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ENTREPRENEURSHIP: THE MISSING LINK TO SUCCESSFUL COOPERATIVISM?[1]

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Abstract

Community based co-operatives do not have a good record. The fact that so many co-operatives fail, constitutes a real danger that the co-operative model could fall into such disrepute that it will become widely rejected. Consequently a potentially valuable mechanism for economic development and reconstruction will be lost. One of the reasons for co-operative failure stems from the past perception of co-operatives as anti-capitalist forms of association. Co-operatives were a way of releasing the poor from the yoke of oppression and giving them access to power and employment. This "socialist" view of co-operatives excluded the one important ingredient of a successful business venture : entrepreneurship. The paper investigates the "co-operative entrepreneurship" dilemma, and indicates that entrepreneurship and co-operativism are reconcilable concepts. The circumstances for a successful entrepreneur : co-operative relationship are discussed, and other critical factors associated with success in community based co-operatives are discussed.

Uittreksel

Gemeenskapsgebaseerde koöperasies het nie 'n goeie rekord nie. Die feit dat soveel koöperasies faal, dreig om die koöperasiemodel in sy geheel te diskrediteer. Dit kan beteken dat 'n waardevolle ekonomiese en herkonstruksie meganisme verlore sal gaan. Koöperasies is, in die verlede, as 'n bevrydingsmeganisme vir die armes en onderdruktes voorgehou. Die sosialistiese siening van koöperasies het nie voorsiening gemaak vir die vernaamste bestandeel van 'n suksesvolle besigheid, nl. entrepreneurskap nie. Die koöperatiewe-entrepreneurskaps dilemma word in die artikel ondersoek en daar word aangetoon dat entrepreneurskap en koöperasies wel versoenbare konsepte is. Die omstandighede vir 'n suksesvolle entrepreneur : koöperasie verhouding word bespreek, en ander faktore wat met suksesvolle koöperasies geassosieer word, word aangespreek.

1. Introduction

Co-operatives as community-based ventures do not have a good record world-wide. The fact that so many co-operatives fail, constitutes a real danger that the co-operative model will fall into such disrepute that it will become widely rejected. Consequently a valuable mechanism for economic development and reconstruction will be lost. One of the arguments for co-operatives' failure was, especially in Central and Eastern Europe, that the co-operatives had a "socialist" inclination. Co-operatives were viewed as a way of releasing the poor from their yoke of oppression and giving them access to power and employment. This view of co-operatives excluded the one important ingredient of a successful business venture : entrepreneurship.

Entrepreneurship is a key factor in the development process. Entrepreneurs initiate change and facilitate adjustments in dynamic economies. Entrepreneurs are the engines of economic growth. Co-operatives and group enterprises are institutional arrangements within which economic activity can take place. This paper investigates the "co-operative entrepreneurship" dilemma, and indicates that entrepreneurship and co-operativism are reconcilable concepts.

This is done by first investigating what entrepreneurship is. Thereafter, the nature of a co-operative is discussed, and "co-operative entrepreneurship" is described. A distinction is further made between the different types of entrepreneurs found in a co-operative. In section 7, a South African perspective is given, starting with a short historic overview of agricultural co-operatives, discussing community based co-operatives in South Africa today and attending to the legal side of co-operatives.

2. Entrepreneurship: A definition

It is evident from research in the field of entrepreneurship that there is no generic definition of the entrepreneur. Generally, it is accepted that anyone who undertakes a venture, whatever the nature and extent thereof, can be labelled an entrepreneur. It is therefore no wonder that the most common definition of the entrepreneur is one who identifies and undertakes a venture, organises it, raises capital to finance it, and assumes all or a major portion of the risk. This venture does not have to be a business, or profit-orientated activity. Entrepreneurs also initiate and drive activities for social gain rather than for financial gain. Entrepreneurs are not exclusively individuals, but a group of entrepreneurs can act as a "collective entrepreneur".

3. Entrepreneurship and co-operatives

3.1 "Co-operative entrepreneurship"

Having established the essence of entrepreneurship, attention can now shift to entrepreneurship in a co-operative enterprise, or to use Röpke's (1992) terminology, to **"co-operative entrepreneurship"**. To detect the entrepreneurial function in a co-operative it is necessary to understand the nature of the co-operative institution.

Very briefly, co-operatives are organisations which are owned by the people who make use of the services provided by the organisation. Because of this peculiar economic structure, it is difficult to compare the dynamics of a co-operative with other economic institutions. It is difficult to detect the comparative advantage of a co-operative institution, but it can be assumed that a co-operative will only be established if the members can expect that the advantage they can obtain from the co-operative

is at least as great as the advantage they can derive from an alternative institution (ie. a company, a partnership, doing it themselves).

The identification and implementation of this comparative co-operative advantage is the task of the co-operative entrepreneur, or a group of co-operative entrepreneurs. He/they have to overcome uncertainty in the process of discovering why and under what circumstances a co-operative can produce a 'net advantage' to its members.

3.2 The nature of co-operative comparative advantage

The following circumstances can create a comparative advantage for co-operatives.

3.2.1 Transaction costs

Transaction costs arise if inputs (labour, land, capital) are used to perform transactions, it is the costs associated with exchanging or transacting goods or services in the market. The way in which transaction costs can bring about a co-operative advantage can be illustrated by using a saving and credit co-operative as an example.

Transaction costs are a major component of the total cost of delivering credit to entrepreneurs. These transaction costs consist of the high administrative costs of gathering sufficient information about the borrower who can often not pledge security, plus the cost of advancing and collecting the loan and also the default or bad debt costs which has to be provided for.

Credit co-operatives have to compete on two fronts: against participants in the informal financial market and formal financial institutions. How can co-operatives succeed? Only if they manage to operate with lower transaction costs than their competitors. But how can credit co-operatives reduce transaction costs below the level of their competitors? A co-operative belongs to those it serves, the owners of the firm and users of the service the firm produces are the same, identical persons.

Because a credit co-operative is owned by its borrowers, the co-operative can firstly make better use of the detailed local and personal information available among its members, and secondly the co-operative arrangement provides the members with a strong incentive to honour their obligations, that means paying interest and principal on their loans. If the members would do otherwise they would hurt themselves since it is their own saving funds which will be lost, and strong social and moral pressure would be aroused to sanction deviant members.

Three of the components of transaction costs in financial transactions can in this way be reduced substantially by a credit co-operative. The cost of information, the cost of monitoring and the cost associated with default (risk). The problems of asymmetrical information and adverse selection are to a great degree absent within a credit co-operative, and they can thus operate with much lower transaction costs than their competitors.

3.2.2 Mutual dependence

Under very specific circumstances, for instance in a dairy farming enterprise[2], co-operatives can overcome economies of scale through a mutual trust relationship and in so doing create a co-operative advantage. The average dairy farmer cannot, without a capital lay-out, store the milk for more than a few hours, he cannot process the milk himself because of economies of scale, he cannot transport it over long distances (high cost) and he cannot consume it all. His only choice really is to deliver it to a local dairy. But then again, he faces the arbitrary decisions of the local monopolist owning the dairy plant.

The prospective entrepreneur who wants to start a milk processing plant, faces similar problems. His investment will pay off only as long as the small dairy farmers are supplying milk to his plant which would ensure full capacity use. They can at any point choose not to supply if they are unsatisfied with his terms.

If mutual trust between the owner and supplier is lacking, the high uncertainty resulting can make the investment in new processing equipment economically unfeasible. Dairy farmers and milk processors have to build up a relationship of mutual trust. This love-hate relationship can be observed in many other instances, for example in the sugar-cane industry.

As a solution to these difficulties, a dairy co-operative is established. In a co-operative dairy, the producers are the same persons who own the dairy. The problem of mutual dependence is internalised. Co-operatives have an advantage because mutual trust is built up more easily within co-operatives (because the owners and users are the same people) and at a lower cost than other institutions.

3.2.3 Uncertainty Reduction

Small producers have to not only face many uninsurable, natural risks (eg.in the case of small farmers) but also uncertainty regarding the price they have to pay for inputs and the price they receive for output. Also,they face uncertainty concerning the availability of inputs, and uncertainty regarding markets. This means that many 'independents' or small entrepreneurs, whose income and own assets are not sufficient to absorb such uncertainty, can be crowded out by the forces of competition. Many will have to give up their independence as producers and opt for regular work.

Co-operatives can offer a way out of this dilemma. A member can delegate part of his transactions to a co-operative, an enterprise in which he becomes a co-owner. The member can sell his produce to, or buy his inputs from the co-operative and reduce his uncertainty, because market transactions are internalized.

Uncertainty cannot be removed completely because the co-operative is still operating in a turbulent market economy and has to adapt itself to an uncertain environment. This remaining uncertainty is at least shouldered by the co-operative group. The individuals act together as a collective "shock-absorber'. At the same time, for functions performed by the member outside the co-operative, he/she remains an independent entrepreneur.

According to Röpke (1992) "Without co-operatives, the number of independent small producers in agriculture, trade and industry would be much lower, and the income disparity within the economy much higher".

3.2.4 Collective action (bargaining power)

By joining forces and organising, the members of a co-operative can achieve improved bargaining power and economies of scale in production and transaction activities than they would have been able to as individuals. Through collective action, members are in a advantageous position to bargain for discounts on their inputs or for better insurance deals on their transport fleet. Some commercial banks favour group lending to individual loans when dealing with micro-entrepreneurs,

because within a group, members can guarantee each other's loans.

3.2.5 Member - benefit

Co-operatives are, unlike most other conventional enterprises, people - centred, and the success or performance of a co-operative depends on the benefits the members can derive. Members benefit within a co-operative through sharing their means of production, their machinery and tools. Members benefit further through sharing the skills and knowledge available in the group.

Co-operatives as people-centred businesses, based on people's participation, have a competitive advantage in using and enhancing member' capabilities and maintaining local control over these resources. Co-operatives are a special form of enterprise in that their success is not always measurable in terms of financial profits, but often in terms of non-tangible benefits such as empowerment.

4. Determinants of co-operative entrepreneurial behaviour

Having identified some of the variables that can create a comparative co-operative advantage, it is important to emphasise again that these advantages must be **discovered** and **implemented** by an entrepreneur before they can become a reality. The entrepreneur must overcome a number of constraints in the process of discovering and implementing a co-operative:

- The right or 'property right' to pursue an opportunity consists of legal, cultural and regulatory norms. These give a person the 'right' to use an asset, to appropriate returns from the asset, to transfer ownership of the asset etc. Opportunities can be lost because the entrepreneur has no right to pursue them, or it can be pursued because no legal or other barriers prevent it from being explored.The appropriate design of property rights is one of the few available ways with which co-operative entrepreneurship can be influenced from the outside (eg. by government).

- Opportunities which 'survive' the property rights test need to be identified by entrepreneurs. This requires a certain level of **ability or competence** of the entrepreneur.

- If the identified opportunity has survived both the property rights 'test' and the ability test, the entrepreneur has to overcome the crucial 'co-operative' test. The 'co-operative' test can be called the **motivation/incentive** test and it is this 'test' that distinguish a co-operative enterprise from a non-co-operative enterprise.

  Because of the peculiar construction of a co-operative it is difficult to attract and motivate entrepreneurs beyond a certain level of involvement. Within a non-co-operative enterprise profits/rewards (and power) are distributed to favour the entrepreneur. Within a co-operative the right to residual rewards (profit/surplus) belongs to the owners-members of the co-operative enterprise.

  The co-operative in fact fails to create adequate entrepreneurial incentives, and this should, in theory mean that co-operatives will face serious difficulties in attracting entrepreneurial talent. In reality we observe quite a number of successful co-operatives, which indicates that somehow the entrepreneurial problem is overcome. Four different 'types' of co-operative entrepreneurs are discussed below. Every one of them deals in a different way with the incentive/motivation test.

5. Types of co-operative entrepreneurship

A distinction can be made between four types of co-operative entrepreneurs.

- Co-operative entrepreneurs as members of the co-operative: **member entrepreneurs**. Co-operatives with a high level of member-homogeneity can often be directed by one person, much like an extended family business. The principle of mutual dependence can also serve as a reason for one member to initiate and implement the co-operative without any unequal appropriation of benefits. By creating a situation of mutual dependence between for instance a sugar baron and a small grower, a co-operative advantage is created. The sugar baron does not need other benefits to distinguish him or give him power, the mutual dependence provides him with enough of a benefit to belong to a co-operative. Although he plays the role of the entrepreneur by identifying and implementing the co-operative advantage, he stays an equal owner-member.

- Co-operative entrepreneurs as managers of the enterprise: **manager entrepreneurs**. The entrepreneur responsible for initiating and implementing the co-operative advantage need not necessarily be identical with those who manage the ongoing co-operative. This 'manager' position can be rewarded by a salary and by non-material benefits such as power and prestige. Managers as non-members do not always share member-owner objectives, and it is difficult for members to operate checks and balances on management. This situation gives rise to many irregularities - well documented in co-operative literature.

  These problems arise because of ill-defined entrepreneurial rights, and free rider constraints - all related to the fact that entrepreneurial and managerial functions are in the hands of individuals who are not residual claimants. If co-operatives want to attract co-operative entrepreneurs and effective managers, they must provide them with special incentives. This awkward situation could be overcome with externally provided 'venture capital' to allow the manager entrepreneurs some freedom of experimentation and learning without the owner-members being adversely affected.

- Co-operative entrepreneurs as part of a government administration: **bureaucratic entrepreneurs.** One prominent 'solution' (as seen by the government) to the problem of incentive failure in co-operatives has been the takeover of entrepreneurial functions by the government. With this approach, plans, policies and strategies are fixed at the top, then carried through a hierarchical system of rules and regulations. The entrepreneurial contribution consists of identifying the correct courses of action others have to follow to implement the 'project'.

This blueprint or top-down approach may indeed succeed in establishing co-operatives. This co-operative will, however, suffer from a lack of local practical background knowledge and will result in an ill-defined project which fits poorly with member-demands.

Members usually suffer from low willingness to contribute their own resources and the co-operative will have to be assisted by external funds, an outcome intended to support the official view that members are too poor and weak for co-operative self-help. Because of lacking member participation and control, it is easy for managers and government officials to engage directly in unproductive, rent-seeking practices.

- Co-operative entrepreneurs as members of other non-cooperative organisations which provide incentives independent from co-operative entrepreneurship: **catalytic entrepreneurs**. Catalytic entrepreneurs are members of outside agencies whose task it is to get the process of co-operative institutionalization started and to strengthen local co-operatives.

  A catalyst entrepreneur can be either an agent of government or non-governmental, but, very important,
  - he does not work through conventional bureaucratic channels; and
  - the co-operative institution he is initiating and supporting remain an autonomous organisation.

  This type of entrepreneur can be called a facilitator, a motivator, a change agent, but the term catalyst, is according to Uphoff "more neutral and more descriptive implying that the person initiate a change process but is not absorbed by it".

It is important to realize that most co-operatives will require a 'team approach'. It is wrong to look for entrepreneurial heroes who combine all entrepreneurial functions within one personality. The emphasis should be on co-operative ventures whose members specialise in the various functions necessary in the process of co-operative development.

Also, the required entrepreneurial action or input required from the different types of entrepreneurs will be different depending on the stage of development of the co-operative. A co-operative is a dynamic organization that goes through different stages or periods in its life-cycle. The different 'periods' require different kinds of entrepreneurs.

When the co-operative is 'born', innovative action is necessary, entrepreneurs need to discover a co-operative advantage and establish a co-operative to implement this advantage. If the co-operative moves up the life-cycle the co-operative require a person who can plan, coordinate and implement ideas. During the last stage routine entrepreneurs or managers can take over the task of running the co-operative. In other words, during a co-operatives' life-cycle, different kinds of entrepreneurs or entrepreneurs with different core competencies, are required.

Moving the focus slightly from the entrepreneur to the co-operative itself, the following paragraph discusses a number of factors associated with successful co-operatives.

6. Critical factors associated with success in co-operatives

Many studies have been conducted to establish which are the factors associated with either success or failure in co-operatives. The fact that so many co-operatives fail constitutes a real danger that the co-operative model could fall into such disrepute that it will become widely rejected, and a potentially valuable mechanism for economic development and reconstruction will be lost (Davies, 1993). There are a large number of successful co-operatives which necessitates a re-look at what contributes to success in a cooperative-type enterprise.

The Enterprise Development Centre at Cranfield School of Management has undertaken a systematic enquiry into co-operative performance (Harper, 1992). The results obtained are confirmed by evidence obtained from a wide variety of international literature on the subject. The main objective of Cranfield's enquiry was to identify the factors which were generally agreed to be **critical for success** in a co-operative. One hundred and fifty people working directly or indirectly with co-operatives, were interviewed.

- Two thirds of the respondents agreed that on formation, groups should focus on one activity only, to ensure manageability. Only 25 per cent, believed groups should, once established, remain single purposed. The consensus seems to be that they should aim at maximum simplicity at the start, but that multipurpose co-operatives are an appropriate subsequent development.

- Less than 30 per cent of the respondents felt that outside assistance is necessary during establishment and thereafter. Most respondents felt that groups should survive on their own, like any other business. Members of credit co-operatives in Indonesia feel that they can, because of transaction cost advantages, help themselves through collective action, but only as long as outside forces of government or development agencies do not undersell them with cheap (subsidised) credit (Röpke, 1992b).

- Consensus was less unanimous regarding the question on strong leadership versus member participation, but slightly more respondents supported the view of one person whom all the members acknowledge as leader.

- An interesting result indicates that only 31 percent of the respondents regard group enterprises as having mainly a social and community role to play. The majority of respondents were in favour of co-operatives as business enterprises in the first instance.

- International and national research on co-operatives (Thomas, 1987; Barrett,1989; Wilson and Ramphele,1990; Harper,1992) indicates that comprehensive type co-operatives are more prone to failure than functional type co-operatives. In Annexure I this very important distinction is discussed.

To summarise, the following circumstances were found to be more likely to be associated with success: members having a similar basic background, the co-operative

being established as a result of a recognized need in the community (comparative advantage), starting with only one activity, avoiding political links, starting and continuing without being heavily subsidised, the co-operative being driven by a strong manager or entrepreneur, having strict rules and procedures, adhering to the principles of a functional rather than a comprehensive-type co-operative. Although these are only guidelines, they are based on an extensive co-operative literature study and adhering to the guidelines could marginally increase co-operatives change of survival and decrease the amount of funds and effort wasted on misdirected assistance.

7. A South African perspective on co-operatives

In South Africa, co-operatives, particularly in the agricultural sector, have developed primarily in the 'white' constituency since the beginning of the century, and enjoyed state support and subsidies. By the late seventies community-based producer co-operatives were being established mainly in rural areas in communities that had been forced into 'homeland' structures. The beginnings of a broader co-operative movement has gradually taken root in this country as a response to high unemployment, exploitation of workers and conditions of extreme underdevelopment in many areas. The following section will look into the development of agricultural co-operatives in South Africa, and section 7.2 will address community-based co-operatives in South Africa.

7.1 A short history of co-operatives in South Africa

The co-operative movement started in South Africa in 1892 with the establishment of the Pietermaritzburg General Trading Association, which was registered as a co-operative in terms of the Natal Companies Act. Before 1910 each of the four provincial governments, in reaction to requests from the various provincial agricultural unions, attempted to establish the co-operative concept within the provence. Natal took the lead with the promulgation of the Natal Agricultural Development Act in 1904, which empowered the Natal Government to grant loans to co-operatives. Similar legislation followed in 1905 in the Cape Province and in 1907 a law was promulgated in Transvaal to pave the way for the establishment of a Land Bank for Transvaal with the authority to grant loans to co-operatives. The first Co-operatives Act in South Africa was promulgated in 1908 in the Transvaal, defining the accountability of members and enabling the appointment of a Registrar of Co-operatives, responsible for registering co-operatives and promoting the co-operative movement. During the early stages, therefore, it can be concluded that the Government played an important role in the establishment of the co-operative movement in South Africa as initiator, legislator, controller and financier (Cooperative Council, 1992).

When reading the history of agricultural co-operatives in South Africa, it is evident that many co-operatives were formed in times when farmers were exploited in buying and selling, and were facing hardship in general agricultural conditions (Van Rooyen, 1992). It is also evident that farmers, through organised agriculture, influenced the Government to make substantial support, mainly through Land Bank funding, but also through controlled marketing, available, to co-operative serving the commercial agricultural sector of South Africa. It must however be noted that the Land Bank funding could only be used for crop purchases, the financing of production inputs for farmers and the provision of storage facilities.

During 1971, Regulation R117 of 1971 was promulgated in terms of which all co-operatives in the homelands would be registered and controlled. Strong evidence exists that a top-down approach was followed with the registration of the majority of co-operatives in terms of Regulation R117. This implies that Government officials played a leading role in the establishment and registration, with little or no community involvement, which lead to a lack of ownership and loyalty. Farmers generally regarded these co-operatives as Government businesses. Due to a lack of expertise, public sector support to the co-operative in terms of building capacity lead to failures and farmers/members losing faith in the co-operative movement.

7.2 Community-based co-operatives in South Africa

The turn of the century witnessed a peculiar European export to Africa - the co-operative. Originally "civilising instruments" in the hands of the colonialists, co-operatives were also used by post-independent African governments as a development tool. These co-operative-based development programmes proved disastrous because it ignored local circumstances, participatory planning and management and relied on government resources.

In South Africa co-operatives were used, during the 1970 and 1980's as instruments to combat unemployment and provide power to those disempowered by the apartheid and capitalist regime. These co-operatives were generally supported by anti-apartheid donor agencies, corporate enterprise, trade unions and community organizations. Many of these co-operatives were created with good intentions to empower the marginalised communities. It was, however, done without context and culture. Most of these co-operative initiatives failed, but a study conducted in 1988 revealed a total of 64 co-operatives in South Africa which survived. Of these, 40 specialised in manufacturing clothing; with products like pottery and leather items as a second area of concentration. These 'survivors' were very dependant on strong leadership, often in the form of a well motivated development worker, providing training and instructions.

The crux of the co-operative problem was that they were often started for social rather than business reasons. They were based where there was a need to create jobs rather than in the best place to start a business. As a result they had to buy-in the managing and marketing skills that they lacked. This increased that overheads and often resulted in irregularities since the co-operative entrepreneur or manager do not always share the members objectives.

This dilemma, which still prevails, is now often identified and reacted upon as illustrated by the following quote from a manager of a production co-operative: "The members appear more interested in recruiting personnel who can contribute to the survival of their enterprise than in providing opportunities for those who are most in need".

7.3 A legal perspective on co-operatives in South Africa

In the RSA, legislation in the form of the Co-operatives Act, 1981 and Regulation No.117 of 1971 (R117)[3] provides for the formation of a legal entity known as a co-operative. The legislation provides for numerous formalities regarding the formation, registration and management of co-operatives, which include:

- Application must be made to the Registrar of Co-operatives in prescribed form;

- The Minister of Agriculture is the responsible Minister, but
- The Registrar is required to approve the registration;
- The manner of sharing profit is prescribed in the Act;
- Directors and management, elected by members, are required;
- Accounting records and auditing is required;
- Meetings and other administrative procedures are prescribed;
- The Registrar has external control to ensure compliance with legislation.

The Co-operatives Act provides for three forms of co-operatives, ie. agricultural, special farmers and trading co-operatives. The Act does not specifically provide for either housing or credit co-operatives. So-called housing co-operatives can however be companies registered in terms of the Companies Act and/or the Share-block Act. Credit unions or co-operatives can register as trading co-operatives, but are required (although this does not appear to be enforced) to comply with the Deposit Taking Institutions Act. Also, many entities, which are referred to as co-operatives, but are not registered in terms of the co-operative legislation, exist. These entities are either informally constituted or are constituted according to some other form of legal entity eg. voluntary association.

7.3.1 Disadvantages and advantages of co-operatives as legal entities

Disadvantages include:

- Non-withstanding the recent amendment to the Co-operatives Act, which improves the situation somewhat, co-operative legislation is still restrictive and prescriptive in nature;
- The formal management structures required are complicated;
- Procedures are technical;
- External control is exercised by the Registrar;
- The limited liability of the members may be a disadvantage to lenders.

Advantages include:

- Limited liability and therefore limited risk for members;
- Proper control and management;
- Constitutes a legal entity.
- Although there is no tax advantage in being incorporated as a co-operative, agricultural co-operatives are eligible for certain deductions. This does not apply to trading co-operatives.

7.3.2 Comparison of legal entities

In terms of common-law, a group of people can form a voluntary association and run it on the basis of a co-operative (without being registered in terms of the co-operative legislation). However, co-operative legislation makes it an offence for a body to call itself a co-operative or a co-op if it is not registered in terms of the Act.

A voluntary association or a partnership can be formed easily, without complicated registration procedures. In terms of Section 30 of the Companies Act such an entity cannot have more than 20 members if it has as its object the acquisition of gain. A partnership is not an entity separate of its members as is a legally constituted co-operative. Each partner is jointly and severally liable for the debts of the partnership (ie. the joint enterprise), while the liability of a co-operative (if registered) is limited.

A Co-operative type entity can be formed in terms of other legislation, for example, the Companies Act and the Share block Control Act provide for the formation of a shareblock company i.e. where the company purchases land or a building /buildings and the members of the company have the right to occupy the land or buildings. The land is developed and the building(s) maintained/upgraded by the company for the benefit of the members. The members are involved in the running of and responsible for funding the company and often refer to themselves as a housing co-operative. (For a detailed comparison of Co-operatives, Partnerships, Voluntary Associations, Companies, Trusts and Close Corporations, please consult "Comparison of various Legal Entities", available from Legal Services.)

7.3.3 Special recognition for community level co-operatives

Recognition needs to be given - and appropriate legislation developed - to provide for less formal co-operative structures, co-operatives which are not necessarily agriculturally based - and which need support and advice, at little cost, to formalise and administer their structure. They will require on-going support but should not be subject to vigorous controls and interference. Co-operatives should be easier and cheaper to form - but allow for some formality and structure to ensure their continued existence as an entity for its members. Obviously the large co-operatives have different needs - for all intents and purposes they could be subject to the Companies Act and regulated in the same way - rather than the Co-operatives Act being changed to bring it in line with the Companies Act.

7.3.4 Recent reforms to the Co-operatives Act

- Reduction in minimum numbers required to form Co-operatives - particularly trading co-operatives (now 11) - makes it easier for them to comply.
- Registrar has less discretion when registering co-operatives and Minister's powers to approve etc. have been reduced - This is good but it appears Registrars may no longer provide the assistance and support previously given to co-operatives and required by the less sophisticated co-operatives to become registered as such.
- Membership of co-operatives is no longer necessarily linked to issue of shares.
- Volume of business which co-operatives can carry out with non-members has been increased from 5% to 49% but this restriction is only in respect of agricultural co-operatives.
- Farms have to attain certain minimum level of business or size to qualify for co-operative membership.

8. Conclusion and recommendations

Although it is dangerous to generalise by saying that certain types of co-operatives are more prone to success than others, it could be useful to use comparative advantage as a kind of yardstick to measure potential success against. Any co-operative, whether it is a production, housing or consumer co-operative, will have

a better chance on success if it is created for reasons of comparative advantage, rather than "to create employment", or for political reasons.

As far as future research and work on co-operative issues are concerned, the following are suggested:

- Policy guidelines in support of different types of co-operatives are necessary. Many different types of co-operatives, from credit to housing to marketing, exist; and these co-operatives should be treated as separate enterprises.The preparation of policy guidelines on housing co-operatives is another perceived need, since housing is a major need and co-operation is, without doubt, one of the most appropriate ways to address this need.

- Co-operatives should have some structure to ensure efficient management and control. However, the co-operative legislation is technical, complicated and inflexible, which makes it difficult for unsophisticated co-operatives to comply with. The current status of the Co-operatives Act and R117 needs to be investigated. The Co-operatives Act, further, does not make provision for all types of co-operatives. The legislation should allow for the development of co-operatives, instead of being prescriptive and restrictive to their formation. (Also, many co-operative-type organisations are based on forms of mutual solidarity and operate according to indigenous value systems. Such organisations should be able to operate within the ambit of co-operative law if they wish. The co-operative law should, therefore, be structured in such a was as to accommodate both these traditional, and the more formal type co-operatives.)

Notes

1. Klaas Steyn and Gillian Garner of the Development Bank of Southern Africa are thanked for their contribution to this paper.

2. In the United States, dairy cooperatives handled 78% of the countries' milk in 1985.

3. This proclamation No. R117 of 1971 in respect of "Bantu Homeland Co-operatives " is still applicable in certain areas in South Africa, in the self-governing territories and in the TBVC -states which have not passed their own legislation.

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ANNEXURE 1
Functional versus comprehensive co-operatives

Broadly, a distinction is made between functional and comprehensive co-operatives. **Functional or service co-operatives** are (usually) established by a number of independent entrepreneurs to provide them with a service they can not individually provide for themselves. These could include marketing, bulk buying, access to credit, sharing of tools, etc. This would not affect the independence of their main activity, the individual business would be a member of the co-operative but would buy from or sell to it just as it might do business with another independent entity.

The profit or surplus is distributed on the basis of each members use of the service. There is not necessarily anything egalitarian in such co-operatives, the establish-

ment is (usually) an economic decision. Service co-operatives are typical functional co-operatives, with members delegating only some of their responsibilities or needs to the co-operative and for the remaining functions each member is still on his/her own.

The members of a service co-operative start it, own it, and direct it, but they are its' customers and not its workers, the co-operative in fact supports and improves their individual enterprises. There is nothing inherent in the principle of a service co-operative to prevent its members from competing with each other.

A producer or worker co-operative, generically a **comprehensive** type co-operative, however, is one where people get together to acquire, not a peripheral service, but employment itself. Producer co-operatives provide their members with a complete livelihood, rather than being an adjunct to their main activity. The Israeli kibbutz movement is an example of a total co-operative lifestyle.

In the case of most producer co-operatives, the members or 'workers' pool their resources and work for a jointly determined output target and distribute the net income according to some predetermined set of rules.

Housing co-operatives fit somewhere between functional and comprehensive co-operatives. The main objective of a housing co-operative is to procure housing for its members. This can be done either through a consumption orientated housing co-operative to which a member belongs only to access housing, or by joining a comprehensive housing co-operative, within which members construct their own houses through collective self-help.