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Agrekon

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~~X~~The Development of Agricultural Co-operation in South Africa

by I. S. Geldenhuys, Chief Professional Officer, Division of the Registrar of Co-operative Societies, Department of Agricultural Economics and Marketing

Introduction

Agricultural co-operatives in South Africa were originally registered under the various company and co-operative laws of the four provinces. The absence of uniform legislation, and the lack of co-ordination and control by the Government, retarded the development of these organisations. Union-wide legislation was, however, promulgated in 1922, but it was not until shortly before the enactment of the present Co-operative Societies Act (No. 29 of 1939), that agricultural co-operatives really showed progress.

The Marketing Act of 1937 and the introduction of control boards also contributed greatly to this development. Although the functions of orderly marketing and price stabilisation were taken over by the control boards after the introduction of control schemes, agricultural co-operatives have remained a suitable and convenient medium through which control could be exercised. There are, however, no control boards as yet for various agricultural products.

Number and Membership of Agricultural Co-operatives

As from 1940 to 1960, the number of agricultural co-operatives increased from 202 to 318, while the membership increased from 96,622 to 285,062.¹⁾ In order to present a more detailed and clearer picture of this development, the number and membership of the following groups of agricultural co-operatives are given:

A. Producers' co-operatives

1. Grain (including groundnuts)
2. Wool
3. Dairy produce
4. Meat and processing of meat
5. Processing of fruit and vegetables
6. Wine
7. Citrus
8. Tobacco
9. Sugar
10. Other

¹⁾ In view of these numbers, it should be borne in mind that a farmer who produces more than one kind of product may be a member of more than one co-operative.

- B. Supply co-operatives
- C. Service co-operatives

		30th June	
		1940	1960
<u>Number</u>			
A.	<u>Producers' co-operatives</u>		
	Grain (including groundnuts)	35	37
	Wool ²⁾	4	3
	Dairy produce	24	27
	Meat and processing of meat	19	33
	Processing of fruit and vegetables	3	3
	Wine	8	47
	Citrus	30	39
	Tobacco	12	11
	Sugar	2	3
	Other	45	57
B.	<u>Supply co-operatives</u>	7	12
C.	<u>Service co-operatives</u>	13	46
Total		202	318

Membership³⁾

A.	<u>Producers' co-operatives</u>		
	Grain (including groundnuts)	25,257	83,801
	Wool ²⁾	19,070	43,071
	Dairy produce	3,932	32,658
	Meat and processing of meat	3,656	22,982
	Processing of fruit and vegetables	1,957	8,042
	Wine	5,670	7,427
	Citrus	2,050	2,663
	Tobacco	14,267	27,047
	Sugar	92	255
	Other	8,789	28,670
B.	<u>Supply co-operatives</u>	2,264	7,638
C.	<u>Service co-operatives</u>	9,618	20,808
Total		96,622	285,062

It will be observed that the wool co-operatives have the largest average membership, namely 14,357. This can be attributed to the fact that each of these co-operatives operates in all four provinces of the Republic (and two of them in South West Africa as well), while the activities of the other co-operatives are restricted to certain areas in

²⁾ Mohair included - 1940.

³⁾ See footnote 1.

the provinces. The tobacco co-operatives also have a reasonably high average membership per co-operative (about 2,460). The fact that the production of tobacco is confined to certain areas, and that the tobacco co-operatives serve the needs of producers satisfactorily, can be advanced as reason why the number of these co-operatives has remained constant since 1940. It is interesting to note further that in 1960 about 55 per cent of the total number of members were members of the grain, wool and dairy co-operatives, which is no doubt owing to the fact that these products are generally produced over a wide area or areas. The average membership per co-operative was about 900 in 1960.

Financial Structure

In order to provide an insight into the assets and liabilities of agricultural co-operatives, the consolidated balance sheet of the various groups, for the year ended June 30, 1960, is shown here:

The surplus assets over payable liabilities of all agricultural co-operatives were as follows on June 30, 1960:

<u>Surplus assets over liabilities (payable) of all</u> <u>agricultural co-operatives on June 30, 1960</u>			
(R1000)			
Fixed assets			103,892
Floating assets			<u>202,619</u>
			306,511
<u>Less: Liabilities (payable)</u>			
Long-term loans	32,944		
Short-term loans and liabilities	<u>164,689</u>		<u>197,633</u>
Surplus assets over liabilities (payable)			<u>108,878</u>

This surplus represents own funds and was made up as follows:

(R1,000)	
Paid-up share capital	18,186
Reserves and undistributed savings	73,351
Members' levy funds	18,527
	<u>110,064</u>
<u>Less: Accumulated losses</u>	<u>1,186</u>
	<u>108,878</u>

Consolidated balance sheet of agricultural co-operatives as at June 30, 1960

LIABILITIES

ASSETS

	Paid-up ⁴⁾ share capital	Reserves and un- distrib- uted surpluses	Long- term loans	Short- term loans and liabili- ties	Mem- bers' levy funds	Total		Fixed assets	Floating assets	Other	Total
	- R1,000 -							- R1,000 -			
<u>Producers' co-operatives</u>							<u>Producers' co-operatives</u>				
Grain	4,832	16,780	15,031	106,995	7,147	150,786	Grain	31,321	119,028	437	150,786
Wool	1,010	7,588	3,499	7,255	-	19,352	Wool	11,787	7,565	-	19,352
Dairy produce	3,330	5,826	1,822	3,168	320	14,466	Dairy produce	8,807	5,458	201	14,466
Meat and processing of meat	1,692	3,285	1,672	5,528	122	12,299	Meat and processing of meat	3,047	9,112	140	12,299
Processing of fruit and vegetables	1,102	4,400	5,360	18,631	-	29,493	Processing of fruit and vegetables	11,834	17,659	-	29,493
Wine	2,124	20,369	1,715	3,200	226	27,634	Wine	18,948	8,686	-	27,634
Citrus	1,185	1,063	741	3,456	2,147	8,592	Citrus	4,064	4,525	3	8,592
Tobacco	106	4,555	92	4,657	7,487	16,897	Tobacco	3,346	13,551	-	16,897
Sugar	421	3,088	1,150	1,868	-	6,527	Sugar	4,430	2,097	-	6,527
Other	1,434	3,837	1,221	6,864	1,020	14,376	Other	3,988	10,095	293	14,376
Total	17,236	70,791	32,303	161,622	18,470	300,422	Total	101,572	197,776	1,074	300,422
<u>Supply co-operatives</u>	407	1,303	58	2,402	-	4,170	<u>Supply co-operatives</u>	307	3,821	42	4,170
<u>Service co-operatives</u>	543	1,257	583	665	57	3,105	<u>Service co-operatives</u>	2,013	1,022	70	3,105
Total	950	2,560	641	3,067	57	7,275	Total	2,320	4,843	112	7,275
Grand Total	18,186	73,351	32,944	164,689	18,527	307,697	Grand Total	103,892	202,619	1,186	307,697

⁴⁾ The total subscribed share capital was R37,868,000.

It will be observed from the foregoing that the capital structure, especially of wine and tobacco co-operatives, is sound. In the case of the wine co-operatives, the ratio of own funds (i.e. paid-up share capital, reserves, undistributed savings and members' levy funds) to borrowed capital (i.e. long- and short-term liabilities), was 4:1, while in the case of tobacco co-operatives, the ratio was 2.5:1. If, however, K.W.V. is omitted from the wine co-operatives and M.K.T.V. from the tobacco co-operatives, the above ratio would be more or less 1:1 in the case of both groups.

The capital structure of the co-operatives which undertake processing of fruit and vegetables, is especially weak. Here the ratio of own to borrowed funds was 1:4. According to the above figures, the grain co-operatives also reflect an unfavourable position, but their short-term loans and stocks of grain should be ignored for this purpose - in which event the ratio of equity to foreign funds would be about 1:1.

In the case of only six of the above groups, own funds were sufficient to finance fixed assets; and in this respect the wine co-operatives reflect the best position. If K.W.V. is again left out, the fixed assets of wine co-operatives exceed their own funds by about R1 million.

It is evident that agricultural co-operatives generally will have to pay special attention to financing a larger proportion of their needs from own funds. Although the total of members' levy funds, introduced in the early fifties, amounted to R18,527,000 on June 30, 1960, many co-operatives have not yet adopted this system of financing. Since members' contributions to these funds are directly related to the use they make of their co-operatives, and in most instances the contributions are refunded in rotation, it is a commendable and equitable method of financing.

It may also be mentioned that the total net savings of all agricultural co-operatives, amounted to R10,255,000 during 1960. The most important contributions to this amount were made by the wine, grain, sugar and dairy co-operatives, in that order.

Turnover of Agricultural Co-operatives

The sales value of agricultural produce handled, farming requisites sold and services rendered to members, was as follows:

Turnover in agricultural produce, farming requisites and services

		30th June	
		1940	1960
		- R1000 -	
<u>Agricultural produce</u>			
A.	<u>Producers' co-operatives</u>		
	Grain	22,634	180,159
	Wool	10,375	86,771
	Dairy produce	2,125	48,958
	Meat and processing of meat	1,746	62,464
	Processing of fruit and vegetables	505	18,125
	Wine	2,643	19,516
	Citrus	5,463	14,713
	Tobacco	2,110	18,056
	Sugar	891	6,000
	Other	1,035	28,970
B.	<u>Supply co-operatives</u>	-	247
C.	<u>Service co-operatives</u>	85	116
Total		49,612	484,095
<u>Farming requisites and services</u>			
		- R1000 -	
A.	<u>Producers co-operatives</u>		
	Grain	3,040	61,433
	Wool	243	7,716
	Dairy produce	66	4,029
	Meat and processing of meat	1	4,029
	Processing of fruit and vegetables	60	1,064
	Wine	24	132
	Citrus	975	1,626
	Tobacco	43	2,378
	Sugar	30	10
	Other	292	7,129
B.	<u>Supply co-operatives</u>	481	13,849
C.	<u>Service co-operatives</u>	147	1,966
Total		5,402	105,361
Grand total		55,014	589,456

From the foregoing it will be observed that the grain co-operatives showed the greatest increase in turnover in agricultural produce, farming requisites and services: Their turnover in agricultural produce amounted to 37 per cent of the total turnover in agricultural produce in 1960, whereas their turnover in farming requisites and services represented 68 per cent of the total turnover of all the agricultural co-operatives under those headings. The turnover of the three co-operatives undertaking processing of fruit and vegetables also shows a marked increase, which is mainly owing to the fact that one of them took over a number of private canning companies.

If the turnover in agricultural produce per member is calculated, while other factors are excluded, the sugar co-operatives show the largest annual turnover per member, namely about R24,000 in 1960. Next follow the citrus growers with about R5,500 per member. In the aggregate, the average turnover in agricultural produce amounted to about R1,700 per member in 1960.⁵⁾

As regards the share of tobacco co-operatives in the total turnover, it can be mentioned that, except for the Transkei where tobacco production is small and of inferior quality, all tobacco is marketed co-operatively. In the case of wheat and groundnuts the same applies. About 95 per cent of these products are delivered to co-operatives as agents of the boards concerned. About 90 per cent of the total marketing of maize takes place in "area A", namely the Transvaal, Orange Free State and the Vryburg/Mafeking area. In this area about 80 per cent is delivered to co-operative agents of the Maize Board. About 62 per cent of the wool is marketed co-operatively. This ratio has existed since the early fifties. The share which meat co-operatives had in the marketing of slaughter animals in the past was relatively small, but during the past few years their share showed a sharp increase, and was about 35 per cent in 1960. The share of citrus fruit is estimated at 80 per cent. Although there is a large number of citrus co-operatives, the turnover of some of them is small. There are a few large private citrus companies in the Republic, which pack large quantities of citrus annually. Unfortunately it is not possible to determine the share of dairy co-operatives in the marketing of dairy produce; excluding fresh milk, it is estimated that this is not less than 50 per cent.

Apart from handling agricultural produce, producers' co-operatives also supply farming requisites and render various services, such as seed cleansing, orchard spraying, workshop services, etc. to members. It will be noted from the foregoing figures that the turnover of producers' co-operatives in farming requisites and services, amounted to 17 per cent of the total turnover in 1960.

The activities of the supply co-operatives are virtually limited to the supply of farming requisites. Their share in the total turnover of farming requisites is, however, relatively small. As these co-operatives, like producers' co-operatives, have a pledge over their members' produce (in terms of Section 96 of the Co-operative Societies Act) in respect of certain farming requisites and services supplied to them on credit, serious problems can arise in the case of dual membership. In view of this problem of overlapping and the fact that producers' co-operatives are, or should be, in a position to ren-

⁵⁾ See footnote 1.

der the same service as satisfactorily as the supply co-operatives, there really is no essential need for the establishment of supply co-operatives. This type of co-operative therefore, cannot be encouraged in regions where producers' co-operatives supply farming requisites.

The service co-operatives are mainly comprised of organisations which render veterinary, artificial insemination, milk recording, insurance and farm labour supply services to members. The number of these co-operatives showed a sharp increase, especially during the past few years, with the establishment of a large number of milk-recording co-operatives. Although the turnover of service co-operatives is not yet of great magnitude (about R2 million in 1960), they fulfil a specialised function which is carried out best by co-operatives formed specially for those purposes.

It should be pointed out that the activities of the largest group of local producers' supply and service co-operatives are co-ordinated by central co-operatives with which they are affiliated. The "centrals" in turn may form federal co-operatives, but of the latter type there are only two in existence - the one undertaking shipping services and the other one acting as the mouthpiece of co-operatives in general matters. Among the centrals we have Sasko, the central grain co-operative, which operates in all four provinces of the Republic. While at the outset Sasko was formed to market the wheat of its affiliations in the most profitable manner, it subsequently switched its activities to the milling industry (especially after the introduction of the Wheat Control Scheme under the Marketing Act), and recently also extended its activities to the baking industry.

Another example of the economic importance of central co-operatives is Sentabak, the central for tobacco co-operatives. This central serves as mouthpiece for its affiliations; administers the allocation of tobacco leaf to tobacco manufacturers; undertakes the export of tobacco leaf and makes recommendations in connection with the fixing of surpluses. Through its representatives on the Tobacco Control Board, it also makes recommendations in respect of tobacco prices.

Similarly central co-operatives exist in respect of most of the branches of agriculture, which co-ordinate the interests of producers and act on their behalf. In respect of the dairy industry, Sacca has already rendered valuable services; in the meat industry, Vleissentraal is making great strides; in respect of citrus, the Citrus Board is responsible for orderly marketing especially of exports; for oil seed, the central acts as co-ordinator; for maize, Uniegraan is the mouthpiece. Apart from these, three centrals exist which acquire farming requisites for supply to their affiliations.

Reference has been made to the importance of agricultural co-operatives augmenting their own funds. This is a long-felt need and in order to satisfy it, partly at any rate, a credit central was established. The possibilities and advisability of such a central need no elaboration, but much remains to be done.

Attention should further be drawn to the importance and value of co-operative insurance. Prior to the formation in 1950 of "Sentrakas" no co-operative or private insurance company existed which was prepared to undertake guaranteed hail insurance.

This then was one of the main reasons for the establishment of Sentrakas. At the same time it was felt that this central should also undertake fire and accident insurance, in order that the advantages accruing from this business could flow to the local agricultural co-operatives. Prior to the establishment of Sentrakas, agricultural co-operatives operated through agents, with the result that they did not receive any commission on insurance business. This benefit now also accrues to them.

Conclusion

In the light of the foregoing (especially in view of the important share agricultural co-operatives have in the marketing of agricultural produce and livestock; certain other services rendered by them, and the fact that in respect of a large number of products handled by agricultural co-operatives, no control boards exist as yet), it can be stated that agricultural co-operatives fill an indispensable position in the agricultural economic structure of the Republic; and that in the recent past there was not, nor could there be in the future any doubt as regards the economic justification for the existence of agricultural co-operatives.

It can further be stated that farmers generally accept co-operation as their own and natural institution - not only in respect of marketing and supply services, but also as the organ protecting and promoting their economic interests. In this connection it should be noted that agricultural co-operatives are integrated with organised agriculture at district, provincial and national levels. The position occupied by co-operatives, therefore, offers great possibilities for further development. But one should warn again of the dangers of expansion without sufficient own funds.

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A MAJOR PROBLEM

We never really want to catch up with our potentialities. We hope that advancement in technical and social knowledge will keep an ever higher potential in advance of us. At any point in time, however, we hope to be moving in the direction of closing the gap between our present circumstances and our immediate opportunities. That is, we hope to transfer resources among uses in such a way that the economy will approach adjustment with respect to production possibilities at any point in time. One of our major resource allocation problems at all times, however, is that of deciding how to use our resources so as to keep our production potential continuously moving outward at a rapid rate.

- C.E. Bishop, North Carolina State College.