the price at time of delivery. The cooperatives usually ended up getting a lower price than the ruling market price, but at least they knew what price they are going to get. It is then up to the agricultural cooperative to be productive and ensure it delivers high yields.

The inability to secure stable market prices through consistent supply of both quality and quantity is one of the factors contributing to the failure of agricultural cooperatives in South Africa. The present day free market in the formal and informal retail and listed markets is one of the main reasons agricultural cooperatives are struggling to survive. Customers are more accustomed to receiving value added products and not raw agricultural produce, and to remedy this would require extensive investment which many agricultural cooperatives cannot afford.

4.4.4 Free rider problem

All the respondents agreed that the free rider problem is a great contributor to the failure of agricultural cooperatives and that it stems from what they described as a “get rich quick” culture that is prevalent in South Africa.

Respondent A stated that he is not against strategic subsidy as long as it comes with a sense of responsibility and shared ownership, where one member does not abuse the cooperatives assets for his own use or rent them out for his own gain. According to respondent B and E this is not really a problem in the formative years of the cooperative, but as the cooperatives grow and as participation lessens by members and the agents become more involved members tend to become free riders.

Respondent C stated there will always be free riders no matter what venture or type of entity you are involved in, and this should be part of the cost of doing business.

Respondent D stated that in his experience of agricultural cooperatives in South Africa, they are either all good or all bad. The respondent had yet to see a functioning cooperative where all the members seemed to be contributing equally to the work load, but this doesn't mean that they are free riders.

According to respondent F there are lots of lazy people, especially the youth that expect to have everything handed to them. According to the respondent this has to do with the example being set by government officials and other television celebrities. All the respondents refer to an underlying problem with laziness and free riding, not just in agriculture but all over South African society in general. What is disconcerting according to some of the respondents is the fact that this problem seems to be very prominent amongst the youth.

4.4.5 Horizon problem

All the respondents expressed the hope for cooperatives to survive and operate sustainably in the long term. Most of the respondents allocate the present day failure of cooperatives to the members' inability to plan for the future. The most common factor identified was the lack of members' budgeting skills which did not allow them to actively plan for the future.

Respondent A stated that the main reason agricultural cooperatives fail in South Africa is because there is no real winter in South Africa: "It gets cold, but there is really no chance of dying if you fail to plan for winter". He referred to all the subsidies, grants and other forms of protection that communities have and rely on when the cooperatives fail to operate profitably.

Respondent B indicated that the horizon problem may or may not be problematic depending on the flexibility of the members' constitution. If the members were allowed to sell their products outside the cooperative it wouldn't really be a problem. In the event that a member has outgrown the agricultural cooperative or doesn't feel that the strategic direction is correct he can always cancel his membership. A escape or exit clause is of utmost importance to the members of the cooperative, however, the cooperative itself also needs an escape clause because if the cooperative business model is no longer needed or suitable, it can evolve into a different type of entity, such as a company. The respondent further alluded to the fact that most conflict within a cooperative is due to operational issues and not really related to investment issues.

Respondent C gave the example of an investment they made in a cotton cooperative that failed because some of the members of the cooperative changed their crop to maize when the maize price went up. The members in this case failed to stick to their long term plan. Now that the cotton price is high again they can't plant cotton as the cooperative went into business rescue.

According to respondent D this is not a problem in agricultural cooperatives in South Africa, as most of them are survivalist and their long term returns don't exist as they utilise most of their reserves for planting.

According to respondent E the problem is not that severe, but stems from the more severe problem of the lack of budgeting. Agricultural cooperatives' failure to plan how to allocate their capital in the long term is likely to have detrimental effects on their sustainability.

4.4.6 Portfolio problem

The recurring theme for the portfolio problem was that of cash flow. None of the respondents doubted the profitability of a well run agricultural operation; however, the cyclical nature of the cash flow is a definite contributor to the high failure rate of agricultural cooperatives. Some of the respondents also referred to fact that the cooperative should be ensuring food security for the local communities by planting a variety of crops that would improve their cash flow.

Respondent A referred to the problem as a “plant and pray” problem where cash flow is conditional on the success of the crop. Failure would result in the failure of the cooperatives as there is no way it would be able to recover from the losses.

Respondent C referred to the example of the investment in the cotton cooperative that failed where instead of sticking to their long term plan, the members were chasing the market prices which finally lead to the failure of their cooperative. Had they allowed for a diversified portfolio it may not have happened this way.

According to respondent D, E and F the portfolio problem doesn’t matter as most of the members in their agricultural cooperatives wouldn’t have the resources to invest in other aspects of the cooperative or any other activities.

4.4.7 Control problem

There is consensus amongst the respondents that the members do not understand their roles and responsibilities within and to the agricultural cooperative. All the respondents referred to the influence that local community leaders and tribal chief exert on agricultural cooperatives.

According to respondent A, once members perceive that they have lost control of the cooperative they tend to become disheartened and exit the cooperative. According to the respondent most of the control being exerted does not revolve around operational issues but rather on how cash resources will be spent. Obviously this generates a great deal of conflict amongst the members.

Respondent B stated that it is not uncommon for an elite member of the cooperative to assert his will on the cooperative. It is important that the application of the rules and bylaws of the cooperative are enforced, and that remaining members understand their rights as well as their obligations.

Leadership is of utmost import in this case to ensure that members have other options should this happen.

According to respondent C and D it is not a real problem in the smaller agricultural cooperatives as the members can agree when they are in smaller numbers.

According to respondent E the control problem is why big farmers don’t like to join agricultural cooperatives- they often feel that they contribute more to the cooperative but have less of a say in its running than they would like.

4.4.8 Influence cost problem

According to respondents A and D this is where commercial farmers bully agricultural cooperatives. The smaller farmers don’t know what they are in for when they allow a commercial agri-business to join the agricultural cooperative. The smaller farmers in the agricultural cooperative are often bullied by the bigger farmers, who threaten to remove their assets and finance facilities from the cooperative.

According to respondent A, the risk of this occurring can be significantly reduced by implementing a secondary cooperative structure, so that the bigger commercial farmers are excluded for the primary agricultural cooperative, thus reducing the risk for small holder.

Respondent B stated that once this type of problem is experienced then maybe the cooperative model is no longer suitable to carry on business, and that members should consider switching to a business model that is more suited to the nature of the entity.

Respondent C notes that for a banker this is a huge problem, as there is no form of equity control in a cooperative. The risk associated with bad decision making has many adverse effects, amongst which investor attractiveness is the worst affected, making agricultural cooperatives unattractive to other farmers and funders.

According to respondent E this is not a real problem, as the agricultural cooperatives in South Africa are not large enough to have a centralised decision making process. The few agricultural cooperatives that are large enough to experience this problem have much bigger problems to worry about.

4.5 Economic Factors

4.5.1 Operational Issues

All respondents were quick to draw attention to the distinction between modern cooperatives and rural agricultural cooperatives. The respondents were of the same opinion that agricultural cooperatives are not operating sustainably but merely as survivalist entities; that they are failing to grow and achieve any of the poverty reduction, food security and job creation goals that government had hoped that they would achieve.

Respondent A pointed out that there is a general lack of productivity in agriculture in general across the continent. Physical yields play a big role in this as the yields achieved by the newer farmers and agricultural cooperatives are much lower than those achieved by the commercial sector. The lack of business experience in running an agricultural cooperative is also one of the factors affecting the suitability of cooperatives. The example that he gave is that of a grain marketing cooperative, where members get together to sell grain- this occurs one month a year after harvesting. The problem is that the marketing cooperative then maintains all the cooperative expenses for a full year for just that one month's work, thus pushing the overheads to such levels that the turnover can never cover those operational expenses over the whole year.

Respondent D further added that this can be evidenced by the high rate of cooperative registrations and low amounts of operational cooperatives. According to the respondent there is a huge turn over in the cooperative numbers with not much evidence of their presence in the market.

Table 5: Operational versus registered agricultural cooperatives in South Africa in 2012 (Department of Trade and Industry, 2013)

Province	Registered agri-cooperatives	Agri-cooperatives in production	Percentage of registered agri-cooperatives in production
Gauteng	1092	46	4%
Mpumalanga	807	34	4%
Free State	211	43	20%
Northern Cape	114	39	34%
Eastern Cape	1796	118	7%
Western Cape	201	10	5%
Limpopo	1212	156	13%
North West	571	131	23%
KwaZulu Natal	4164	271	7%
Total	**10168**	**848**	8%

The information provided by the respondent from the DTI, shows that there are 10168 agricultural cooperatives currently registered in South Africa. Operations include all types of farming activities ranging from poultry, livestock, fruits and vegetables and also include agricultural marketing services. It is very concerning that only 8% of those registered cooperatives have been confirmed by the DTI as functioning cooperatives, especially since, according to the respondent, most have applied for the R 350 000 grant.

The lack of organic growth is directly related to the lack of experience with the agricultural cooperative, from how to conduct themselves in meetings to the day to day operations of the cooperative and the finical reporting of the cooperative. According to respondent A, the actual technical issues of farming are not the real problem, but the management of the cooperative is the real problem that prevents cooperatives from succeeding, which is why so many cooperatives turn to outsiders in the NGO sector for assistance.

Financial and regulatory reporting

All the respondents agreed that financial reporting in agricultural cooperatives is seriously lacking. There are varying reasons for this but the common theme is the lack of training and financial expertise within the cooperative. There is also a belief amongst the respondents that the reporting requirements are too onerous for such small organisations and that the reporting requirements should be phased in accordance to the size of the agricultural cooperative. All the respondents believe that agricultural cooperatives have an inability to produce business plans, reports and financial statements that would satisfy a bank’s lending conditions.

Most of the respondents pointed out that agricultural cooperatives have an added disadvantage as reporting in the agricultural sector is more complicated than reporting in the better know sectors, especially regarding biological assets and long term crops. Respondent C pointed out that several old generation agricultural cooperatives are either over or under valued because of the incorrect application of accounting policies.

Respondent D describes how only approximately 1000 of the approximately 60000 registered cooperatives have submitted financial reports to CIPRO. The respondents’ claims it’s because the required audited financial statements are too onerous and that a CC doesn’t require all this. Social reporting should also be a big part of cooperative reporting.

According to respondent E there is a dire need for auditing of agricultural cooperatives as they require a specialised approach. Once specialised units within financial institutions improve the layout of the guidelines, the more agricultural cooperatives will be compliant.

Respondent A stated that both accounting and financial reporting should be the norm for any operation, as should record keeping and management oversight. The respondent relates how operations do keep records, but as soon as the cooperative is formed record keeping no longer seems to be a priority. He suggested that farmers should work in the cooperative model before forming the actual cooperative.

In respondent B's view the reporting requirements for smaller cooperatives is too onerous for them especially considering the size and nature of the business. It is important to consider what information is relevant at the various stages in the cooperatives life cycle and to structure the reporting requirements according to that. In the respondent's opinion only financial cooperatives have a tiered approach to their financial reporting which is dependent on the size of their portfolio.

4.5.2 Financial Issues

Raising capital and operational finance

The ability to raise finance is crucial for any entity and not just agricultural cooperatives. However, agricultural cooperatives are faced with numerous challenges that place them at a distinct disadvantage compared to other business forms. These factors include a lack of knowledge regarding the legal form and rights of agricultural cooperatives, the state of the agricultural sector and the financial expertise within agricultural cooperatives.

Respondent A referred to agriculture as being a high risk sector that is dependent on too many externalities to be predictable. The problem is further compounded when one considers the specialist nature of the equipment, the perception of the average farmer's business experience and the nature of the specific type of agricultural activity. Risk mitigation through training is important, but whether this will adjust the sentiments of the financial sector to lend more is doubtful.

Respondent B highlights that of the 5.6 million small and micro businesses in South Africa only approximately 8% have access to credit, both formal and informal. If the same statistic is applied to agricultural cooperatives then it paints a dire picture. The way in which financial institutions assess business is that if the business is not integrated into the value chain with specific handover points between produce and financial contracts, the institutions will not consider lending. Financial institutions are slowly moving from an asset based system to a more cash flow based system but this change will take a long time to reach the agricultural sector.

The way in which banks are structured also creates a problem in that they are all centralised. This means that all transactions go through one centre and banks don't know clients and industries anymore. The banks are also keeping an eye on transaction costs which keep feeding into this centralised model. This has created a situation where there is asymmetric information and the banks are failing to react to changes in agricultural sector while the perception of risk relating to cooperatives is increasing.

Respondent C has described the lack of equity as the most prominent reason for agricultural cooperatives not obtaining funding. There are also no specialised financial products for agricultural cooperatives on the market making it difficult for financial institutions to lend to them. He gives the example of Rabo bank in Holland which is a cooperative bank specialising in lending to cooperatives. Agricultural cooperatives often fail to present their business cases to the bank, and banks are in turn sceptical about the level of skill the cooperative members have. Respondent D reduced the problem to a lack title deeds and a failure to produce bankable business plans.

Respondent E described agricultural cooperatives as too risky to fund due to their control structure. When a funder funds a specific entity they want to be able to control the investment and recover any potential losses. The only way to do this is through equity funding, a model that isn't allowed in agricultural cooperatives. An equity funding model would allow potential funders to intervene should the cooperative not be achieving its goals. According to the respondent the bank will attempt to assist the cooperatives before liquidating the assets and the cooperative members would need to move aside for a new management team should this happen. The banks however, are not convinced that this would be legal or practical in the case of agricultural cooperatives.

This therefore only leaves the debt funding model which is not practical for agricultural cooperatives because of the lack of security as most of the agricultural cooperatives are either on communal land or land that was purchased by the Department of Land Reform.

According to respondent F, government's failure to prioritise agriculture and agricultural cooperatives has resulted in a situation whereby financial institutions tend to neglect cooperatives in general and favour other business forms. The respondent feels that should there be a bigger push to establish cooperatives by government so that the private sector banks follow suit and fund more agricultural cooperatives.

The hurdles faced by agricultural cooperatives in raising finance are unique and require an innovative approach to surpass this specific problem, which related mostly to the lack of and nature of securities that agricultural cooperatives can provide. The fact that agricultural cooperatives more often than not do not own the land on which they farm, as it is usually communal or tribal land granted through land redistribution programmes, is problematic since it cannot be given as security as it belongs to the community as a whole. The members of agricultural cooperatives thus have limited ability to raise capital for the cooperatives. This results in an inability to raise a proper capital base with which to commence operations. The lack of *proper* funding incentives from government, specifically the DTI in this regard, has hampered the way in which cooperatives build their capital bases.

Consideration of other business entities

All the respondents replied that agricultural cooperatives should not be established as companies, giving various reasons and insights. All the respondents stated that a cooperative is a unique entity through which individuals could pool their resources and obtain maximum benefit from their limited resources. To do this through a company would be cumbersome and add unnecessary administrative expenses to the venture. All the respondents agree that a cooperative would be the best vehicle for small holder farmers to gain economies of scale initially, and should they out grow the cooperative structure they could then form a company.

Respondent A stated that most of the time the business model makes sense, especially in terms of input supply to the cooperative. According to respondent the cooperative model is not to blame for the failure of cooperatives, and as an example he cited that 89% of milk in the United States was being marketed through cooperatives.

Respondent B explained that there is a reason for different business enterprise formats, where the reasons relate mainly to objectives, control and capitalisation, ensuring that each entity has its own place depending on what the entity's end goals are. Capitalisation through collective action as opposed to obtaining capital from external sources is one of the main cooperative advantages. This empowers the members of the cooperative to be more flexible with their capital, thus making them more competitive.

It is important to consider the entity lifecycle as a cooperative might be ideally suited in the beginning of the entity's existence, but this might change as the entity matures. According to the respondent there is no way to easily transfer from one type of entity to another, and the new Companies Act does not speak well to the Cooperatives Act. This then results in huge confusion when the entity needs to make that change.

Respondent C made the point that cooperatives are practical entities that have a huge role to play in our economy. However, they are not bankable and it is only once they convert to companies that they become perceived as more bankable. There is also better legislation governing companies making dispute resolution better and access to capital easier. The fact that Companies Act requires the distribution of 95% of the reserves at the end of the year makes it difficult to provide financial institutions with comfort to finance.

Respondent D claimed that agricultural cooperatives are uniquely suited to carry on agricultural activities as they allow parties with different skill sets and resources to contribute equally to the functioning of the cooperative- something they would not have been able to do in a company as their contributions would have to have been valued at market value.

Respondent E gave the reason why the general sentiment is that cooperatives should convert to companies- because they are run like companies. If agricultural cooperatives could just administer themselves more like cooperatives should then there would be less confusion and the cooperatives would gain more traction in the market place.

Respondent F explains that farmers need to register as entities in order to conduct business, and that the nature of the entity would be dependent on the goals of the entity. According to the respondent cooperative structures would be better at the primary level and the use of companies would be better suited at the secondary level.

It is apparent that agricultural cooperatives have a place in the economy, provided they are run as cooperatives and not used as a front in order to obtain governmental benefits. Once a cooperative has converted to a company there is no going back and the dynamic with which the members will interact will also change. This would most likely result in a more hostile environment with less cooperation amongst the members. Although the goals of the company and the cooperative would be the same there would a great change in the way in which individual members would be able to extract value from the company.

The respondents agreed that converting an agricultural cooperative to a company would not solve the problems that cooperatives are experiencing and that by converting property rights are being risked unnecessarily. The respondents also agreed that that agricultural cooperatives need to focus more on running as cooperatives in order to be more successful, which would allow the members to reap the intended benefits from the cooperatives as opposed to wasting it on unnecessary administration.

4.5.3 Market Issues

Market protection

According to respondent C, the lack of market protection for agricultural cooperatives has been one of the greatest hurdles to their success, as the previous generation of agricultural cooperatives enjoyed a great deal of market protection. Now agricultural cooperative are totally exposed to free market economic forces. During apartheid there were marketing councils and boards for all the basic commodities that controlled prices and the supply of these goods. The agricultural cooperatives were thus able to thrive as there was no real competition since the boards decided who could sell what products and at what prices, and in some cases they could even decide to whom they could sell.

Respondent D noted the lack of support and protection of the markets from government, perhaps partly because there are too few resources to spread around. There is also not a real integrated economy which makes it difficult to allocate resources correctly. There is no push to market agricultural products to internal markets.

Respondent E describes how the economic isolation caused by apartheid made it easier for government to protect its agricultural markets. Even though they could not export any agricultural products at least they could use it as an excuse not to tolerate imports of agricultural commodities. While the apartheid government did make many efforts to protect the market and boost agricultural cooperatives, in this respondent's opinion it was the result of all the sanctions that were placed on South Africa at the time. Furthermore it was suggested that it may be impossible to implement some sort of protection especially since South Africa has joined the BRICS (Brazil, Russia, India, China and South Africa) nations, which are all fairly strong agricultural countries whose economies rely on the export of agricultural commodities.

Market access

Most of the respondents agreed that market access plays a critical role in the formation of cooperatives. They noted that in apartheid South Africa it wasn't the most critical factor as every agricultural board ensured that all agricultural produce was taken up. However, nowadays customers are accustomed to receiving processed or value added products as opposed to the raw agricultural products typically supplied by the cooperatives. The lack of agri-processors in the South African market perpetuates this problem as processed agricultural goods are then imported. Extensive investment would be required to remedy this- investment most agricultural cooperatives cannot afford.

Respondent A explained that in the South African context market access is a huge consideration in the formation of the cooperative. It stands to reason that small cooperatives or individuals cannot approach bigger institutional customers. Respondent B referred to the market as the base of the value chain and that it is the most important consideration for cash flow. Without the market there would be no basis on which to lend to agricultural cooperatives.

Respondents D and F describe that part of the problem is that agricultural cooperatives need to be sustainable in their supply, both in quality and quantity. Respondent D gave an example in which they arranged for an off take agreement between a large retailer and an agricultural cooperative. Initially the supply was constant and the quality acceptable, but during the next season the quality decreased significantly while the cooperative demanded a higher price. The relationship between the agricultural cooperative and retailer ended. It was later discovered that the agricultural cooperative failed to maintain its assets through the winter resulting in the supply problems.

Respondent E related that most of the agricultural cooperatives he has been involved with experienced market access and infrastructure as a real problem. He indicated that traceability, packaging, transportation and payment from customers were problematic. In order to supply directly to a retailer certain requirements such as HACCP (hazard analysis critical control points) and cold chain logistics are required. The respondent explained that either products are sold into the general market through market agents and into city markets, or into the retailers directly. On the one side you get a market related price which is usually poor, and on the other side the capital investment is extremely high.

Respondent F stated that government should be intervening in the market especially as far as imported agricultural produce as well as agri-products such as flour and tinned tomatoes. The respondent argued that it is not fair that government could intervene during apartheid but not now. The government off takes that were promised for agricultural cooperatives never materialised, and according to the respondent this clearly highlights government's lack of capacity to deal with agricultural cooperatives and their issues.

Poor infrastructure in both rail and road, lack of agri-processing facilities and increased imports are all factors contributing to agricultural cooperatives losing market access. The lack of clear and decisive policy from government regarding imports and market protection is causing agricultural cooperatives to fail as they are now expected to compete with imports, established commercial farmers and the old white agricultural cooperatives.

Furthermore, the lack of development of a secondary and tertiary cooperative sector severely limits the way in which agricultural cooperatives can interact with each other and with the market. This in turn has forced government to become a major player with agricultural cooperatives which has not resulted in positive outcomes.

4.5.4 Government

Respondent A indicated that the lack of organic growth from the cooperative sector was the biggest hurdle for the development of agricultural cooperatives. Government is forcing cooperatives onto the agricultural sector through the promise of support, funding and land.

According to respondent B, there has been a general neglect of agriculture by the government in post apartheid South Africa which in turn has had a negative effect on agricultural cooperatives. During apartheid, agricultural cooperatives were used as instruments to exclude certain people from participating in the agricultural sector and for securing votes and it is for these reasons that there was some apprehension about cooperatives for a short period of time. The respondent further stated that the initial method of BEE in which cooperatives were expected to include new previously disadvantaged members created problems for the cooperatives as they would have been expected to dilute their asset base for a zero contribution. Then there was an over emphasis on agricultural cooperatives through misguided incentives such as the R 300 0000 for the establishment of an agricultural cooperative, which individuals used as access to easy cash.

According to respondent E there is lots of abuse by agricultural cooperatives themselves in order to obtain tenders and grant funding. Everyone is quick to blame policy, government and the NGO's, but at the end of the day the cooperatives themselves need to be productive. The reason the failure rate is so high especially with agricultural cooperatives is that they are not genuine most of the time. So individuals that form agricultural cooperatives with alternative motives hurt cooperatives the most by damaging their success rate and reputations. Respondent E proposes that is why no one wants to form agricultural cooperatives anymore. The respondent believes that one of the root causes of this is the way in which government attempts to encourage the establishment of cooperatives, by using grant funding and policy to increase their numbers.

According to respondent F government is overstating the success of agricultural cooperatives in South Africa, and this dishonesty on the part of government is preventing new agricultural cooperatives from forming believing that the market is saturated. It is also painting a false picture about the state of agriculture in general. This was highlighted during the recent farm workers' strike in the Western Cape, with organised agriculture being unable to sustain its competitiveness with the recent wage increases.

Respondents C, D and F are advocating more governmental involvement where as respondents B and E are against the current government intervention policies in the cooperative sector. Respondent E stated that it was the current policies that are problematic and that government will need to change its approach if it wants to intervene in the establishment of agricultural cooperatives. Respondent E claims that the government was fooling itself by continuing along the same route it has for years, while not achieving any significant results.

All the respondents agreed that a certain amount of government intervention is required in the agricultural sector, and that government had provided significant support to the agricultural sector during apartheid, which allowed the agricultural cooperatives to survive with relative ease. In the past all farmers were subsidised either through diesel, seeds or irrigation rights. They also had the benefit of selling for fixed prices that were controlled by the market boards, which were in turn represented by the agricultural cooperatives. During apartheid farmers could always count on receiving a minimum price for their produce and did not have to be held up by buyers and market agents.

Policy measures

All the respondents indicated that policy initiatives are not being filtered down to the agricultural cooperatives in the rural areas, and that a majority of the resources meant for the development of agricultural cooperatives are being utilised by larger cooperatives and large commercial ventures. The respondents identified various reasons for the lack of policy implementation and voiced their opinions on the nature of the policy.

Respondent A's biggest issue with policy implementation is the lack of a functional extension agency or program to support agricultural cooperatives. The respondent explained that there are good people at top level who design good policy, but at the middle levels all you have are people who are just happy to have jobs. They are poorly trained and unmotivated, and do not see the agricultural cooperatives they are charged with assisting with implementation and training as their clients, resulting in a total lack of accountability towards them. Those middle layers of bureaucrats do not have the skills, attitudes or training to assist in the implementation of cooperatives, and according to respondent A spend much of their time in meetings and workshops and fail to accomplish any of the policy objectives set to them by the higher levels in government.

Respondent B described a lack of understanding of policies and the essence of the cooperative format and structure, especially from government employees at organisations such as the DTI and parastatal banks. There is also a lack of continuity from government organisations that do not allow the policies to filter down to ground level, and the information that does get there is usually unclear. These factors therefore inhibit the socialisation of agricultural cooperatives.

Respondent C believes that the policies themselves are great, but implementation is a serious problem and that there needs to be a specialised cooperative bank that will support agricultural cooperatives. None of the current banks or governmental departments have the capacity or skill to deal with agricultural cooperatives, and everyone expects everyone else to fund them. Thus they keep bouncing around between them in a perpetual state of limbo. A cooperative bank would allow the implementation to be smoother as this specialised entity would provide a support service as well as a funding service. This way there would be more individualised attention from a specialist similar to what the extension officers would have provided.

Respondent D and F stated that the various government structures are not being held accountable for the development that they put in place. The example given was that of Department of Agriculture blaming local provincial structures for the lack of agricultural cooperatives. The respondent explained that this makes no sense as the Department of Agriculture should be assisting cooperatives in the agricultural sector. Respondent F stated that the Department of Social Services is responsible for 70% of the funding of agricultural projects, and that it seems strange that the Department of Social

Development who should be complementing the Department of Agriculture is actually taking the lead.

It seems to respondent D that all the departments want to help cooperatives, but no one seems to be responsible for them. According to the respondent there is no central body or structure through which the development of agricultural cooperatives is coordinated. The result is a system that allocates resources inefficiently, does not provide support for agricultural cooperatives and fails to keep records regarding their compliance, sustainability and functions.

Respondent F relates that government is not prioritising the development of agricultural cooperatives and that all campaigns aimed at the establishment of agricultural cooperatives are doomed to fail due to the lack of structural support from government. The incentives provided are not enough in order to ensure that agricultural cooperatives have sufficient capital to get through the first season.

The respondent further explains that policies need to be more practical. This is reflected in the Cooperative Act of 2005 which is not a practical document to follow or implement. This has created a culture of fear amongst government officials in that they might do something unsustainable and place themselves and their departments in a bad light. In order to obtain results they have also allowed the incentive schemes to be abused in the hope that it would have kick started the cooperative movement.

Respondent E describes how the policies are not designed to be implemented in a third world economy and that no thought was given to how they would be implemented. The respondent believes that there is a disconnect from what policy designers perceive governmental structures on the ground to be and what they actually are. The respondent believes that too much reliance is placed on government officials in provincial departments and that no accountability exists within these structures. According to the respondent the government has no capacity to monitor the implementation processes of agricultural cooperatives, so while in theory they are allocating resources to the establishment of agricultural cooperatives there is no value generated from those resources.

This respondent adds that the biggest factor prohibiting the successful implementation of agricultural cooperatives is the lack of information on the number of successful agricultural cooperatives. “There is a perception that agricultural cooperatives are doing well, nothing however, could be further from the truth”. According to the DTI there are over 20 000 registered agricultural cooperatives, but the respondent reports that he has seen no more than 40 functioning and of those not one is functioning as a cooperative but as a company. The lack of information is preventing policy makers from adapting their policies and strategies which is leading to more cooperative failure. The respondent emphasises that government needs to be more honest with itself regarding its short comings in the agricultural sector.

All the respondents pointed to lack of information available regarding the state of agricultural cooperatives in South Africa. Even the respondents from the DTI, SANACO and the Department of Land Redistribution stated that there is no way of truly assessing the state of agricultural cooperatives as there are so many different organisations and departments, both public and private attempting to establish them. All the respondents stated that the current available information did not reflect the true state of agricultural cooperatives and in fact make the situation look much better than it really is.

It is clear that policy design and implementation needs to be addressed in order to ensure that more agricultural cooperatives survive their first season and that the resources that government allocates to the establishment of cooperatives are not wasted. A more pragmatic approach to cooperative establishment is required that will focus more on the long term sustainability of agricultural cooperatives as opposed to just getting them established.

All the respondents agreed that the society and culture in which a cooperative operates has a profound effect on its operations because society and culture influence members and the way in which they interact in the community. Every country has a unique history that leads to the establishment of agricultural cooperatives. According to respondent E the agricultural cooperatives' values are a mirrored reflection of the values of the society and community in which it operates.

Respondents A, D and E have had negative experiences with the cultural diversity within South Africa, especially as it relates to agricultural cooperatives. They found that forming cooperatives which consisted of more than one cultural group experienced significantly more conflict amongst the members than cooperatives that consisted of a single cultural group. Respondent E added that he had yet to see a multicultural cooperative survive its first year. He attributes this to the fact that there is a certain amount of tension between the various ethnic and cultural groups in South Africa, not just between blacks and whites. These various groupings don't see eye to eye, and agricultural cooperatives consisting of the same cultural groups experience less conflict than those with mixed cultures.

According to respondent A, African culture was not taken in to consideration when government was drafting its policies and cooperative implementation strategies. Although the concept of cooperatives is universal, allowances must be made for cultural differences that will ensure better implementation of cooperatives. Due to the legacy of apartheid, respondent A makes the assumption that there is a generation that has a low education base which in his opinion has created a society that has no confidence it itself.

Respondent B asserts that cooperative culture has its roots in apartheid South Africa when the white farmers were struggling for economic freedom and to be recognised in their own right. He equated this to the same cultural and social needs that occurred in the United Kingdom when cooperatives were first established. According to the respondent the concept of self help in South African culture had its roots with the Communist party which resulted in an ideological clash, but later after much external influence specifically from European countries and labour organisations, cooperatives stared to gain notoriety and became more prevalent.

Respondent C, though realising that it is a dangerous statement, is of the opinion there is not a cooperative culture in South Africa. According to him the role model for South African society is very individualistic and driven by self interest rather than by community advancement. He sees everyone as wanting to skip the middle class and jump straight to the upper class, whereas cooperatives are by design middle class organisations which focus on pulling up the community as a whole as opposed to one individual. The wealth model which we are using as South Africans is incorrect to drive the principles on which cooperatives are based.

According to respondent D, society in general has turned the cooperative culture into a social grant, due to its perceived ineffectiveness and survivalist structure. Agricultural cooperatives have it even worse as being in a rural area you are perceived as needing it even more.

Respondent E explains that society runs on the 'demonstration effect' where most individuals base their behaviour on what they perceive their leaders to be doing. This has resulted in a get rich quick culture in which "everyone wants a job but no one wants to work", making it difficult to push productivity in agricultural cooperatives which require very high work rates. The respondent gave an example of his organisation-funded farming operation in Kwa-Zulu Natal. Upon being alerted by a supplier they obtained for the cooperative that there was no more delivery from that cooperative, they found that the productivity had decreased drastically when they performed a site visit. When they confronted the members they were told that it was the "Zulu way to watch your cattle grazing", thus implying that no other work had to be done. Needless to say at this point the respondent was visibly upset.

Respondent F stated that South Africans are not an agrarian society and that the main reason for this is the negative example set by government officials and other public figures. According to the respondent the youth are leaving the rural areas in order to seek work in the metros as they no longer want to get dirty and work hard.

It is clear from the respondents' statements and views that more attention should be paid to cultural differences when it comes to the establishment of policy for agricultural cooperatives, and to the reasons for which they are established.

4.6 Social Issues

4.6.1 Tribal and rural structures

All the respondents agreed that the tribal structures in rural communities have a profound effect on the operations and sustainability of an agricultural cooperative. The reasons given by respondents vary according to their involvement and experiences with agricultural cooperatives. A common response from all the respondents was that it is vital to obtain buy in from tribal leaders before buy in from the community can be sought, as it is the tribal leaders who influence the communities in rural areas.

Respondents D and F have travelled vastly and witnessed various agricultural cooperatives in many countries, both developed and developing. They noted that community buy in is vital to the success of agricultural cooperatives as the cooperatives obtain their labour resources and a portion of their markets from those communities.

Respondent A stated that the hierarchical structure present in rural communities was hampering the foundation of agricultural cooperatives since they are supposed to be founded on principle of democracy and equal participation, which is the opposite of the structures he has found in rural areas. Although he admitted that he was not sure of the subtlety of tribal structures, from his dealings he found them to be menacing towards agricultural cooperatives, as the members of the cooperatives felt that they needed to consult and involve the tribal elders in the cooperatives' day to day business.

Respondent B is convinced that rural and traditional communities catch onto the cooperative idea very quickly because there is a history of social groupings such as labour organisations and even the concept of the “stockvel” in which communities pool their financial resources in order to invest. The leadership is very important as it is the factor that decides on the success of these cooperatives; once the leadership is corrupted the cooperatives will fail as there is one individual driving the whole process for his own gain.

According to respondent C the influence of rural structures- especially if you have the chief’s buy in- is very beneficial to the agricultural cooperative especially if there has been extensive consultation regarding the cooperative’s role in the community and what social standing the members have in the community. The two structures should not be in conflict and in his experience if there has been consultation with the chief and local community there have been no issues of interference by the tribal structures.

According to respondent D, the chiefs are the biggest reason that agricultural communities fail. The chiefs provide the cooperatives with the right to occupy the land, and the moment that they begin to flourish the chief imposes rental or profit sharing demands. According to the respondent the chiefs gamble with agricultural cooperatives. When they are still survivalist organisations the chiefs are more than willing to help because they have nothing to lose, but once they become profitable then they demand rental by threat of throwing the cooperative off the land. In addition, the respondent has found that tribal law often dictates the cooperative’s capital spending and operations, as well as allocation of governmental resources.

The respondent adds that the problem is that cooperative members are government officials that have used their positions to obtain grant funding for the cooperatives, then once that have done this they invite other farmers to become members of the cooperative. The invitation however, does not become formalised and all the profits that the cooperative makes then gets pocketed by the original founding members. There needs to be better education around cooperatives in order to ensure that members are aware of their rights.

Respondent E reports that it's not the chiefs, but others that exert negative influences in rural communities. The respondent gave the example of the Zulu king, who is the biggest land owner in the country through the land he controls in trust. In their dealings with farmers and agricultural cooperatives it has always been other opportunists that have attempted to derail their projects, not the chiefs. According to the respondent, rural structure helped in that there was a culture of respect that allowed work to be completed and knowledge passed down.

Respondent F stated that "chiefs are not thinking as they used to", referring to the way in which land and resources are allocated amongst the community and the way in which they involve themselves in the communities. The rural communities are starting to function as corporate companies with land going out to those who can pay for it, have a political connection, or are willing to share profits with the chiefs. This has created structural issues within the communities which impact on education, health care and job creation, and result in increased poverty and poorer quality of life in the rural areas.

The unique way in which property rights are structured in rural South Africa has created a situation in which no single entity or individual has ownership rights over land. Although this is not true for all cases, it is true for most of those involving new agricultural cooperatives. The administration of these property rights is done through the tribal structures in rural communities, which force the cooperatives to become involved with the local chiefs and the communities. All the respondents indicated that community involvement was an integral part of agricultural cooperatives as it draws labour and resources from the community as well as potential sales.

4.6.2 Cooperation amongst members

All respondents noted that while infighting is detrimental to the cooperative, dependent on the cultural demographics of the agricultural cooperative infighting is common place amongst the members. The respondents also pointed out that the limited resources cooperatives have to work with is causing conflict especially when one member perceives that another is gaining more utilisation for shared assets than another.

Respondent B gave a fitting analogy regarding the members of a cooperative. He equated it to a lion hunt. When one hunts lion with dogs all the dogs will work together, it doesn't matter if they are of different breeds. Their survival is dependent on their ability to function as a unit. Once the hunt is completed and the dogs return home they always end up fighting with each other. He said that agricultural cooperative run in the same way, when it is time to harvest and sell they all work together, once there is a lull in productivity the infighting begins.

Respondent A stated that uninformed members make for bad cooperative members. The members need to be informed of their roles and responsibilities towards each other as well as to the cooperative itself. Respondent C highlighted that alignment of objectives and trust is important. Lots of time is wasted consulting, facilitating and mediating between the members and that is time and money that could have been better spent on other business related activities.

Respondent D stated that unfortunately member conflict was common, especially in agricultural cooperatives. The respondent believes this is due to the cyclical nature of agriculture where members only have a limited opportunity to earn an income and cooperation becomes less important. Respondent E added that due to the size of farms and the sparse locations in South Africa, communication between members is hindered as face to face meetings yield better results. Members need to meet regularly in order to ensure that their strategy goals remain aligned.

4.6.3 Member accountability and loyalty

According to respondent A the members tend not to be accountable to each other when the cooperative is struggling, which results in its failure. When things go bad an "every man for himself" culture takes over and the cooperative pays the ultimate price. The respondent has found that there is no culture of discipline within agricultural cooperatives in South Africa; once a member is found doing wrong, dependent on his social status, there are usually no consequences for his transgressions.

Respondent B pointed out that numbers are important in order to ensure that collective action is successful. If members leave, the cooperative loses many of its advantages. Respondent C said that it is dangerous to generalise but a lack of loyalty happens often not only amongst members but also amongst shareholders, and it’s just “something that happens”. Respondent E stated that opportunism is rife all over the world, though he doesn’t think that loyalty is an issue in agricultural cooperatives in South Africa due to their survivalist nature.

4.6.4 Democracy within agricultural cooperatives

Respondent A refers to the importance of knowledge of the rules, bylaws, rights and responsibilities of the members to each other. Once a member starts to use the cooperative for his own gain then it is no longer a cooperative.

Respondent C indicated that cooperatives are too democratic in that the decision making processes are hampered due to a lack of leadership. The way the respondent put is that “everyone is sitting under the tree debating and there is nothing happening”. Real leadership is required in order to ensure the success of the agricultural cooperative.

Respondent D highlighted that in his experience democracy within agricultural cooperatives in rural communities is rare. He explains that tribal law dictates to the agricultural cooperatives how they should operate. According to the respondent the extent of interference by chiefs and politically connected members in the communities goes well beyond operational decisions and also affects capital spending, either through some form of tender fraud or kick backs to equipment supplier. There is also an unfair allocation of governmental resources that tends to be allocated first to those who are in favour with the chief and only afterwards will resources be shared with other members of the cooperative.

4.6.5 Equality amongst the members

Respondent A explains that once external structures such as local chiefs interfere with the cooperative then the cooperative becomes an instrument for someone else's gain and not for the cooperative members. If there is a chief that is part of the cooperative he needs to be socialised into the cooperative culture.

Respondent D reports that tribal law is a problem as it removes the idea of equality especially if there are women involved. In the respondent's experience whenever women are involved in agricultural cooperatives their opinions are sidelined and their contributions undervalued, even though they are members of the cooperative.

It is apparent from the respondent's reports that the tribal structures, patriarchal culture and role of the chiefs create a hierarchical social structure which makes it difficult to have equality and democracy amongst the members.

4.6.6 Perceptions

Urbanisation is a large concern especially with the women and youth leaving the rural areas for the larger metropolitans in order to find employment. Respondent A argues that it is not just the lack of employment opportunities in the rural areas that cause urbanisation but also the perception that agriculture is sub-quality employment. According to him farm workers are seen as no more than "dirt diggers", with no potential for advancement and no future. Respondent E stated that there is a perception that rural life style is inferior to that in the urban centres and that by remaining in the rural areas workers are denying themselves opportunities.

Respondent B says that South Africa has been losing market share to other countries which has been shrinking the whole agricultural sector. Labour organisations have also made it difficult for cooperatives with the minimum wage demands, failing to understand that the profits can be distributed as a wage at a later stage. This has hampered the attractiveness of agricultural cooperatives as they are seen as slave farms by the general labour force.

4.7 The future of agricultural cooperatives in South Africa

Although the respondents hope that agricultural cooperatives thrive and achieve the goals that government has set out, they had a fairly negative view of the future of agricultural cooperatives in South Africa. The respondents gave many reasons for such pessimistic outlooks, such as South Africa's current track record for developing agriculture and agricultural cooperatives, poor infrastructural development in the agricultural sector, failure to address social issues in rural areas and lack of investment in agriculture by private sector.

Respondent A stated that agricultural cooperatives could play a huge role in the South African economy and that success is possible because the correct drivers are there; it's just about managing the way in which cooperatives are rolled out and how the actual implementation is done. Agricultural cooperatives require guidance in order to succeed and be sustainable and should not be left alone after implementation.

Respondent B summed it up in one word: "painful", if government continues to be the main driver behind the formation of agricultural cooperatives. The movement must be driven by members' needs to reform their living conditions, earnings potential and to improve their quality of life, and not by political needs.

Respondent C explained that agricultural cooperatives will get nowhere without support mechanisms, including extension services and policies provided by government. According to respondent D without more effective government intervention agricultural cooperatives will continue to fail, allowing a potentially massive resource to go to waste. Respondent F stated that unless there is a fundamental change in the way all parties approach agricultural cooperatives they are doomed to fail.

Respondent E argued that for as long as there are no public private partnerships to roll out the implementation and assist in the running of agricultural cooperatives it will be no more than a distant dream on which the government will continue to waste money and resources. The respondent believes that the government is not that far away from throwing in the towel on agricultural cooperatives. In his experience government is blaming apartheid for a legacy of issues that it could not solve and will then move onto another type of job creation model.

All the respondents highlighted that government needs to approach the development of agricultural cooperatives differently. If government wishes to uplift rural communities, create employment opportunities and bolster food security in South Africa then it needs to take note of its track record in this respect and find better ways of accomplishing its goals.

4.8 Conclusion

The information gathered from the respondents confirmed and expanded on the findings from the literature review. The findings from the literature review identified three critical categories that are preventing the sustainable development of agricultural cooperatives in South Africa. These are the social, economic and inherent cooperative problems outlined in Table 3.

It is clear that agricultural cooperatives have not faced a single issue or problem but rather a multitude of problems that have resulted in their inability to take a hold in the South African economy. It is thus clear that the problems faced by agricultural cooperatives in the post apartheid era can be classified as “wicked problems” (Rittel & Webber, 1973) due to the fact that many factors have varying degrees of influence on the overall problem faced by agricultural cooperatives in South Africa.

The following table summarises the main problems affecting agricultural cooperatives in South Africa today. These factors were derived through the review of the literature and the interviews of the relevant industry experts. It is evident that many of the factors are interdependent and the implications are that an improvement in one area may lead to improvements in other areas.

The interviews revealed that government emerged as one of the key factors impacting the success of agricultural cooperatives due to their inefficient and faulty efforts to establish agricultural cooperatives. A fourth category named “Basis for development” emerged out of the interviews with the respondents and is illustrated in Table 6. This category goes hand in hand with the culture and understanding or lack thereof around cooperatives and is explained in detail below.

Table 6: Most pertinent factors affecting agricultural cooperatives in South Africa today

Pertinent factors affecting agricultural cooperatives in South Africa			
Basis for development	**Problems inherent to agricultural cooperatives**	**Economic issues**	**Social issues**
Understanding cooperatives The reason for cooperatives The cooperative principles Perceptions	Agency problem Hold up Free rider problem Horizon problem Portfolio problem Control problem Influence cost problem **Vital to:** **Learn from others' mistakes and experiences** **Use valid examples and case studies**	**Operational Issues** Management and control of issues Financial (mis)management Long term planning **Financial Issues** Raising of capital and operational finance Financial management Record keeping Financial reporting **Market Issues** Marketing channels Access to markets Access to fair pricing **Government** Policy incorrectly translated No support of policy decisions Inefficient grant system Lack of agri sector growth BEE Lack of land Lack of coordination Cumbersome structures Implementation	**Hierarchical structure of communities** Interference Member equality Democratic member control **Lack of education and training** Measure performance Combat opportunism Keep financial records Gain access to finance Contracts **Member dynamics** Cooperation Accountability Loyalty Democracy Equality **Other** Cultural differences Perceptions urbanisation Legacy of apartheid

The basis for developing agricultural cooperatives in South Africa

An overall concern is that the respondents' core understanding of what an agricultural cooperative is and how it differs from a company, both in terms of its operations and statuary regulations is very poor. This is concerning since these are individuals who are involved with cooperatives and should be armed with a satisfactory understanding so they can pass it onto those wishing to establish and operate agricultural cooperatives. Their lack of knowledge and understanding of the cooperative principles points to a lack of education and training at tertiary educational institutions such as universities and FET's.

The reasons why agricultural cooperatives are being established comes into question as they are mainly being driven by grants, incentives provided by the DTI and by political needs and policies as opposed to a real social and economic need of the members to improve their standard of living. This may explain why the principles are not being adhered to. Factors such as economies of scale, increased bargaining power with supplier, better access to resources, increased production capacity and more access to technical expertise are the main reasons that agricultural cooperatives should be established. There is not enough focus on these factors or the cooperative principles when an agricultural cooperative is established, thus resulting in a situation whereby the agricultural cooperative functions without any real direction or understanding of what it is supposed to do.

The cooperative principles have been corrupted, along with the members themselves who hope that when the grants come through they can just use those grants as a form of income, as opposed to operating a profitable agricultural cooperative. The lack of adherence to the principles has also prevented the spirit of cooperation, loyalty and accountability from occurring in agricultural cooperatives in South Africa and has thus completely stifled the formation of secondary and tertiary cooperatives.

When the aforementioned factors are taken in conjunction with the perceptions commonly held about agriculture, urbanisation and cooperatives, it can be seen that the overall basis and foundation around the development of agricultural cooperatives is shaky.

Problems inherent to cooperatives

South African agricultural cooperatives are fortunate in an important respect. Most of the learnings around the inherent problems of agricultural cooperatives have been achieved in other African countries. Kenya, Zambia and Tanzania are examples of countries which have faced and overcome problems similar to those South Africa is facing. The South African government, agencies and cooperatives should use these learnings to build controls and systems against these problems. Unfortunately this is not the case with most South African agricultural cooperatives and government who are not benefitting from these as they insist on using case studies from developed countries.

Economic Issues

The economic factors affecting agricultural cooperatives are mostly linked to the policy initiatives that government has attempted to implement in order to assist agricultural cooperatives. During the apartheid era government provided the agricultural sector and agricultural cooperatives with support in the form of rebates, import protection and marketing boards that ensured the prices of agricultural commodities were controlled. These policies ensured that the agricultural cooperatives would be able to grow and continue adding to the economy, providing employment opportunities as well as food security. Currently in post apartheid South Africa none of these measures are in place as it is a free market economy thus placing new agricultural cooperatives at a clear disadvantage in the initial phases of their life cycles.

The non-policy related issues such as marketing channels, capital raising, operational issues and financial reporting are preventing agricultural cooperatives from succeeding. The reasons that financial institutions won’t lend to agricultural cooperatives are valid from the point of view of those institutions, particularly as companies and other business entities are held to the same standards. Members' lack of managerial and accounting skills is compounding the problem.

Implementation

Implementation of the agricultural cooperatives is a key issue as there is no thorough training involved prior to implementation. There is also no form of continuous training once the cooperative is established, as this is the period when the agricultural cooperatives will be experiencing the actual problems. The implementation also doesn't consider cultural and economic differences from one country to another. Agricultural cooperatives in South Africa should learn from other African cooperatives instead of only looking to the developed world for case studies and examples on how to implement agricultural cooperatives. Certain conditions tend to give rise to particular inherent problems. Therefore, more thought should be given to the factors that could force these inherent problems to become more prominent. In the planning phase these conditions should be taken into account so that implementation can be more effective.

Post implementation strategies from the agricultural cooperative as well as from government would help agricultural cooperatives deal with day to day issues. The research points to fact the lack of post implementation support is a huge problem for agricultural cooperatives and that more resources need to be allocated to the agricultural cooperatives after rather than before implementation.

Social Issues

The social factors that are hindering the development of agricultural cooperatives are extremely complex, not only because of the effects of apartheid but also because of the differing cultures in South Africa. However, the difference amongst the various black cultures has been identified as one of the main factors contributing to the conflict amongst the members of agricultural cooperatives. Some of the social factors affecting agricultural cooperatives such as unemployment, urbanisation, tribal and communal interference, and the negative perception of agriculture are contributing to the lack enthusiasm for agriculture and thus agricultural cooperatives.

The degree to which interference from the chief as political connection effects the operations of agricultural cooperatives is very concerning. These are the very leaders who are supposed to care for the community but they are missing a vehicle that is ideally structured to do just that. Individuals are no longer willing to face these challenges as they cannot be overcome by hard work or perseverance, but a need to adjust ones' standing in the community. This may or may not be possible for the average community member as tribal rank is often determined by birth and political connections determined by financial standing.

The effect of apartheid was profound and the country has yet to recover from the devastating effects on society and the economy. The implementation of agricultural cooperatives is being pushed by government in the hope that they will be able to readdress many of the wrongs resulting from apartheid. The effects it has had on individuals affecting their self confidence, levels of education and economic situations, especially in the rural areas, cannot be undone, but they may be addressed through participation in agricultural cooperatives. The communities in the rural areas have had fewer resources available to them than their urban counterparts and this has affected the very structures of these communities.

Facing reality and looking ahead

Government is fooling itself about the extent to which agricultural cooperatives are successful. The numbers speak for themselves. Only 8% or 813 of the 10 168 agricultural cooperatives that have been registered are operational, and their profitability is unknown. While only 241 out of the 10 168 registered agricultural cooperatives managed to obtain grant funding, this means that only 607 agricultural cooperatives are functioning without grants in the whole of South Africa.

It is clear from the respondents' statements that solutions need to be found to ensure that agricultural cooperatives begin to function more sustainably in South Africa, or else there will be no reason to provide them with support and resources over other business forms such as companies. Considering the total amount of resources spent on the development of agricultural cooperatives by the DTI, on agriculture by the Department of Agriculture, Fisheries and Forestry, and on land reform, much more should have been achieved.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

Due to the complex nature of the challenges faced by agricultural cooperatives a multi-tiered approach is required that will simultaneously address each of the four factors that are affecting agricultural cooperatives. Recommendations for each factor are given, but it should be remembered that due to the wicked nature of the problem that no single solution should be implemented in isolation.

5.2 Conclusions of the study

The research identified four broad factors that have a profound effect on the development and sustainability of agricultural cooperatives in South Africa. These are the basis, social, economic and inherent factors. It also highlighted the extent to which the legacy of apartheid has affected agricultural cooperatives, both socially and economically.

In addition, this research highlighted the inherent flaws that agricultural cooperatives in particular are prone to, as well as the fact that the cooperative model is not as well understood as other business formats. There is a lack of education and understanding around agricultural cooperatives and their true functions, which has resulted in their failure.

The true impact that apartheid and South African have socially cannot be measured through this research, but it does provide a glimpse of its effects on rural communities. Every aspect of life from education to economic participation is been affected and its effects should not be ignored. However, there is no silver bullet that can solve these problems.

In terms of the economy, apartheid created an isolated system whereby agricultural cooperatives and the agricultural sector could thrive and operate in a totally controlled market. This resulted in guaranteed off takes for agricultural commodities which were sold through various marketing boards. Government is currently attempting to reverse the effects of apartheid through land redistribution and promoting the development of agricultural cooperatives, however, thus far it has spent a great deal without any real results.

Almost twenty years after apartheid has ended a vast portion of society remains unemployed and poverty stricken. While government has correctly latched onto the idea of establishing agricultural cooperatives it has failed to make much of a difference to the most vulnerable and needy in society.

What has become clear from this research and what is perhaps most important of all, is that *cooperatives have to develop from the ground up*. This is precisely how cooperatives in any given country be it European, African, developed or developing come to exist and perhaps even more importantly, remain and thrive. Development from the ground up is the key to success. Government cannot be the driver. It has to be the people and communities who drive it while the government enables it.

As much as government may facilitate the development of these cooperatives, it is vital to remember that the fundamental reason and manner in which cooperatives throughout the world have been established and sustained is when the most disenfranchised of society have looked to each other and to themselves to improve their lot in life. The difference between this basis of developing cooperatives and the current one being experienced in South Africa today is that it must be driven by the people, by the needy and the poor and not by government or external parties.

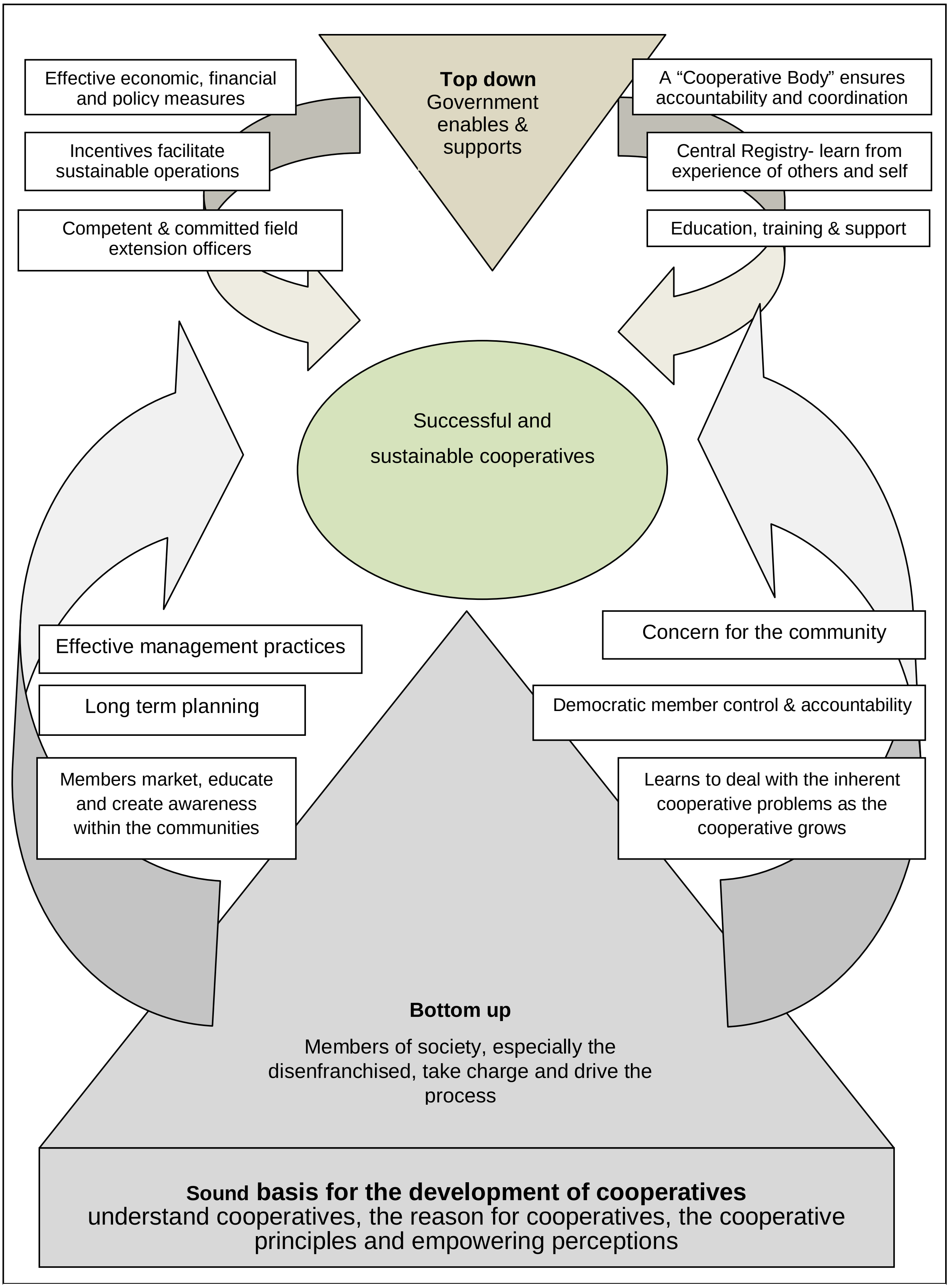

Figure 1: Model for the development of cooperatives from the bottom up

5.3 Recommendations

The main factors preventing the development of agricultural cooperatives in South Africa can be split into four broad categories- the basis for development, social and economic issues and inherent cooperative problems. In order to solve the problems being faced by agricultural cooperatives there needs to be a tiered approach- as opposed to a single solution in order to deal with all the factors and that can be implemented across the country.

5.3.1 The basis for developing cooperatives

As the model in Figure 1 highlights, having a sound basis for developing cooperatives is fundamental to success and sustainability. Having a sound basis is the context in which the members operate, and will thus ensure that members get involved with cooperatives for the right reasons and that they will have empowering attitudes, understanding and tools that will enable them to deal with the inherent difficulties of running a business and managing people problems. The model highlights that the driving force of the development of cooperatives is society and not government. It is key to note that the communities referred to have traditionally always been the disenfranchised.

In order to address the misunderstandings and poor perceptions around agricultural cooperatives there needs to be a push from the tertiary educational institutions such as universities and FETs. Cooperatives need to be put forward as a viable business model as opposed to only focusing on companies. This will assist in dealing with the lack of understanding around cooperatives and highlight the potential contribution they could make to the economy, particularly to a developing economy such as South Africa's. FETs are even better suited than universities as they are sector specific and could provide training and educational programs that specifically relate to agricultural cooperatives.

Marketing cooperatives and educating the communities

It is crucial to create understanding and awareness through communication and education within the communities. This will affect how the community interacts with and perceives agriculture and agricultural cooperatives. Although the cooperatives are expected to support and develop the communities, a distinction must be made between the concept of support and outright charity. While the agricultural cooperatives will need to provide local communities with employment opportunities and sell their produce to the community, it is important that no false expectations be created either by the community leaders or the agricultural cooperative. In order to achieve this it is important that communities be educated about the reasons for cooperatives, how they operate and fundamental understanding of the cooperative principles. This will probably have to be done in the form of town hall meetings. The members of the agricultural cooperative will be expected to explain the concept of cooperatives to members of the community to ensure that they too understand the concepts.

Roles, responsibilities and rights

The members of the cooperative will need to learn their roles, responsibilities and rights within the agricultural cooperatives in order to prevent undue influence from chief, the community and other members. Prospective members should report to a central body prior to the formation of the cooperative to be examined on the principles and concepts of a cooperative in order to ensure that members understand the nature of the organisation. Additional training and testing will be required to ensure that members fully understand their rights and responsibilities in the cooperative.

There is the need to align agricultural cooperatives with communities in order to form a relationship of trust, respect and understanding between them. Neither can survive without the other- communities need to realise that they can’t be a burden on the agricultural cooperatives and the cooperatives need to involve the communities more.

Careful consideration needs to be given to the motive behind the formation of agricultural cooperatives and organisations such as the DTI need to assess the viability of the establishment of the agricultural cooperatives before any form of grant is considered. The members need to understand that a CIS grant is to assist the cooperative and a social grant is one they can live off.

5.3.2 Inherent factors

The inherent problems faced by agricultural cooperatives are either neutralised or worsened depending on the economic and cultural conditions in which the agricultural cooperatives operate. In order to better understand how these factors affect the agricultural cooperative, more detailed case studies about South African agricultural cooperatives are needed. Case studies from other countries such as Italy, Germany and Holland, even other African countries which operate under different circumstances to South Africa would be beneficial. Data need to be collected from all cooperatives, particularly those that no longer function, in order to assess what the major issues were that led to the failure of those agricultural cooperatives.

While there is not much government can do to alleviate any of these inherent problems, it is up to the members to learn and deal with these issues as the cooperative grows. Government and a central cooperative body could assist and support learning and the ability to cope by creating awareness, training, supporting and educating members about the relevant issues.

The free rider problem

In order to address the free rider problem agricultural cooperatives must elect members more carefully. Members need to understand that the work load must be shared out amongst members. As members will probably be drawn from the same community, members need to understand what will be expected of them in terms of work load, and they need to ensure that potential members understand this- particularly if they are known to be free riders.

Agricultural cooperatives also need to become more mindful of non members they contract to complete various tasks or projects. The members need to have contracts in place that specify the amount and quality of work to be carried out.

Agency problem and property rights

Due to the fact that many of the agricultural cooperatives do not own their own land, but lease it from the either the community, the local chief or receive a tenure on governmental land for a fixed period, it is important that the cooperative ensures that its rights to use the land are protected. All agricultural cooperatives must have the lease agreements written up before they commence operations. These agreements should not be for a period of less than five years so that the leasing costs can be budgeted correctly. The leasing cost should be based on a percentage of the turnover of the agricultural cooperative as opposed to by fixing the cost in order to ensure flexibility for the cooperative. If the land is allocated through governmental tenures the contract must be clear as to the level of performance required by the agricultural cooperatives, so to ensure that both the land and the agricultural cooperative remain productive.

Hold up problem

Many agricultural operations experience this problem, especially if there is no off take for the cooperative’s produce. The cooperatives are subject to a high degree of price volatility especially when the produce is of a more commoditised nature. Prices when going to market tend to be lower as all the other farming operations tend to deliver at more or less the same time. Agricultural cooperatives should therefore enter into off take agreements with potential buyers before crops are planted.

Horizon problem

Agricultural cooperatives have a poor track record when it comes to long term planning. Agriculture by its very nature has a long term business cycle as crops can only be harvested once a year. Failure to plan and budget the irregular cash flows is a great concern for many agricultural cooperatives. Agricultural cooperatives always seem to make it through the first but not the second season which can be attributed to a lack of planning. Since crops are seasonal and cash flows are inconsistent cooperatives need to budget and plan for their long term financial sustainability. This can be achieved by the use of field extension officers, mentoring programmes and financial and operational templates and plans.

The remaining inherent problems are not really experienced by new agricultural cooperatives as they relate to cooperatives that have grown substantially more than the average emerging agricultural cooperative. It is not to say that these problems are not important but they do share the same sense of urgency as the ones discussed above.

5.3.3 Economic factors

5.3.3.1 Government

Incentives and grants

The way in which incentives are structured needs to be reviewed urgently. The incentives should encourage the sustainable operating of an agricultural cooperative as opposed to its implementation. It does the economy no good to have 10 168 registered agricultural cooperatives with only 848 of them operating in the South African economy. The high failure rate is a clear indication that the focus on implementation is not achieving the desired results.

The method in which government disperses its grants needs to be totally overhauled. Although the concept of the grant works well in theory, government has nothing to show for all the millions it has spent on agricultural cooperatives thus far. Grants should be dealt out in phases, for example only once a business plan has been submitted should a portion be paid out, similarly with the market study, feasibility study, operational plan and other requirements.

Although these requirements seem onerous they can easily be placed into a simple format that the members can do themselves.

Due to the poor success rate that agricultural cooperatives have had so far, the nature of the grant needs to be changed from a start up grant to a grant or form of support that will allow agricultural cooperatives to operate sustainably in the long term. Forcing the grant to focus more on the long term sustainability will also remove many of the opportunists from the system that are seeking the start up grant as a form of income. The grants will also become operational based, which means that agricultural cooperatives will have to achieve certain milestones before grant funding is provided.

Business plans in general tend to be very complex and daunting for agricultural cooperatives as there is a perception that vast amounts of detail is required in order to complete one. A standard format needs to be developed for agricultural cooperatives so as to ensure that they satisfy minimum requirements for financial institutions. By raising the requirements, opportunists may be prevented or discouraged from attempting to access the CIS grants. This will also encourage agricultural cooperatives to start off with a commercial mind set as opposed to a survivalist mind set, which will have a positive effect on the members' attitudes.

The information required from these business plans can be easily obtained, while the market information can be obtained directly from the fresh produce markets in the areas the agricultural cooperatives will operate or from the bigger markets such as the Johannesburg or Tshwane fresh produce markets. The feasibility study will include a basic analysis of the costs involved in the selected activity as well as the resources available and once the costs are determined they need to be off set against the projected income. The operational plan is nothing more than a basic description of how the resources will be used and which members will be responsible for completing various tasks. When all those elements are combined there will be enough information to have a basic business plan in place.

A Cooperative Body

A Cooperative Body is needed specifically to cater for the needs of agricultural cooperatives ranging from feasibility studies, to implementation and post implementation support. If all the issues can be dealt with under the administration of a single organisation it will ensure that the implementation of the agricultural cooperatives will have a higher success rate than the current 8%.

The DTI, DAFF, certain municipalities and various governmental programs are all attempting to establish agricultural cooperatives. While currently there is no single entity responsible for the development of agricultural cooperatives, all these organisations are attempting to achieve the same goals but none of them are communicating with each other, resulting in duplication of effort, waste of resources, “passing the buck”, lack of accountability and insufficient expertise to implement the programs. By combining all the available resources into a single organisation or department, government would be able to produce much better results for the same amount of resources spent.

Even if there is no establishment of a new body, the DTI needs to establish a specialised cooperative unit that is responsible for coordinating all governmental organisations involved in the establishment of agricultural cooperatives. This would allow the DTI to keep better records on their success, decrease implementations costs, provide better training, improve service to agricultural cooperatives as well as perform better research on the challenges they are facing.

Data and learning

The method in which information is collected regarding the operations and sustainability of agricultural cooperatives needs to be improved. With various private and governmental organisations seeking to establish agricultural cooperatives and no central registry available to assess their success, the true extent to which agricultural cooperatives are contributing or draining the South African economy cannot be known. All information regarding agricultural cooperatives must be filtered through a single organisation on a yearly basis, especially if the agricultural cooperatives are collecting some form of grant finance.

A data collection system needs to be put in place to collect vital data both qualitative and quantitative at various stages of the agricultural cooperatives lifecycle. Even if a cooperative fails, the reasons for that failure could be valuable information for policy planners or any organisation wishing to implement agricultural cooperatives. Quantitative data such as inputs costs and market prices are vital to understanding the technical reasons for the failure, however qualitative data such as the member's opinions and perceptions of the dynamics within the cooperative are just as important to compile a full picture for the reasons that the cooperative failed.

5.3.3.2 Operational Issues

Management and control

Organisations such as the DTI should consider not disbursing cash but rather vouchers, structured grants or assets. The vouchers would greatly reduce the conflict within the agricultural cooperative as the resources are pre-allocated and the members can therefore not exert undue pressure for the cash to be diverted to other activities other than the ones that have been identified as core by the organisation providing the grant. Should a voucher for seeds be issued that spending will be realised through a designated vendor that would provide the agricultural cooperative with the nominal value of the voucher in seeds.

The next phase of the grant should be for operational support as sustainability is the agricultural cooperatives' greatest hurdle. In order for the grants to be effective, they cannot just be a blind disbursement. The grants need to be issued with specific expenditures which will maximise benefit to the agricultural cooperatives. Depending on the nature of the agricultural cooperative either livestock, horticultural or other farming activity must be identified as a specific need that will best support the operations of the cooperative. In the case of a piggery, veterinary costs are very high. Instead of a cash disbursement a voucher for veterinary services for a certain value might be more beneficial for the agricultural cooperative. This would also assist in reducing the conflict and corruption regarding cash resources within the agricultural cooperative.

Planning

Members need to take time to plan for the future of the agricultural cooperative. This should be performed as part of the preparation of the feasibility study and business plan stage. It is vital that members are able to realistically forecast the value of their assets as well as the types of activities they will be involved in for the next few seasons.

5.3.3.3 Financial Issues

Most agricultural cooperatives don’t own the land on which they operate. This means that the land can never be used as security for the provision of finance. Instead of providing cash resources government should assign a value to the land and allow the agricultural cooperatives to provide the land as security to financial institutions. Provided that the agricultural cooperative meets all the criteria in terms of a feasible business case and allows government officials from either a cooperative organisation or the DTI to regularly review its transactions, coupled with a voucher system, resources will be allocated more effectively by the members.

Accountability

Although agricultural cooperatives are democratic in nature the members must elect one member that will be responsible for overseeing the strategy of the agricultural cooperative in the long term. It is important that this member be made to understand that the role of leadership will make him or her accountable to the other members in the cooperative. Members need to hold their leaders to the targets set in the business plan that they all agreed to, and to not allow non performing members to remain in positions of leadership.

Control

Any contributions made by members that exceed that of the other members needs to be in the form of a contract and the repayment needs to be accounted for correctly so that member cannot hold his or her contribution over the whole agricultural cooperative and unduly effect decision making processes. This could lead to abuse of the cooperatives resources if one member claims that their contribution entitles them to more control or a greater share of the profit

Support by field extension officers

Hands on involvement from officials and direct contact with agricultural cooperatives are vital. The cooperatives must be assigned field extension services especially if those agricultural cooperative are receiving governmental grants. One of the main reasons for the failure of agricultural cooperatives is the lack of support during and after implementation. By assigning officers with specific skills to the agricultural cooperatives by region, the cooperatives themselves will be placed under more pressure to perform. This will also make the members of the agricultural cooperatives more accountable.

A Cooperative Bank

A Cooperative Bank or a department within Land Bank or the Development Bank of South Africa needs to be established. An entity that specialises in providing funding solutions to agricultural cooperatives, either to the cooperatives directly or through a public private partnership (PPP) venture is required. This bank would then be able to accurately assess the viability and feasibility of the prospective agricultural cooperatives, as well as being able to assess the nature of the securities in the context of which agricultural cooperatives operate in South Africa. It will also be able to mix grant funding with debt instruments in such a way as to make the financing of agricultural cooperatives a viable option.

5.3.3.4 Market Issues

During the apartheid era agricultural markets enjoyed a high level of marketing intervention from the government in the forms of tariff and border protection as well as the agricultural boards that were responsible for purchasing most of the agricultural produce in the country at the time. Since this approach clearly boosted agriculture, agricultural cooperatives and the economy, government should seriously consider a more active role in the marketing of agricultural products, or at the very least protect the borders against products that place pressure on agricultural prices. The agricultural cooperatives also need to ensure that there are contracts in place if an off take is promised as the sales contract might be the only cash flow protection the cooperative has.

Serious consideration needs to be given to involve the private sector, commercial farms, agri-processing business, established agricultural cooperatives and retail sector to assist agricultural cooperatives in becoming more sustainable. A PPP would be ideal as the developmental agency could the use the platform to tie in the marketing, operational, technical and implementation support necessary in order to ensure that agricultural cooperatives operate sustainably. Tying in the old and new agricultural cooperatives through PPPs will allow organisations such as the DTI to better monitor the success of new agricultural cooperatives. It will also allow the DTI to closely monitor how its resources are spent and the effects that those resources have has on the agricultural cooperatives.

Government had been the process of issuing off take agreements to various agricultural cooperatives but the success of such projects have not been measured accurately. All governmental off takes must go through a central market system that is based on region. All the agricultural produce must go to a central market and from there must be purchased by the various government entities such as prisons and hospitals. That way the output of the agricultural cooperatives in a region as well as the government’s commitment to the off take agreements can be measured

5.3.4 Social factors

Interference and equality

The level of interference experienced by agricultural cooperatives from the tribal structures in rural areas is concerning as it directly impacts their operations. In order to minimise the interference from the chief and other community members a clear distinction needs to be created between the community and the agricultural cooperatives. This can be accomplished through the establishment of property rights, better contracts with community leaders, better understanding of community involvement, clearer understanding of the cooperatives constitution and better training of members. This will enable members to understand and be empowered in their roles and responsibilities to the cooperative.

Culture and cooperatives

The issues of intercultural interaction, cultural norms and the effect of apartheid on the various cultural subsets have no clear cut solutions. It would be very difficult to change perceptions in a single generation.

While non-interference and sound business management are absolutely fundamental to the success of cooperatives, hierarchy and patriarchy are deeply engrained in many communities throughout South Africa and negatively impact cooperatives. The agricultural cooperatives themselves need to proactively manage the weighty matters of cultural diversity, the impact of cultural norms and perceptions, and the legacy of apartheid either through counselling, mediation or discussion amongst the members. Alternatively outside help could be sought but this might be prohibitively expensive and not practical for agricultural cooperatives. The Cooperative Body and field extension officers must be responsible for creating awareness, educating and supporting communities as these very difficult matters arise with the establishment of cooperatives.

It may be possible that if communities and members have a sound basis in understanding of what a cooperative is, what it entails and what it could mean to them, it could drive personal and cultural transformation that would result in their empowerment, will and ability to successfully run agricultural cooperatives.

Contracts

A clear relationship needs to exist between the community leaders and the agricultural cooperative. The chiefs need to understand that the agricultural cooperative is not a part of the community and needs to function as an independent entity. A community leader could be part of a agricultural cooperative, however, this will increase the risk of undue influence being exerted on the cooperative and its members. It is best that there is a contract between community leaders and the cooperatives detailing the expectations that both parties have. That way the chief won't be able to place the cooperatives under pressure at a later stage.

Training and education

Training needs to be managed centrally through one organisation. Between all those organisations taking part in cooperative development one needs to assume all the responsibility for cooperative awareness, training and education. It is vital that the quality of the training and the knowledge passed on to the prospective members be of a high standard to ensure success. Costs associated with training can be contained in a single organisation and a precise record of members trained can be kept, which will aid the various departments in decision making at a later stage.

Training and education is a critical element of and tool for fostering the sustainability of agricultural cooperatives. It is the means through which an empowering perception of cooperatives can be created, the concept of cooperatives and its principles spread and understood, and the means through which people- particularly the disenfranchised can empower themselves.

The primary means to educate, support, train and create awareness must be done on a personal level through the field extension officers. As a secondary measure, pamphlets and manuals should be used as a reference and back up that members will always have on hand. However, since a large proportion of the rural population is illiterate, the use of this reading material will not be feasible and extra face to face support must be given.

5.3.5 Conclusion

Due to the fact that this is a wicked problem, any intervention might lead to a change in the problem as opposed to the solution. There is no single factor that caused the problem but multiple factors need to be addressed at different levels over the various categories in order to increase the probability of finding a suitable solution.

Using the information gathered from the literature review and interviews, the following model captures several realistic solutions to the most troublesome and commonplace problems being faced today in the quest to uplift society through the use of agricultural cooperatives.

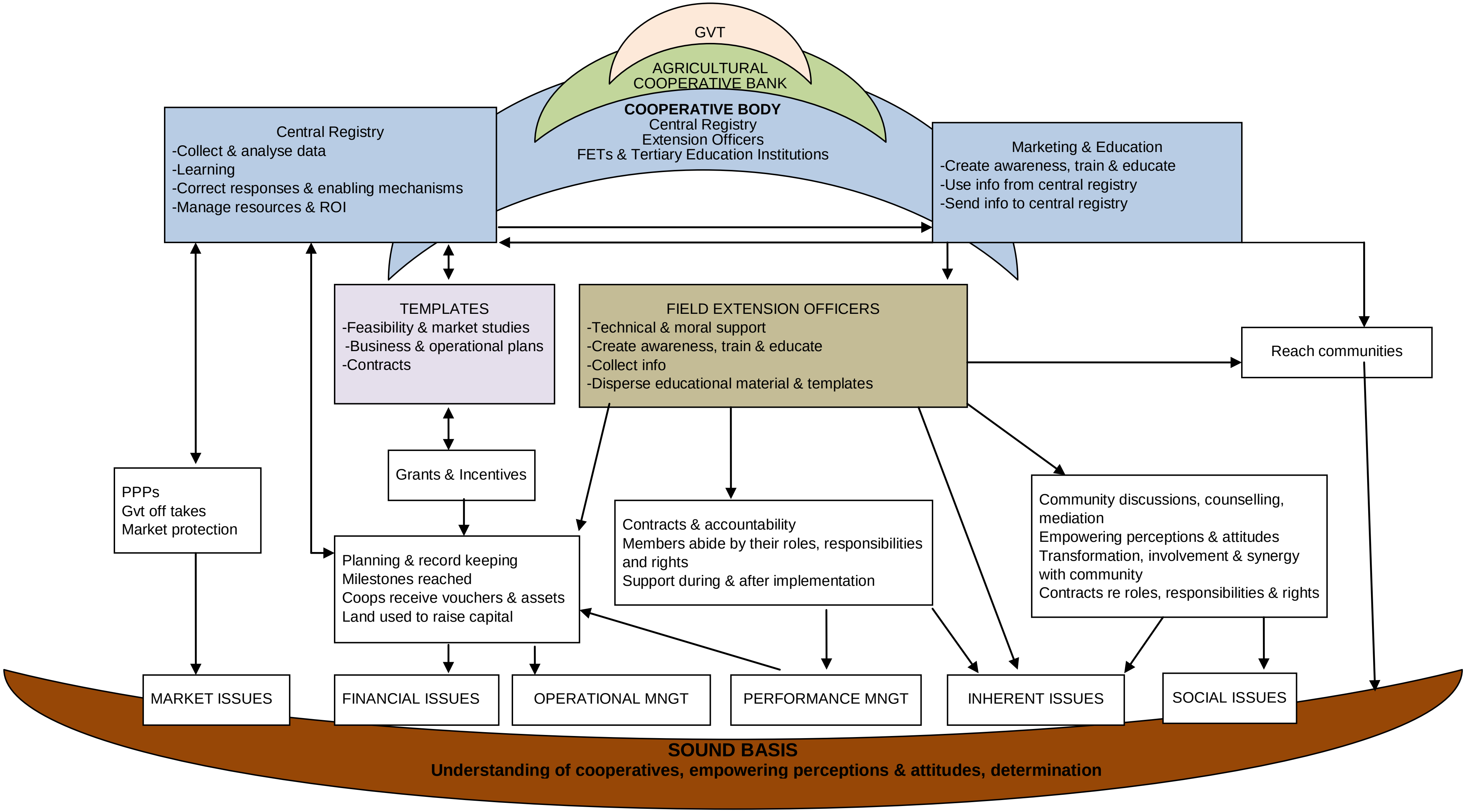

Figure 2: A model for developing sustainable agricultural cooperatives in South Africa

The model for developing sustainable agricultural cooperatives in South Africa in Figure 2 illustrates that government enables sustainable development through two entities- a bank specialising in agricultural cooperatives and the Cooperative Body. The Cooperative Body is responsible for

a) Facilitating transactions between the cooperatives and the bank
b) Facilitating enabling structures with government, and
c) Ensuring that FETs and tertiary education institutions promote, teach and create a sound basis about the reasons for, benefits and concepts of agricultural cooperatives.

The Cooperative Body operates with two arms: the Central Registry and Marketing and Education. It is vital that these two arms have a feedback loop where shared information becomes a tool to unlock more potential for development. The Central Registry obtains and analyses data pertaining to cooperatives' performance which is then sent to Marketing and Education who will then know what cooperatives are struggling with and need to be trained on. The Central Registry will also be able to determine what the correct responses and enabling mechanisms should be in terms of what the cooperatives are experiencing in the economic, financial and local environments. These trends will then be coordinated with the bank and government to put measures into place to address these specified requirements or conditions, for example by providing off take agreements and protecting the local market.

The Cooperative Body will develop educational material and templates for feasibility and market studies, business and operational plans, and contracts relating to property rights and roles, responsibilities and rights of cooperative members. These business plans and feasibility studies will have to be completed by potential cooperatives in order to access grants and incentives which will be issued in various phases. Grants and incentives will be in the form of vouchers, assets and land wherever possible. The Cooperative Bank will work with government so that land can be assigned a value and thus used as security to raise finance. The business and operational plans that the cooperatives completed along with financial and operational record keeping will be sent to the Central Registry in order to determine and respond to the state of development of the cooperatives.

Field extension officers are the ambassadors of these entities and are thus play a crucial role as messengers, facilitators, experts and supporters. These officers require continuous training and should be nurtured and incentivised by the Cooperative Body so that they will be inspired and able to help the communities operate their cooperatives on a long term basis. As mentioned previously, the focus has to shift from DTI agents blindly handing out and selling grants for the establishment of cooperatives, to committed, skilled field extension officers facilitating the long term development of cooperatives as well as embodying and promoting the sound basis from which these cooperatives will flourish.

The field extension officers will be responsible for giving the cooperatives technical and moral support. Technical support includes cooperatives' activities and operations, assisting with filling out the templates for business plans, feasibility studies and contracts, record keeping and helping cooperatives through the issues inherent to agricultural cooperatives. Moral support needs to be given when cooperatives experience social and cultural phenomena that contradict the cooperative principles or hamper performance.

Contracts and clear relationships between tribal elders, communities and cooperatives will be established so that performance and operations can proceed in the most economic way, following sound business principles. A separation between the hierarchical culture and operations will have to occur in some degree if these agricultural cooperatives are to succeed. Marketing and Education may be able to promote a sound basis for the development of cooperatives if it is able to reach the relevant communities, generate awareness and understanding.

This huge and noble responsibility does belong to government and its various other entities. But history shows that success ultimately lies in the hands of the communities and cooperative members. While this report has shown, in detail, the actions that government needs to take, it has also highlighted that citizens on all levels need to have the will and empowering attitudes in order to succeed.

5.4 Suggestions for further research

Further research should extend to investigations in to the following topics that would provide valuable and sorely lacking information for those wishing to establish and sustain agricultural cooperatives in South Africa.

1. Land redistribution

The question of land and how it should be shared amongst the population is a contentious issue for all South Africans, especially those from the rural areas. The questions of how it should be implemented and to whom it should be given have been hampering the process for the past several years. Added complications are the value at which land should be purchased and how it will be paid for by government.

It is one of the most emotive issues facing South Africans at the moment as it directly addresses some of the worst atrocities of the apartheid era, such as the forced removal of indigenous tribes from their land, the establishment of the home lands as well as the destruction of many tribal cultures. Due to the way that the process of redistribution is being implemented there is no land security in South Africa at the moment, and many productive lands have become unproductive.

A solution to these problems needs to be found, not only to ensure that all parties concerned are satisfied in order to ensure political stability in South Africa, but also to ensure that productive land does remains productive.

Research statement: Determine how to redistribute land while maintaining a stable political environment and increasing productive agricultural land.

Research statement: Determine the extent to which land redistribution has affected agriculture in South Africa.

2. The establishment of a dedicated body or ministry to deal with cooperatives

If government is serious about growing the cooperative movement in South Africa it needs to implement a dedicated body that will specialise in cooperatives. It will need to coordinate all governments' efforts to establish and support cooperatives, and to oversee the cooperatives and sectors in which they operate.

The establishment of a ministry or body is not a simple task and will require considerable resources from an already constrained budget. Before the formation of such a ministry can be considered a feasibility study must be undertaken to ensure that the benefit the government and the people will gain from it will outweigh the costs.

Research statement: Investigate how a government department dedicated to cooperatives would assist in the development of sustainable cooperatives in South Africa.

3. Specialised accounting practices for agricultural cooperatives

Accounting practices for the agricultural sector and biological assets are difficult to understand and implement. Currently International Accounting Standard (IAS) 41 deals with agriculture and biological assets but there is no standard that deals exclusively with cooperatives or agricultural cooperatives. These standards are very onerous for smaller agricultural cooperatives to implement and a simpler account format should be found to use for agricultural cooperatives under a certain size.

Research statement: Investigate the feasibility of adopting specialised accounting practices for agricultural cooperatives in South Africa.

4. Market protection for agricultural products

Implementing market controls is not a simple process. Many factors such as international trade agreements, local supply, food security and economic activity need to be considered before any form of protection can be implemented. South Africa's inclusion into the BRICS economy has complicated matters even further as the other markets also wish to increase their agricultural output to serve the international markets.

Careful consideration needs to be given to all these factors before any form of protection can be implemented. Government must consider the costs in terms resources as well as the potential diplomatic fallouts before implementing such measures.

Research statement: Investigate the feasibility of implementing market protection policies for agricultural products in South Africa.

5. Government providing bankable security for agricultural cooperatives

Most agricultural cooperatives operate either on community land or government land and can thus not utilise the land as security when applying for finance. Before government can consider providing the land as security it needs to understand all the ramifications of a negative outcome should the agricultural cooperative fail and have the land seized by the debt providers. A study highlighting all the factors involved with such a decision would provide government with an added tool with which to grow the cooperative movement.

Research statement: Investigate the feasibility of government providing securities to South African agricultural cooperatives through a dedicated cooperative bank.

6. Does South African have a cooperative culture?

The ability to cooperate with members within a cooperative and the community is vital to ensure its success. Some of the respondents in the above research have indicated that it is not in South African culture to be cooperative, and that an “every man for himself” culture exists. In addition, this research found that hierarchy, patriarchy and interference are common issues that hamper cooperatives. Research into these aspects may be helpful in overcoming some of the social barriers confronting cooperatives which were identified in this research.

Research statement: Determine the factors which influence cooperation in South African cooperatives.

7. Interactions amongst different cultures

This research found that various cultures and tribes within South Africa have difficulties in working together and that there is a fair amount of tension amongst these tribes. This goes against the concept of cooperatives as they have open and democratic membership that excludes the influence of race and gender on the cooperative. If cooperatives are to operate sustainably in South Africa, the source of this conflict- be it political or tribal- needs to be ascertained.

Research statement: Investigate how interactions amongst differing cultural groups in South Africa affect the economic output of cooperatives.

Sub problem: Determine which interactions amongst differing cultural groups most impact the economic performance of cooperatives.

8. Templates

It was recommended that templates should be used in order to assist potential and existing agricultural cooperative members to create business and operational plans, market and feasibility studies and contracts. It would thus be helpful to determine the best way to achieve this, how to enable community members to manage, and what support they would need.

Research statement: Determine which factors would enable potential and existing agricultural cooperative members to successfully complete the necessary templates and paperwork required to establish and maintain their cooperatives in South Africa.

9. Field Extension Officers

It was also recommended that field extension officers play a key role in providing cooperative members with technical and moral support, the collection of particular information and the dispersal of educational material and the templates. This is a tall order considering the key role these officers would play. Thus, it is vital to investigate what attributes, support and training these officers would require in order to perform these services.

Research statement: Ascertain what attributes, support and training agricultural cooperative field extension officers would require.

10. Developing a sound basis on which to establish agricultural cooperatives in South Africa

This research established the importance of having a sound basis on which agricultural cooperatives are developed and maintained. This basis includes community members understanding what cooperatives are and their purpose, having empowering perceptions and beliefs about the benefits that agriculture and cooperatives can bring them, and having empowering attitudes of self reliance and determination. While the development of this sound basis is imperative, the influences of culture, history and fear cannot be undermined. It is thus absolutely vital to establish how to bring about this “sound basis” in rural communities throughout South Africa. This would require an approach of getting the people involved (bottom up), and not an approach of shoving a silver bullet down their throats in order to *fix* them” (top down).

Research statement: Determine the most effective ways of developing a sound basis on which to establish agricultural cooperatives in South Africa.

Sub-problem 1: Establish the most effective methods of generating understanding in rural communities and agricultural cooperatives about cooperatives and their purpose.

Sub-problem 2: Ascertain the most effective methods of getting rural communities and agricultural cooperatives to have empowering perceptions about the benefits of agriculture and agricultural cooperatives.

Sub-problem 3: Determine the most effective methods of generating attitudes of self reliance and determination in rural communities and agricultural cooperatives.

REFERENCES

Abebaw, D., & Haile, M. G. (2012). The impact of cooperatives on agricultural technology adoption: Empirical evidence from Ethiopia. [Journal Article]. *Food Policy, 38*, 82-91.

Barton, D. (1989). What is a Cooperative. *Cooperatives in agriculture*, 1-20.

Batie, S. S. (2008). Wicked problems and applied economics. *American Journal of Agricultural Economics, 90*(5), 1176-1191.

Birchall, J. (2003). Rediscovering the cooperative advantage. *Poverty reduction through self-help (Geneve, 2003)*.

Birchall, J. (2004). Cooperatives and the Millennium Development Goals. *ILO*.

Birchall, J., & Simmons, R. What motivates members to participate in the governance of consumer co-operatives? A study of the Co-operative Group.

Booysen, L. (2001). The duality in South African Leadership: Afrocentric or Eurocentric. *South African Journal of Labour Relations, 25*(3-4), 36-64.

Boyce, C., & Neale, P. (2006). *Conducting in-depth interviews: A guide for designing and conducting in-depth interviews for evaluation input*: Pathfinder International Watertown, MA.

Carter, M., & May, J. (2001). One kind of freedom: poverty dynamics in post-apartheid South Africa. *World Development, 29*(12), 1987-2006.

Chaddad, F., & Cook, M. (2004). Understanding new cooperative models: An ownership-control rights typology. *Applied Economic Perspectives and Policy, 26*(3), 348.

Chibanda, M., Ortmann, G. F., & Lyne, M. C. (2009). Institutional and governance factors influencing the performance of selected smallholder agricultural cooperatives in KwaZulu-Natal. *Agrekon, 48*(3), 293-315.

Cook, M. L. (1995). The future of US agricultural cooperatives: A neo-institutional approach. *American Journal of Agricultural Economics, 77*(5), 1153-1159.

Cook, M. L., Iliopoulos, C., & Chaddad, F. R. (2004). Advances in cooperative theory since 1990: A review of agricultural economics literature. *Restructuring Agricultural Cooperatives, Rotterdam*, 65-90.

Creswell, J. W. (2003). *Research design: Qualitative, quantitative, and mixed methods approaches*: Sage Publications Incorporated.

Cummings, E. (1890). Co-operative Production in France and England. *The Quarterly Journal of Economics, 4*(4), 357-386.

Department of Trade and Industry (2009). *The DTI baseline study of cooperatives in South Africa*.

Department of Trade and Industry (2013). *Agricultural cooperatives: spreadsheets*. Pretoria: Department of Trade and Industry.

Fairbairn, B. (2002). Co-operative Values and the Cold War: The Rebuilding and Undermining of the German Consumer Movement, 1945–1955. *Annals of Public and Cooperative Economics, 71*(4), 637-663.

Fert , I., & Szabo, G. (2002). Vertical Co-Ordination in Transition Agriculture: a Hungarian Co-Operative Case Study. *Budapest: MTA KTK, Discussion Papers (New Series), MT-DP, 10*(2002), 1-24.

Frascarelli, M. (2006). *Le società cooperative: aspetti civilistici, contabili e fiscali*: Edizioni FAG Srl.

Fulton, J., Jones, B., Schrader, L., Coltrain, D., Barton, D., Boland, M., et al. (2000). New Generation Cooperatives. *Saskatoon: Centre for the Study of Co-operatives, Novembro*.

Giordano, S. (2010). *Il bilancio delle società cooperative. Aspetti civilistici, contabili e fiscali*: Maggioli Editore.

Golafshani, N. (2003). Understanding reliability and validity in qualitative research. *The qualitative report, 8*(4), 597-607.

Helmberger, P., & Hoos, S. (1962). Cooperative enterprise and organization theory. *Journal of farm economics, 44*(2), 275-290.

Hofstede, G. (1983). The cultural relativity of organizational practices and theories. *Journal of international business studies, 14*(2), 75-89.

Hofstede, G. (1984). Cultural dimensions in management and planning. *Asia Pacific journal of management, 1*(2), 81-99.

Kalof, L., & Dan, A. (2008). *Essentials of social research*: Open University Press.

Kruger, S., & Welman, J. (2001). Research methodology for the business and administrative sciences: South Africa: Oxford University Press.

Leedy, P. D., & Ormrod, J. E. (2001). *Practical research*: Pearson education international.

Legard, R., Keegan, J., & Ward, K. (2003). In-depth interviews. *Qualitative research practice: A guide for social science students and researchers*, 138-169.

Lyne, M., & Collins, R. (2008). South Africa's new Cooperatives Act: a missed opportunity for small farmers and land reform beneficiaries. *Agrekon, 47*(2), 180-197.

Machethe, C. (1990). Factors contributing to poor preformance of agricultural co-operatives in less developed areas. *Agrekon, 29*(4), 305-309.

Nattrass, N., & Seekings, J. (2001). " Two Nations"? Race and Economic Inequality in South Africa Today. *Daedalus, 130*(1), 45-70.

Nganwa, P., Lyne, M., & Ferrer, S. (2010). What will South Africa's new Cooperatives Act do for small producers? An analysis of three case studies in KwaZulu-Natal. *Agrekon, 49*(1), 39-55.

Ortmann, G., & King, R. (2007a). Agricultural cooperatives I: History, theory and problems. *Agrekon, 46*(1), 40-68.

Ortmann, G., & King, R. (2007b). Agricultural cooperatives II: Can they facilitate access of small-scale farmers in South Africa to input and product markets? *Agrekon, 46*(2), 219-244.

Philip, K. (2003). Co-operatives in South Africa: Their role in job creation and poverty reduction. *Occasional Paper, 2*.

Piesse, J., Doyer, T., Thirtle, C., & Vink, N. (2005). The changing role of grain cooperatives in the transition to competitive markets in South Africa. *Journal of Comparative Economics, 33*(1), 197-218.

Richards, T., Klein, K., & Walburger, A. (1998). Principal-agent relationships in agricultural cooperatives: An empirical analysis from rural Alberta. *Journal of Cooperatives, 13*.

Rittel, H. W., & Webber, M. M. (1973). Dilemmas in a general theory of planning. *Policy sciences, 4*(2), 155-169.

Royer, J. (1999). Co-operative Organisational Strategies: A Neo-Institutional Digest. *Journal of Cooperatives, 14*(1), 44-67.

Sands, D., & Auyeung, P. (2002). An empirical study of bank loan officers' functional fixation on agricultural co-operatives and their reported earnings. *Accounting Forum, 25*(4), 353-379.

Satgar, V. (2007). The state of the South African cooperative sector. *Cooperative and Policy Alternative Centre (COPAC)*.

Sexton, R. (1995). A Perspective on Helmberger and Hoos' Theory of Cooperatives. *Journal of Cooperatives, 10*, 92-99.

Simmons, R., & Birchall, J. (2008). The role of co-operatives in poverty reduction: Network perspectives. *Journal of Socio-Economics, 37*(6), 2131-2140.

Spielman, D. J., Byerlee, D., Alemu, D., & Kelemework, D. (2010). Policies to promote cereal intensification in Ethiopia: The search for appropriate public and private roles. *Food Policy, 35*(3), 185-194.

Steven, G. (2012). *Kahawa Yetu-Our Coffee. A Need for Better Organizational Capacity in Kenya's Coffee Cooperatives. A case study of New Gatanga Cooperative Society, Kenya.* The University of Guelph, Guelph, Ontario, Canada.

Tangermann, S. (2005). Organisation for Economic Co-operation and Development area agricultural policies and the interests of developing countries. *American Journal of Agricultural Economics, 87*(5), 1128.

Tobin, G. A., & Begley, C. M. (2004). Methodological rigour within a qualitative framework. *Journal of Advanced Nursing, 48*(4), 388-396.

Van Der Walt, J. (2005). *The resuscitation of the cooperative sector in South Africa.* Paper presented at the International Co-operative Alliance XXI International Co-operative Research Conference, Cork, Irland.

Van Niekerk, J. (1988). Co-operative Theory and Practice. *Pretoria: SAAU*.

Watkins, W. (1970). *The International Co-operative Alliance, 1895-1970*: International Co-operative Alliance.

Willig, C. (2008). *Introducing qualitative research in psychology*: Open University Press.