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# **THE ROLE OF SMALLHOLDER FARMERS' COOPERATIVES IN RURAL DEVELOPMENT: A CASE OF UMGUNGUNDLOVU DISTRICT MUNICIPALITY, KWAZULU-NATAL**

by

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## DECLARATION

“I, **Mmemogolo Aaron Malomane**, declare that the Master’s Degree research dissertation or interrelated, publishable manuscripts/published articles, or coursework Master’s Degree mini-dissertation that I herewith submit for the **Master’s Degree qualification in DEVELOPMENT STUDIES** at the University of the Free State is my independent work, and that I have not previously submitted it for a qualification at another institution of higher education.”

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**MMEMOGOLO AARON MALOMANE**

**DATE:**

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## **ABSTRACT**

This study investigates the contribution of smallholder farmers' cooperatives in improving the socio-economic conditions of rural communities, focusing on uMgungundlovu District, KwaZulu-Natal Province. A qualitative research design, using interviews as an instrument to collect data, was utilised. The purposive sampling technique was used to select a sample of smallholder farmers' cooperatives as participants to participate in the study. The cooperatives were selected based on their potential and prospects to significantly contribute to rural development.

The study indicates that smallholder farmers' cooperatives play a role in enhancing the livelihoods of rural communities, with many members dependent on the income generated from cooperatives. These cooperatives play a role in job creation, poverty reduction, access to markets, economic empowerment, human capital development, the improvement of the creditworthiness of members, and the creation of networking platforms. Furthermore, they are active in improving the lives of the less fortunate in the District through the donation of surplus food to orphanages, the elderly, vulnerable households, as well as funerals.

As in other developing countries, poverty eradication, job creation, and improving the lives of rural communities emerged as key reasons for smallholder farmers to establish cooperatives in the District. Other reasons included contributing to economic development and skills development, access to finance, as well as training and capacity development. Despite evidence of the sampled cooperatives sustaining the livelihoods of rural communities, various challenges confront them. These include high illiteracy rates, the inability to access finance and formal markets, inadequate extension support, and the lack of transport.

Among others, the study recommends clustering cooperatives following the commodity approach model to address some of the challenges they face. There is a need to expand extension support and the provision of appropriate production and marketing infrastructure to ensure the adherence to and adoption of good agricultural practices. In addition, government should drive public-private partnerships and involve smallholder farmers' cooperatives as key partners in rural development initiatives. Lastly, it is recommended that smallholder farmers' cooperatives in the District explore the possibility of establishing a Cooperative Financial Institution (CFI) and eventually a cooperative bank, owned by all smallholder farmers in the District, to address the challenge of access to finance. It is hoped that this study will be of value to policy-makers, cooperatives, rural communities, and academia.

**KEY TERMS**

Cooperative; Smallholder Farmer; Rural Development

## LIST OF ACRONYMS

|        |   |
|--------|---|
| APA    | : The American Psychological Association  |
| B-BBEE | : Broad-Based Black Economic Empowerment  |
| CA     | : Capability Approach   |
| CAB    | : Cooperative Advisory Board  |
| CAC    | : Cooperative Advisory Council  |
| CCA    | : Canadian Cooperative Association  |
| CDA    | : Cooperative Development Agency  |
| CFIs   | : Cooperative Financial Institutions  |
| CODAS  | : Cooperative Data Analysis System  |
| COPAC  | : Cooperative Policy Alternative Centre   |
| CPPP   | : Community Public Private Programme  |
| CRDP   | : Comprehensive Rural Development Programme   |
| DAFF   | : Department of Agriculture, Forestry and Fisheries   |
| DGRV   | : Deutscher Genossenschafts- und Raiffeisenverband e. V.<br>(German Cooperative and Raiffeisen Confederation) |
| DSBD   | : Department of Small Business Development  |
| DTI    | : Department of Trade and Industry  |
| DPME   | : Department of Performance Monitoring and Evaluation   |
| FAO    | : Food and Agriculture Organisation of the United Nations   |
| GDP    | : Gross Domestic Product  |
| HIV    | : Human Immunodeficiency Virus  |
| ICA    | : International Cooperative Alliance  |
| IDC    | : Industrial Development Corporation  |
| IDP    | : Integrated Development Plan   |
| IFAD   | : International Fund for Agriculture Development  |
| ILO    | : International Labour Organisation   |
| ISRDP  | : Integrated Sustainable Rural Development Programme  |
| KZN    | : KwaZulu-Natal   |
| LED    | : Local Economic Development  |
| MoU    | : Memorandum of Understanding   |
| NDP    | : National Development Plan   |
| NEF    | : National Empowerment Fund   |
| OECD   | : Organisation for Economic Cooperation and Development   |
| SEDA   | : Small Enterprise Development Agency   |
| SRA    | : Social Research Association   |

|          |  |
|----------|--|
| SSA      | : Sub-Saharan Africa                                       |
| Stats SA | : Statistics South Africa                                  |
| uDM      | : uMgungundlovu District Municipality                      |
| UN       | : United Nations   |
| UNDESA   | : United Nations Department of Economic and Social Affairs |
| UNDP     | : United Nations Development Programme                     |
| US       | : United States  |
| USD      | : United States Dollar                                     |
| ZAR      | : South African Rand                                       |

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# THE ROLE OF SMALLHOLDER FARMERS' COOPERATIVES IN RURAL DEVELOPMENT: A CASE OF UMGUNGUNDLOVU DISTRICT MUNICIPALITY, KWAZULU-NATAL

## CHAPTER 1: INTRODUCTION

### 1.1. Introduction

According to the Data Booklet on the World Population Prospects by the United Nations Department of Economic and Social Affairs (UNDESA) (2017:1-4), the global population was estimated at 7.6 billion people in 2017 and projected to reach 9.8 billion in 2050. Moreover, Anriquez and Stamoulis (2007:1) stated that an estimated 75% of the 1.2 billion people categorised as being extremely poor lived in rural areas and mostly depended on agriculture, forestry and fisheries for their livelihood. Later studies by Ampaire, Machete and Birachi (2013:61) identified Sub-Saharan Africa (SSA) as the region where 68 % of poor people globally resided in rural areas. Globally, 22.4% of the population was estimated to live on less than \$1.25 a day (Braun and Gatzweiler, 2014:88). Of the 22.4 %, 18% of them were classified as ultra-poor and lived in SSA.

In South Africa, the Department of Planning, Monitoring and Evaluation (DPME) (2014:63) reported that the majority of the population lived in the rural areas in 1994; an estimated 17 million of them resided mainly in the former homelands. In the same period, about 70% of the rural population was classified as poor with very low employment levels (DPME, 2014:63). According to an earlier publication by Statistics South Africa (Stats SA) (2001:7), 42.5% of the country's population, translating into 21 million people, called the rural areas their home. In his presentation to Parliament's Portfolio Committee on Appropriations, Maluleka (2014) painted a picture of a country with 12.6 million people (equivalent to 27% of the population) living in extreme poverty in 2006; this number declined to 10.2 million (20%) in 2011. In an effort to tackle the issue of poverty, Anriquez and Stamoulis (2007:1) earlier identified the sustainable promotion of rural economies as a key strategy to create jobs and reduce poverty in rural areas.

As Ampaire *et al.* (2013:61) point out, in most developing countries, agriculture is a key sector in poverty eradication and given its significance, it needs to be developed if poverty is to be overcome. The authors (2013) further emphasise that the development of smallholder farmers becomes crucial in enhancing rural development. The significance of agriculture in poverty reduction was highlighted previously by Machete (2004:1) where he argued that the sector (agriculture) is considered an effective instrument for rural poverty reduction. In

addition, agriculture has been reported to be the main source of employment in rural areas (Machete, 2004:1). Despite this contribution, smallholder farmers experience numerous challenges hindering their participation in markets. Ampaire *et al.* (2013:61) suggest that these challenges could be overcome through mobilising farmers to become involved in rural producer organisations/cooperatives.

In accordance with the Statement on Cooperative Identity, the International Cooperative Alliance (ICA) defines a cooperative as a voluntary organisation 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 (ICA,1995). In the study into the hybrid methods to formulate and select strategies for the development of rural cooperatives by Barati *et al.* (2017:757), the potential of rural cooperatives to facilitate socio-economic development in rural areas was emphasised. This potential role has been recognised by international organisations such as the Food and Agriculture Organisation (FAO), the United Nations (UN), the International Labour Organisation (ILO) and the International Cooperative Alliance (ICA) (Barati *et al.*, 2017:758). As such, the thrust of this dissertation is on the contribution of smallholder farmers' cooperatives in enhancing rural development with specific reference to the district of uMgungundlovu in the KwaZulu-Natal Province of South Africa.

uMgungundlovu is one of the nodal district municipalities earmarked for accelerated development in terms of the Integrated Sustainable Rural Development Programme (ISRDP). According to StatsSA (2016:1), the rural nodal areas were selected based on their poor poverty indicators, which are characterised by inadequate infrastructure, high levels of unemployment, poor access to services and communication, poor living conditions, and a general lack of adequate services. uMgungundlovu district had a population of 1 111 872 in 2016, it constitutes 10% of the province in size, and is spread across seven local municipalities (uDM, 2017:76).

In terms of the socio-economic conditions, Okem (2016:8) noted high levels of unemployment in the District despite over half of the population being of working age. This was confirmed by the District, which reported unemployment levels of 29.1% in 2016 (uDM, 2017:77). The majority of the unemployed comprised of youth. Okem (2016:8) also found education levels to be very low. This was later confirmed by the District's 2017 Integrated Development Plan (uDM, 2017:76), which noted that 24.6% of the youth completed Grade 12 in 2011 in a District where 38% of the population comprised of youth.

In an earlier study conducted by Nel *et al.* (2012:1), it was established that the District had a high prevalence of HIV/AIDS. Concurring with the latter study, the District also reported infection rates of 42.3% in 2010, 39.8% in 2011/12, and 40.2% in 2016 (uDM, 2017:79). In terms of sanitation, 58% of the population had flushing toilets in 2016, while in the same period, 19.6% did not have potable water and used rivers, boreholes, rainwater harvesting, springs and water vendors (uDM, 2017:76-77). Of the total population of the District, 45,6% lived below the Food Poverty Level (uDM, 2017:108). Out of the seven local municipalities, uMsunduzi (with its seat in Pietermaritzburg) contributed 73% of the Gross Domestic Product (GDP) (uDM, 2017:110). The foregoing socio-economic conditions of the District contributed to the choice of the District as a study area.

## **1.2. Problem statement**

According to the World Bank (2016:3), 767 million people globally were estimated to have been poor in 2013, which translated into 10.7% of the world population. This number rose to 815 million in 2016, according to a Report on the State of Food Security and Nutrition in the World (FAO, 2017:iii). A World Bank report (2016:5) also indicated that poor people globally were mostly young, with poor levels of education, lived in rural areas, and agriculture was their main source of employment. Poverty is a global challenge and over the years, attempts have been made to address it.

In the fight against global poverty, the United Nations (UN) adopted a new development agenda, “Transforming our world: the 2030 Agenda for sustainable development”, which gave rise to the Sustainable Development Goals (SDGs) (UN, 2015). Recognising poverty eradication as a key challenge globally and a prerequisite for sustainable development, the UN resolved to end poverty and hunger by 2030 (UN, 2015:3). In analysing poverty, White, Killick and Kayizzi-Mugerwa (2001:xiii) previously cautioned that the suffering and misfortune that lie behind the poverty figures should never be forgotten. These authors (2001) reported that about two million children in Africa died every two years before they could even celebrate their first birthday, leaving grieving families behind.

Despite all the efforts made to fight poverty, a Report on Poverty Trends in South Africa indicated a rise in poverty levels in the country in 2015 (Stats SA, 2017:14). According to the Report, 30.4 million South Africans lived in poverty in 2015. In line with the UN’s new development agenda to end hunger by 2030, South Africa adopted the National Development Plan (NDP) that aims to eradicate poverty and inequalities by 2030 (NPC, 2013:24). Despite some progress made by South Africans to access basic services, indications are that rural areas are still characterised by poverty and inequalities, with



agriculture identified as key to the fight against poverty and unemployment (NPC, 2013:218). Mbuli (2008:4) argued that in South Africa, the majority of people living in rural areas were identified as being poor. The author (2008) further indicated that about 70% of rural inhabitants lived in poverty. As May (1998 in Mbuli, 2008:5) opined, there are strong racial dimensions in South African poverty, where it is mostly concentrated among black people, mainly in rural areas.

Comparing South Africa's social indicators to other low-income countries, Armstrong, Lekezwa and Siebrits (2008:4) previously found that they were better, but relatively poor in comparison to upper middle income countries in Asia, Eastern Europe and Latin America. The authors (2008) attributed this to inequalities owing to skewed income distribution. This challenge was also identified by the NDP and a target was set to reduce inequality (Gini Coefficient) from 0.69 in 2010 to 0.6 in 2030 (NPC, 2013:34). South Africa's Gini Coefficient was reported to be at 0.68 in 2015 (Stats SA, 2017:24). Despite the South African government spending 16% of its budget in 2016 on social transfers, inequality levels remain high (OECD, 2017:15). Hamse (2013 in Ajuruchukwu and Sanelise, 2016:522) defines the Gini Coefficient as a tool to measure the levels of inequality in terms of income distribution in a country, with a measure of '0' indicating complete equality, while a measure of '1' represents complete inequality. Previously, Leibbrandt *et al.* (2004:2) recognised changes in inequality and poverty as the key ingredients for the transformation of any economy.

With a population of 11,1 million people constituting 19,8% of the South African population, the province of KwaZulu-Natal (KZN) was reported to have a poverty headcount of 7.7% and poverty intensity of 42.5% in 2016 (KZN Treasury, 2018:7&16). The proportion of people living in poverty increased from 42% in 2011 to 42.5% in 2016 (KZN Treasury, 2018:16). In terms of health, the province was said to be experiencing the worst HIV/AIDS epidemic in the world (Nel *et al.*, 2012:1).

Returning to the Gini Coefficient, in South Africa, KZN has the highest Gini Coefficient of 0.63, after Gauteng with 40.7% of households categorised as being in the lower income level of between R0 and R 54 000 per annum and 1.5% of the population belonging to the higher income bracket earning in excess of R1.2 million per annum (KZN Treasury, 2018:17). While South Africa's unemployment rate stood at 27.7% in the third quarter of 2017 and was slightly down to 27.5% in the third quarter of 2018 (Stats SA, 2018:1), KZN's unemployment rate stood at 23.9% in 2016 (KZN Treasury, 2018:63). Furthermore, the province accounted for 22.8% of national grant beneficiaries, with 3, 9 million people receiving grants in the same year (KZN Treasury, 2018:18).

As part of its efforts to eradicate poverty, the province of KwaZulu-Natal developed a plan titled “KwaZulu-Natal Poverty Eradication Master Plan, 2014” as a call to action by all role players, which include government, the private sector, academics and experts in policy. In the foreword of the Plan, the then Premier of the province, Honourable Senzo Mchunu, emphasised the commitment of the provincial government to eliminate poverty in KZN. The Master Plan comprises of five strategic pillars and agriculture has been identified as one of the critical strategic pillar and a game changer (KZN Province, 2014:32). Linked to this is the promotion of agricultural cooperatives as an intervention area. This is an illustration of the importance of cooperatives as a catalyst for job creation and poverty eradication in the agricultural sector.

uMgungundlovu is one of the ten district municipalities and the one metropolitan municipality in the province. In 2016, the unemployment level was reported to be at 29.1%, despite over half of the population being of working age (uDM, 2017:77). Furthermore, over a quarter of the District’s population is unemployed with a high prevalence among the youth. Earlier, Okem (2016:8) found education levels to be very low; this was affirmed by the District Municipality, which stated that 24.6% of the youth completed Grade 12 in 2011 in a District where 38% of the population comprised of youth (uDM, 2017:76). In terms of access to water, 19.6% did not have potable water and used water from rivers, boreholes, rainwater harvesting, springs and water vendors (uDM, 2017:77). Of the total population of the District, 45,6% lived below the Food Poverty Level (uDM, 2017:108).

As noted by Ampaire *et al.* (2013:61), for most rural people, agriculture is the main activity from which they derive their livelihood and it serves as a source of income. This position was previously debated by the World Bank (2008:3) in the World Development Report 2008, which placed agriculture as an option for stimulating growth, improving food security and overcoming poverty in much of Sub-Saharan Africa. The Report further indicated that productivity growth in agriculture was crucial for spurring growth in other parts of the economy but cautioned that any expedited growth required a crucial raise in smallholder farming productivity. To this end, collective action in the form of rural producer organisations/cooperatives is regarded significant in ensuring that smallholder farmers overcome the challenges of accessing markets, thereby contributing to rural development.

Kwapong and Hanisch (2013:114) argued that there is increasingly broad unanimity among practitioners and the academic community on the impact that cooperatives have on efforts to reduce poverty. This point was also raised by Wanyama, Develtere and Pollet (2009:1) who

highlighted the recognition of the contribution of cooperatives in improving the socio-economic conditions of rural communities.

The impact of cooperatives on communities was illustrated by Brown *et al.* (2015:155), who established that assisting communities to aggregate human and capital resources into economic components provided benefits to rural communities. Within these rural communities, Brown *et al.* (2015:163) argue that by being members of cooperatives, farmers have the ability to increase their income through increased premium on the products marketed through the cooperatives and the lower prices for the supplies purchased through the cooperatives. What is of significance with this business model, according to Brown *et al.* (2015:163), is the added community income presented as the income received by farmers circulates in the community through purchasing goods and services locally.

In South Africa, the government has recognised the role of cooperatives in fighting unemployment, poverty and inequality, and various pronouncements and policy documents bear testimony to this (Wessels, 2016:1). However, unlike earlier arguments by Develtere, Pollet and Wanyama (2008:ix) that cooperatives in Africa originated from foreign models intended to achieve foreign objectives, Wessels (2016:6) is of the view that the increase in the number of cooperatives in South Africa can be attributed to both political and administrative advocacy more than people's desire to pursue economic objectives. This has resulted in government officials driving performance targets (number of cooperatives established) and not paying attention to the business aspects (Wessels, 2016:6). However, there is therefore not very much literature that focuses on the contribution of smallholder farmers' cooperatives to rural development in the country.

Although research has explored the contribution of smallholder farmers' cooperatives in rural and economic development globally (Barati *et al.*, 2017; Gertler, 2001; Getnet and Anulo, 2012; Gutiérrez-Rodríguez, 2011; Hatti and Rundquist, 1993; Mbanza, 2013; Ogbeide, 2015; Pinto, 2009), few studies in South Africa (Dlamini, 2010; Nefale, 2016; Van Der Walddt, 2005) have focused specifically on the relationship between smallholder farmers' cooperatives and rural development. Therefore, there is a knowledge gap relating to whether smallholder farmers' cooperatives have a role to play in rural development in South Africa, and to what extent. Based on the gaps in the literature highlighted above, there is a need to assess the contribution of smallholder farmers' cooperatives to rural development in South Africa to determine if they have a role to play in fighting poverty, unemployment, and inequality as pronounced by the government.

### **1.3. Aims and Objectives**

Based on the problem statement postulated in the preceding section, the aim of this research was to assess the contribution of smallholder farmers' cooperatives in the livelihood development of rural communities in the District of uMgungundlovu, KwaZulu-Natal Province. It is anticipated that the outcomes of this study will provide scientific evidence either affirming or negating the South African government's recognition of the role of cooperatives in fighting poverty, unemployment, and inequality. The study will also provide recommendations on the best practices to enable the success of smallholder farmers' cooperatives.

The key objective of this study was to determine the contribution of smallholder farmers' cooperatives in improving the socio-economic conditions of rural communities. The study was limited to the uMgungundlovu District in the KwaZulu-Natal Province.

The specific objectives of the study were:

- To preview the contribution of smallholder farmers' cooperatives to rural development globally;
- To identify the livelihoods of smallholder farmers' cooperatives in South Africa;
- To assess the role smallholder farmers' cooperatives play in the District of uMgungundlovu, KZN; and
- To recommend best practices that will enable the success of smallholder farmers' cooperatives.

### **1.4. Research Questions**

The study was guided by the following research questions:

- What is the contribution of smallholder farmers' cooperatives to rural development in South Africa?
- What are the livelihoods of smallholder farmers' cooperatives in South Africa?
- What role is played by smallholder farmers' cooperatives in the District of uMgungundlovu, KZN?
- What are the best practices that will enable the success of smallholder farmers' cooperatives?

### **1.5. Significance of the study**

This study explored the role played by smallholder farmers' cooperatives in the development of the livelihoods of rural communities within the District of uMgungundlovu. It is anticipated

that the evidence gathered will assist in determining whether smallholder farmers' cooperatives have a role to play in fighting poverty, unemployment, and inequality in South Africa. The study will further provide recommendations on the success factors for smallholder farmers to play a meaningful role in rural development, as pronounced by the government. Further, it is envisaged that the results of the study will support current theories suggesting that cooperatives have a role to play in the development of rural areas.

Moreover, it is anticipated that the findings of this study will benefit smallholder farmers' cooperatives in understanding the key elements for success, as well as the best practices thereof. Furthermore, it is anticipated that the outcomes of this study will help the government and other stakeholders in the cooperative sector to design appropriate intervention strategies to drive efficiencies in cooperatives ensuring that they become competitive and contribute to creating jobs, eradicating poverty, and addressing inequalities.

#### **1.6. Delineation of the study**

The study was of an empirical nature and limited in scope and it was confined to the geographic context of the uMgungundlovu District, KwaZulu-Natal Province. In terms of geographical boundaries, the District is bordered by eThekweni to the southeast, iLembe to the east, Sisonke to the southwest, Ugu to the south, UMzinyathi to the north, and UThukela to the northeast.

The focus of this study was on 32 smallholder farmers' cooperatives that were supported by the Department of Agriculture, Forestry and Fisheries (DAFF) with targeted training to improve operational efficiencies and enhance competitiveness. uMgungundlovu was declared a rural nodal area in terms of the Integrated Sustainable Rural Development Programme (ISRDP) and targeted for accelerated development support by the government.

#### **1.7. Research Design**

It would be appropriate to begin by looking at how various scholars define the concept "research design" before discussing the selection of the design for this study. Saunders *et al.* (2016:163) define research design as the plan that articulates a path to be followed in answering the research question(s). As previously postulated by Leedy (1997:94), the design is the plan for the study developed once the problem has been concretely formulated to provide a format for the detailed steps in the study. Essentially, research design can be defined as a strategy developed to assist the researcher in answering formulated research questions. In planning the research design, Leedy (1997:98) points to the importance of the researcher in thinking about the nature of the data required to accomplish the enquiry and how such data will be gathered and interpreted.

Research design should respond to key questions as to the nature of study to be carried out to provide answers to research questions (Mouton, 2001:49). For the purposes of this study, a research design is the strategy to be employed to respond to the questions posited in Section 1.4. The strategy in question will clearly outline the actions to be undertaken to obtain empirical evidence.

Saunders *et al.* (2016:174) distinguishes four areas that research can be designed to accomplish, namely exploratory, descriptive, explanatory or evaluative, or a combination of these. The manner in which questions for research are presented will involve the researcher in exploratory, descriptive, explanatory, or evaluative design (Saunders *et al.*, 2016:174). Bryman (2012:50) identified five types of research designs, namely experimental design, cross-sectional or survey design, longitudinal design, case study design, and comparative design.

This study primarily followed an exploratory design on the contribution of smallholder farmers' cooperatives in the socio-economic development of rural communities. The main question that this study sought to respond to is: "What is the role or contribution of smallholder farmers' cooperatives to rural development in South Africa with specific reference to the uMgungundlovu District of the KwaZulu-Natal Province". As described by Saunders *et al.* (2016:174), an exploratory study is a valuable means to assist the researcher in gaining insights into a topic of interest. In this study, questions were asked on the topic of cooperatives and rural development to gain insight into the impact that smallholder farmers' cooperatives have on rural development. Thus, this was an empirical study, which used exploratory questions, and was conducted as a case study.

Once the research design (plan) is defined, the researcher needs to decide on the approach/methodology to be employed to execute the project. As previously pointed out by Leedy (1997:97), research approaches all problems through specific channels appropriate to the nature and type of data the research problem requires. The author (1997:97) further cautions against confusing research design with research methodology. Creswell (2009:41) identifies three types of research methods under empirical studies, namely qualitative, quantitative, and mixed methods.

Bryman (2012:380) and Maree (2016:53) emphasises the reliance on words in qualitative research, rather than numerical data. Within this context, seeing the world through the lens of the participants becomes an indispensable condition of the qualitative approach. While participants construct reality from their own views and understanding, the role of the researcher is to report this reality honestly, based on his/her interpretation without misinterpreting the interviewees' beliefs.

In contrast to the qualitative method, the quantitative research method is referred to by Leedy (1997:104) as “an inquiry into a social or human problem, based on testing a theory composed of variables measured with numbers and analysed with statistical procedures, in order to determine whether the predictive generalisation of the theory holds true”. As pointed out by Biggam (2008:86), any scientific research that deals with quantifiable, number crunching data is often classified as quantitative.

Based on the research questions to be answered and taking into consideration the strengths and weaknesses of both qualitative and quantitative research approaches, a researcher may opt to combine both; this is termed the mixed methods approach. Bryman (2012:628) refers to mixed method research as integrating both qualitative and quantitative research in one study. This study employed the qualitative research approach in answering the research questions. The researcher relied mainly on the reality as constructed by the participants expressed in words (verbally) through interviews.

### **1.8. Population**

Bryman (2012:187) refers to a population as a unit of analysis from which a sample is selected. It is the components/units from which a subgroup is selected. According to the Cooperative Data Analysis System (CODAS) of the Department of Agriculture, Forestry and Fisheries (DAFF), 83 cooperatives were established by smallholder farmers in the uMgungundlovu District in 2017. Their data was captured on the System. CODAS is an information management system used by the DAFF to store, collate and analyse data on cooperatives established and collectively owned by smallholder farmers in South Africa. The 83 cooperatives constituted a population from which a sample was selected for this study.

### **1.9. Sampling design**

Regardless of the type of questions for the research and the study objectives formulated, there is always a need for one to consider whether sampling is required or not (Saunders *et al.*, 2016:272). Selecting a representative sample becomes key in the sampling process and the goal is to arrive at accurate conclusions and generalisation of results of the actual population using a sample.

According to Saunders *et al.* (2016:272), it is possible to involve all units of the population in the study; when that happens, the study is called a census. However, in many instances, it is not possible to involve the entire population due to various limitations, such as time, money and accessibility (Saunders *et al.*, 2016:272).

Defining the research population clearly is crucial as the sample is closely related to the population, who is highlighted in the research question and objectives. Maree (2016:192)

categorises sampling methods into probability and non-probability, identifying probability methods with the principles of randomness and probability theory, while the non-probability methods are not.

As indicated under the previous section titled “Population”, there were 83 cooperatives of smallholder farmers within the District of uMgungundlovu, as captured by the DAFF on their cooperative system. Of these cooperatives, 32 were identified as requiring support interventions and subsequently were supported by the DAFF with training during the 2016/17 and 2017/18 financial years. The cooperatives were drawn from six of the seven local municipalities in the District (uMngeni, Richmond, uMkhambathini, uMsunduzi, Impendle and uMshwathi), with six cooperatives from each municipality, with the exception of Impendle and uMshwathi where four cooperatives each were supported.

This intervention emanated from a Memorandum of Understanding (MoU) signed between the DAFF and the uMgungundlovu District Municipality. Business development support services, including training, formed one of the focus areas of the MoU. These cooperatives would have been afforded the opportunity to implement the acquired knowledge in their businesses to contribute to rural development. As such, their selection was informed by their high potential and prospects to contribute to rural development due to the intervention received from the DAFF.

This study adopted the non-probability sampling method (purposive sampling). Etikan, Musa and Alkassim (2016:2) refer to purposive sampling as the deliberate selection of participants based on the qualities they possess, such as knowledge and experience, as well as their willingness to provide information. The sample for this study was purposively selected based on its potential and prospects to contribute to rural development due to the nature of the support received.

#### **1.10. Data collection strategy**

During the process of formulating a research proposal, according to Leedy (1997:115), the researcher must have some idea on the nature of the data to be collected and how it will be sourced and interpreted to answer the research question. The author (1997:115) identified what he termed four fundamental questions that needed to be resolved before data collection: the nature of the data required the source/location of such data, how it will be secured, and the manner in which it will be interpreted.

Saunders *et al.* (2016:316) concur with Leedy, stating that in the process of obtaining data to answer research questions, researchers are expected to consider carrying out further analysis of the data initially gathered for purposes other than their current projects, which is



classified as secondary data. Once gathered, secondary data can be analysed and certain conclusions and interpretations can be generated (Saunders *et al.*, 2016:316). Alternatively, researchers may opt to collect new data (primary data) to assist in answering their research questions. According to DePoy and Gitlin (2005:168), obtaining relevant and sufficient data to respond to research questions is the primary objective of collecting information. It is in this context that the selection of a data collection tool becomes a crucial component of any study, as pointed out earlier by Behr (1988:121). This study employed both primary and secondary data.

Various steps are involved in the process of collecting data. They include setting the boundaries for the study and the actual collection of data through questionnaires and other data collecting instruments. The selected sites for this study were identified together with the type of data to be collected. A desktop approach was also utilised to gather secondary data, while face-to-face interviews were conducted with the participants using a structured questionnaire.

#### **1.10.1. Interviews**

Bryman (2012:469) refers to the interview as the most used method of gathering primary data in qualitative research. As pointed out by Maree (2016:92), an interview is a two-way conversation process that involves the researcher (interviewer) asking questions from the participants (interviewees) to gather data or to learn about the ideas, beliefs, views, opinions and behaviours of the participants. According to DePoy and Gitlin (2005:169), interviews are conducted verbally and may happen either face-to-face, telephonically or through virtual communication. These authors (2005:169) further state that interviews may follow either a structured or an unstructured format. In structured interviews, questions are prepared well in advance to ensure that all the participants are asked similar questions; this is normally applicable in studies involving larger samples to ensure consistency (Maree, 2016:93). It is for this reason that this study used a structured questionnaire when conducting the interviews with the respondents to ensure consistency in view of the larger sample. The chairpersons of participating cooperatives or their delegates were targeted to participate in this study. The researcher conducted interviews with the assistance of officials in the Local Economic Development (LED) unit in the uMgungundlovu District Municipality.

The role of the officials in the LED unit of the District was limited to locating the participants and introducing the researcher, while the researcher conducted the actual interviews. Familiarity of the LED officials with the participants assisted to ease any possible tensions, discomfort and distrust that may have arisen during the data collecting phase. As the LED officials had worked with the participants over a period and had provided support to them,

they had built a good rapport with the participants. It is envisaged that the results of this study will benefit both the District and the DAFF and further assist in enhancing the objectives of the existing Memorandum of Understanding (MoU) between the parties.

### **1.11. Data analysis**

Mouton (2001:108) points out that in the end, all work carried out in the field has to be analysed and interpreted. In the process of gathering data, the researcher has to consider and think about how the data is going to be analysed and interpreted. Furthermore, it is at this stage that the researcher has to make a decision or a choice of instrument(s) or tools to be used for data analysis to be able to draw logical conclusions. The research stage where collected data is analysed is essentially about reducing the huge amount of information gathered to ensure that one is able to make sense of it (Bryman, 2012:13).

According to Bryman (2012:13), it will be almost impossible to interpret gathered data unless it is reduced into graphs, tables and charts in the case of quantitative studies, or grouped into themes in the case of qualitative studies. Data has to be broken into controllable units and trends to simplify the analysis process.

For the purposes of this study, qualitative data was analysed using a process called “coding”. Bryman (2012:568) describes as it as the reviewing of transcripts and field notes and assigning labels to units that seem to be of potential importance. In this process, data/text is divided into smaller and manageable units with each unit labelled accordingly.

### **1.12. Research Ethics**

As indicated by Leedy (1997:116), it is common to use human subjects in any research and this raises ethical considerations, which require careful and cautious examination. Mouton (2001:230) later emphasised that ethical issues arise through the researcher’s interaction with other people and the environment, which often pose the potential for a conflict of interest. Adding to that, Bryman (2012:130) indicates that issues of ethics come to the fore at various levels of social research. At the heart of ethical issues lies principles that need to be taken into consideration, including fairness, honesty, openness of intent, respect for the integrity of the individuals and their privacy, and informed consent or willingness of the subjects to take part in the research voluntarily (Leedy, 1997:116).

Moreover, it is agreed that an individual should not be coerced to take part in any research that has the potential of causing harm or embarrassment, is denigrating, or is in direct violation of moral standards (Leedy, 1997:116). Any researcher that ignores ethical issues runs the risk of a compromised research product. According to the Social Research Association (SRA), it is important to maintain good ethical practices in social research to

ensure that high quality research is produced, subjects are protected from harm, funders are reassured, the research discipline's reputation is maintained, and applicable legislation is complied with.

Apart from the ethical practices published by the SRA, the American Sociological Association's (ASA's) Code of Ethics was developed to provide the principles and ethical standards that inspire sociologists' professional responsibilities and conduct (ASA, 1999:5). In addition, the American Psychological Association (APA) has also developed ethical principles for psychologists and a code of conduct whose intention is to provide guidance for standards of professional conduct (APA, 2017:2). These principles and standards provide guidance on issues that sociologists and psychologists may encounter in their professional work. As this study used human beings as subjects, ethical issues were of high concern, particularly those of responsibility, protection from harm, privacy, anonymity, confidentiality, and freedom from coercion and deception. Debriefing and consent forms were handed out and signed by the participants prior to the interviews being conducted.

### **1.13. Limitations**

According to CODAS, there were 83 smallholder farmers' cooperatives in the uMgungundlovu District captured on the system. These cooperatives are spread across the seven local municipalities of Impendle, Mkhambathini, Mpofana, Msunduzi, Richmond, uMshwathi, and uMngeni within the District. The cooperatives constituted the population of the study. It would however not have been practically feasible to include all the cooperatives in the study owing to financial constraints and limited time; hence, the study confined its investigation into the 32 smallholder farmers' cooperatives as identified in the sample. The sample size was kept this small for management purposes due to limited resources, bearing in mind that the cooperatives were spread across six local municipalities within the District.

### **1.14. Definition of terms**

**Cooperative:** A cooperative is defined by the International Cooperative Alliance as "an autonomous association of person united voluntarily to meet their socio-economic needs in a jointly owned and democratically owned enterprise organised along cooperative principles".

**Smallholder farmer:** Smallholder farmers are farmers with "limited resource endowments relative to other farmers in the sector".

**Rural Development:** A process leading to sustainable improvement in the quality of life of rural people, especially the poor.

### **1.15. Organisation of this mini-dissertation**

Data and relevant material gathered was coordinated and integrated into five chapters in the following order:

The first chapter introduces the study, dealing with the statement of the problem, aims and objectives, questions to be answered by the study, and the significance as well as the delineation of the study. Furthermore, it introduces the research methodology used in the study. The chapter also elaborates on ethical issues and the limitations of the study, and concludes by defining key terms used in the study.

Chapter two provides the outcome of an extensive review of the available literature on the contribution of smallholder farmers' cooperatives to rural development globally, regionally and locally.

Chapter three offers a detailed account of the research methods adopted to select the sample, how the data was collected and analysed, including the instruments used for collecting and analysing data thereof. The limitations of this study, as well as how ethical issues were dealt with, are discussed in detail in this chapter.

The fourth chapter presents, interprets, and analyses the data that was collected through the fieldwork based on the methodology articulated in Chapter three of this study.

Chapter five articulates the main findings from the previous chapters and draw conclusions based on these findings. The chapter further makes recommendations emanating from these findings. Possible opportunities for further research are highlighted in this chapter.

## CHAPTER 2: LITERATURE REVIEW

### 2.1. Introduction

Over the last decade, Amartya Sen's capability approach (CA) has emerged as the leading alternative development theory for thinking about poverty, inequality, and human development in general (Clark, 2006:32). Sen has written extensively on CA as an alternative development approach. Sen (1994:1) suggested that the capability of a person is concerned with evaluating his/her actual ability to achieve different important functioning as part of living. In her later writings, Sen (2005:154) argued that the capability to function is dependent on many factors that include the physical or mental, social, environmental/natural and different relative positions of individuals. In pursuing livelihood strategies, Ellis (1999:2) previously identified assets (human, physical, social, financial and natural) as critical in ensuring that human beings are able to achieve certain levels of functioning.

According to Hatti and Rundquist (1994:383), rural development is a multidimensional process involving the extension of the benefits of development to the rural poor. The authors (1994:383) identified gross inequality in land ownership and undesirable institutional structure as some of the most serious hurdles to rural development in developing countries. Organisations such as cooperatives contribute to rural transformation because of their potential to provide impulses for initiating and stimulating growth in rural enterprises (Hatti and Rundquist, 1994:383). Adefila and Madaki (2014:80) share the same sentiments and indicate that cooperative movements among farmers are seen to be instrumental to agricultural transformation and boosting productivity in the sector. However, throughout history, there have been some successes and failures in cooperatives in both developed and developing world. Birchall and Ketilson (2009) echo this sentiment in their paper titled "Resilience of the Cooperative Business Model in times of crisis".

As pointed out by Machete (2004:1) in literature relating to rural development, agriculture is considered the best vehicle to reduce rural poverty and provides most of the employment in rural areas. Contending with Machete on the significance of agriculture and related activities in rural development, Abate, Francesconi and Getnet (2014:259) state that commercialisation and productivity enhancement among smallholder farmers are perceived to be central strategies for rural development, poverty reduction and food security in Sub-Saharan Africa.

Kharas (2017:1) points to the numerical domination of smallholder farmers in rural economies and to the fact that an estimated 500 million smallholders and family farms sustain the livelihoods of almost two-thirds of rural inhabitants. Earlier, Delgado (1998:184)

also acknowledged the fact that in Africa, smallholder farmers are numerous yet poor. Furthermore, due to their significance in employment creation, human welfare, and political stability in Sub-Saharan Africa, this sector cannot be ignored and should therefore be given priority.

If smallholder farmers were to play a meaningful role in rural development, access to technology, improved technical efficiency as well as easy access to extension services is fundamental (Abate *et al.*, 2014:259). One option of achieving this, as proposed by Abate *et al.* (2014:159), is the role played by agricultural cooperatives in sourcing inputs and marketing outputs collectively. .

## **2.2. The Cooperative concept**

The word cooperative is derived from the term “cooperation”, which means working together. Cooperation constitutes one of the fundamental principles in the performance of cooperative organisations (Bajo, Vuotto and Icaza, 2017:41). As quoted by Bajo *et al.* (2017:41), Zabalaza (1998:35) described cooperation as a way to act, an activity and effect, a way of social behaviour, and a way to live that entails community relations.

### **2.2.1. Defining Cooperatives**

The origins of cooperatives can be traced back to 1844 with the “Rochdale Pioneers” who established the first consumer cooperative in England (Birchall, 2011:6). The principles adopted by the Rochdale Pioneers were subsequently adopted by the cooperative movement globally, and codified and updated by the world body on cooperatives, the International Cooperative Alliance (ICA). Over the years, the Rochdale principles were incorporated in cooperative laws globally and applied to all forms of cooperatives that shared the distinct cooperative identity (Birchall, 2011:6).

The latest revision or update of the cooperative principles by the ICA was in 1995 with the adoption of the Statement on Cooperative Identity by the ICA’s General Assembly in Manchester with the Alliance’s centenary. According to the Statement on Cooperative Identity, “A cooperative is defined as 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” (ICA, 1995).

Besides the ICA definition, several authors have defined the cooperative concept (Brown *et al.*, 2015; Barton, 1989; Chayanov, 1991; FAO, 2012; Meyer, 1999; Roy, 1976). Brown *et al.* (2015:3) define cooperatives as business enterprises exercising collective ownership, governance, and decision-making. Furthermore, they are considered as businesses that combine a social mission with their economic goals, placing them in the category of

enterprises operating in the social and solidarity economy. They exemplify collective ownership over individual ownership and are regarded as bottom-up organisations with the unique purpose of responding to the needs of members and the community through mutual self-help (Brown *et al.*, 2015:3).

FAO (2012:2) defines a cooperative as an association of women and men who come together to form a jointly owned, democratically controlled enterprise where generating a profit is only part of the story. Besides putting people before profit, cooperatives also help members achieve their shared social, cultural and economic aspirations. Previously, Meyer (1999:6) defined a cooperative as follows: "A business organisation that is owned and controlled by the people who use its products, supplies or services". In an earlier definition, Chayanov (1991:56) referred to a cooperative as an economic enterprise made up of several voluntarily associated individuals whose aim is not to obtain the maximum profit from the capital outlay but to increase the income derived from the work of its members, or reduce the latter's expenditure, by means of common economic management.

In all the definitions provided above, the central elements or common denominators are that cooperatives are business enterprises, collectively owned by members who use their services, and share the costs, risks and benefits. For the purposes of this study, the ICA definition was adopted.

### **2.2.2. Cooperative values and ethics**

Over and above the definition, the ICA in 1995 adopted the values and ethics of cooperatives. Accordingly, cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the words of Bello (2005:4), these values are regarded as the general norms that members of cooperatives, their leaders and staff share and determine their way of thinking and acting. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others (ICA, 1995). These are values of personal and ethical behaviour that members of cooperatives actualise in their businesses; it also describes the kind of people members of cooperatives strive to be and the qualities they hope to encourage through cooperation (Bello, 2005:4).

### 2.2.3. Cooperative principles

Over and above adopting the revised definition of cooperatives, the ICA also revised and adopted principles of cooperatives, which serve as guidelines by which cooperatives put their values into practice. The table below lists the seven principles and provides a detailed explanation of what each principle entails:

| Principle                           | What it means  |
|-------------------------------------|--|
| 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.   |
| 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 organised in a democratic manner.  |
| 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. They 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 the 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. |
| 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.  |
| Education, training and information | Cooperatives provide education and training for their members, elected representatives, managers, and employees so that they can contribute effectively to the development of their cooperatives. They inform the public - particularly young people and opinion leaders - about the nature and benefits of cooperation.   |
| Cooperation among co-operatives     | Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.   |
| Concern for community               | While focusing on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.   |

**Table 1: Principles of cooperatives (adapted from the ICA, 1995)**



#### **2.2.4. Economic importance of cooperatives**

Several authors have documented the significance of cooperatives in economic development. Bello (2005:1) points out that cooperatives represent a strong, vibrant and viable economic alternative in an era where many people feel powerless to bring about change in their lives. Operating in an increasingly competitive global economy, cooperatives provide a unique instrument for realising economic goals regardless of how big or small they are, where they are located or what their objectives are (Bello, 2005:5). Some of the goals or benefits of cooperatives include achieving economies of scale and scope, improving bargaining power, collective procuring of inputs, products and services, collective marketing of outputs, enhancing food safety and quality, improving access to finance and increasing income (Bello, 2005:5).

To demonstrate the economic value of cooperatives further, the ICA estimates a global membership of over 800 million people, and employment opportunities of over 100 million people worldwide (ICA, 2011:3). A publication commissioned by the ICA titled “The Global300” found that in 2008 cooperatives made a turnover of \$1.6 trillion (ICA, 2010:21). The purpose of the publication is to emphasise the important role of cooperative businesses in global economies. The Global300 list provides the top 300 cooperatives in both developed and developing countries in terms of turnover using US Dollars.

Ketilson *et al.* (1998:1) previously attested to the active role cooperatives play in Canada in shaping the economic, political, social and cultural reality of the province of Saskatchewan. The economic importance of cooperatives in this province is backed by the fact that in 1996, the total revenue generated by cooperatives was \$6.9 billion and together cooperatives controlled assets worth more than \$9.19 billion, with capital investment totalling \$124 million (Ketilson *et al.*, 1998:2). Four of the top 20 businesses in Saskatchewan were cooperatives and so were the two largest businesses during the same period (1996). In addition, agricultural cooperatives generated about \$4.3 billion revenue in the same period (Ketilson *et al.*, 1998:44). These statistics demonstrate the significant contribution of cooperatives to national economies.

In the United States of America (USA), research on the economic impact of cooperatives conducted by Deller, Hoyt, Hueth and Sundaram-Stukel (2009:2) revealed that almost 30 000 US cooperatives operated at 73 000 places of business throughout the country. Collectively, these cooperatives owned >\$3T in assets, and generated >\$500B in revenue and >\$25B in wages. Extrapolating from the sample to the entire population, the study estimated that cooperatives accounted for nearly \$654B in revenue, >2M jobs, \$75B in wages and benefits paid, and a total of \$133.5B in value-added income. Furthermore,

Americans held 350 million memberships in cooperatives, which generated nearly \$79B in total impact from patronage refunds and dividends.

In Ethiopia, Emanu (2009:1) indicates that recognition is given to cooperatives as important instruments for the socio-economic improvement of the community. They play a significant economic role in terms of earning foreign currency in the country. Collectively, four cooperative unions (coffee producers and marketers) generated a total \$104 154 838 by exporting 36 593.36 tonnes of coffee between 2000 and 2007/08, which was equivalent to 0.9 per cent of the Ethiopian Gross Domestic Product in 2006 (Emanu, 2009:15). In terms of employment creation, primary cooperatives in Ethiopia employed about 23 000 employees in 2007, while in the same period cooperative unions employed about 838 people bringing the total number of people employed by cooperatives to 23 838 (Emanu, 2009:17).

In Kenya, cooperatives are said to be found in almost all sectors of the economy and their key contribution to the development recognised by the state (Dyalvane, 2015:20). The Ministry of Cooperative Development and Marketing projected that 80 per cent of the Kenyan population obtained their income either directly or indirectly through cooperative activities in 2008 (Dyalvane, 2015:20).

Locally, the impact of cooperatives in the economy was outlined in a paper titled “The resuscitation of the Cooperative sector in South Africa” by Van Der Waldt (2005). In this paper, the author sees cooperatives offering a range of economic solutions. Van Der Waldt’s argument on the economic importance of cooperatives is premised on their ability to contribute to the lowering of purchasing prices and operating costs, as well as to achieve a more sustainable supply of products through the collective action. Amin and Bernstein (1995) also documented the economic contribution of cooperatives in South Africa. As stated in Satgar (2011:3), these authors cited the total annual revenue of R12.7 billion to have been generated by 250 cooperatives in 1993. Collectively, these cooperatives had total assets worth R22.5 billion, further illustrating the economic value of cooperatives.

### **2.2.5. Cooperative legislative framework in South Africa**

With the dawn of democracy in 1994, redressing the inequalities of the past in every sphere (political, social, or economic) became a key mandate of government. To this end, the Broad-Based Black Economic Empowerment Act No. 53 of 2003 (later amended by the B-BBEE Amendment Act No. 46 of 2013) was published as a comprehensive programme to provide the legislative framework for the transformation of the economy. The objective was to advance economic transformation and enhance the economic participation of black

people in the South African economy (DTI, 2003:5). Together with the B-BBEE Act, the Cooperative Policy was developed in 2004, followed by the Integrated Strategy on the Development and Promotion of Cooperatives in 2012. Titus (2014:22) indicates that the B-BBEE Act recognised the significance of cooperatives in advancing the objectives of the Act as vehicles through which potentially large numbers of people could engage in economic activities.

As pointed out by Sikuka (2010:29), prior to the Union of South Africa, the Companies Act served as a regulatory framework for cooperatives until 1908, when the first Cooperatives Act was promulgated (Cooperatives Societies Act of 1908). The creation of the Land and Agricultural Bank of South Africa in 1912 was one of the milestones after the Union of South Africa, and subsequently became a key developmental institution through its agricultural cooperatives financing programme (Sikuka, 2010:30).

The section that follows provides a chronological progression of legislation until the promulgation of the Cooperatives Amendment Act of 2013.

#### **2.2.5.1. The Cooperative Societies Act, (Act No. 28 of 1922)**

After the establishment of the Union of South Africa, the Cooperatives Societies Act No. 28 of 1922 was passed. The Registrar of Cooperatives was given the role of sifting through requests for registration to limit the incorporation of cooperatives with similar objectives. According to Sikuka (2010:30), the Registrar of Cooperatives was empowered and given an opportunity to adopt a homogenous approach to cooperatives and guide them in the same direction.

#### **2.2.5.2. The Cooperatives Societies Amendment Act, (Act No. 38 of 1925)**

In 1925, the Cooperatives Society Act No. 28 of 1922 was amended to facilitate the use of these enterprises as the only channel to market identified and selected commodities. Through the Marketing Act No. 59 of 1968, cooperatives were enabled to market certain commodities, such as ostrich and ostrich products, cotton, lucerne, hay and tobacco. This situation was criticised as it created monopolies (cooperatives) in the products identified. According to Wanyama, Develtere and Pollet (2009:5), parallel conditions existed in Kenya, Uganda and Tanzania involving products such as coffee, cotton and pyrethrum.

#### **2.2.5.3. The Cooperatives Societies Act, (Act No. 29 of 1939)**

In 1939, the Cooperative Societies Act No. 29 of 1939 was promulgated following the recommendations of the Commission of Inquiry into Cooperatives and Agricultural Credit in 1934 (Sikuka, 2010:31). Although the Act still emphasised agriculture, according to Ortmann and King (2007:45), it introduced Special Farmers Cooperatives.

#### **2.2.5.4. The Cooperatives Act, (Act No. 91 of 1981)**

The Cooperatives Act No. 91 of 1981 was promulgated in October 1981. It made provision for the formation, incorporation, functioning, winding up and dissolution of cooperatives, the appointment of the Registrar of Cooperatives, and incidental matters (RSA, 1981:201). Despite being an enabling legislation, cooperatives still enjoyed certain privileges; in particular, financial ones under other legislation, specifically the Land Bank Act and the Income Tax Act under the 1981 legislation.

Post-1994, a process of reviewing the cooperative legislation ensued, which culminated in the promulgation of the Cooperatives Act No. 14 of 2005. The review was informed by several shortcomings which Ortmann and King (2007:45) say included a larger focus on commercial agricultural cooperatives, inadequate definition, non-compliance with cooperative principles, complicated registration processes and inadequate protection of members' interest.

#### **2.2.5.5. The Cooperatives Act, (Act No. 14 of 2005)**

The Cooperatives Act No. 14 of 2005 was promulgated in 2005. The aim of the Act was to ensure the recognition and implementation of international cooperative principles, to enable cooperatives to register and acquire a legal status separate from their members, and to facilitate the provision of targeted support for emerging cooperatives, particularly those owned by women and black people. According to Titus (2014:22), the Act laid down a clear strategic approach to the promotion and development of cooperatives for South Africa.

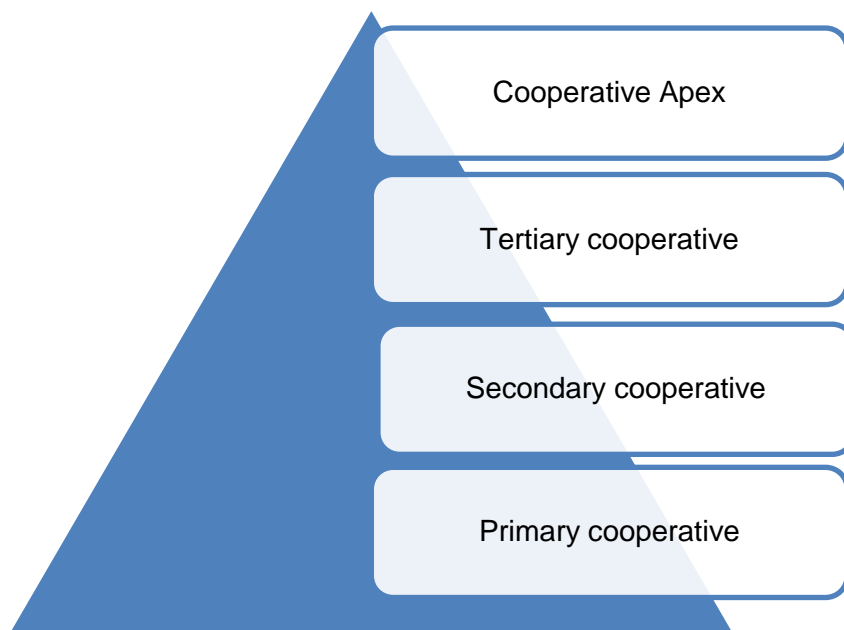
#### **2.2.5.6. The Cooperatives Amendment Act, (Act No. 6 of 2013)**

In 2013, the Cooperatives Amendment Act No. 6 of 2013 was promulgated to amend the Cooperatives Act No. 14 of 2005. Among others the Amendment Act made provision for the establishment of the Cooperatives Tribunal, it substituted the Cooperative Advisory Board (CAB) with the Cooperative Advisory Council (CAC), and it established the Cooperative Development Agency (CDA). The current legislative framework for cooperatives in South Africa makes provision for a four-tier pyramidal structure comprising of primary cooperatives, secondary cooperatives, tertiary cooperatives and a cooperative apex. These cooperatives are defined as follows:

- **Primary cooperative** refers to a cooperative formed by a minimum of five natural persons whose object is to provide employment or services to its members and to facilitate community development (RSA, 2005:4).

- **Secondary cooperative** means a cooperative formed by two or more primary cooperatives to provide sectoral services to its members, and may include juristic persons (RSA, 2005:6)
- **Tertiary cooperative** means a cooperative whose members are secondary cooperatives, and whose object is to advocate and engage organs of state, the private sector and stakeholders on behalf of its members, and may also be referred to as a co-operative apex in line with its sectoral or geographic mandate (RSA, 2005:6)

The following diagram is an illustration of the various levels of cooperatives in terms of cooperative legislation:



**Figure 1: Structure of cooperatives in South Africa**

### **2.2.6. Support mechanisms for cooperatives in South Africa**

Ortmann and King (2007:40) point to the use of cooperatives as institutions that could help enhance the development of small-scale farmers by the South African Government. The promulgation of the Cooperatives Act No. 14 of 2005 based on international cooperative principles, envisaged cooperatives playing an instrumental role in promoting economic and social development, particularly in creating employment, generating income, facilitating B-

BEE and eradicating poverty (RSA, 2005). As argued by Ortmann and King (2007:40), the promulgation of the cooperative legislation was indicative of government's firm commitment to providing a supportive legal environment for cooperatives.

Titus (2014:27) indicates that cooperative support mechanisms globally are guided by Recommendation 193 (R103), adopted by the United Nations in 2002, with South Africa becoming a signatory in 2003. The adoption of Recommendation 193 followed the recognition of the importance of cooperatives in creation of employment, resource mobilisation generation of investment and contribution to the economy. Recommendation 193 calls for countries to adopt measures to promote the potential of cooperatives, regardless of their level of development, in order to assist them and their members to create and develop income-generating activities and sustainable, decent employment (ILO, 2002).

Globally, this recommendation serves as a guide to governments, cooperative movements, employers, and labour movements on matters relating to cooperatives' identity and support (Titus, 2014:27). As a signatory, South Africa was guided by Recommendation 193 in developing its own policy documents, namely the Co-operative Policy (the Policy), the Integrated Cooperative Development Strategy for South Africa (the Strategy), the Cooperative Act No. 14 of 2005 (the Act), and the Cooperative Amendment Act No. 6 of 2013. All these policies and legislation provide a framework for supporting the development of cooperatives by all spheres of government, the business community, labour and the cooperative movement (Titus, 2014:27).

The Department of Trade and Industry (DTI) spearheaded the promotion and development of support programmes for cooperatives at a national level. In 2014, the mandate of small business development (including cooperatives) was moved to the newly created Department of Small Business Development (DSBD). In terms of the Integrated Strategy on the Development and Promotion of Cooperatives, the responsibility of promoting the development of cooperatives and collective entrepreneurship cannot be achieved by the DTI alone, but must involve a wide variety of the country's participants from both the public and private sector (DTI, 2012:59). Furthermore, the Strategy directs all national departments that have a responsibility to promote the development of cooperatives.

The National Small Business and Cooperatives Interdepartmental Coordinating Committee was set up as a platform/forum to coordinate sectoral inputs into the affairs of small business and cooperatives. The Director-General of the DSBD chairs the Committee and all national departments with a role to play are members of this Committee, which sits quarterly. Within

the DAFF, there is a dedicated Directorate of Cooperatives and Enterprise Development that promotes and supports cooperatives in the sector. The Cooperative Banks Development Agency (CBDA) was created by the National Treasury to promote and support Cooperative Financial Institutions (CFIs) and Cooperative Banks. The Cooperative Incentive Scheme (CIS) is one of the premier support programmes developed by the DTI to provide 100% grant funding to cooperatives.

Apart from the CIS, qualifying cooperatives can also tap into the financial support instruments offered as among others by the Industrial Development Corporation (IDC), the National Empowerment Fund (NEF), and the Small Enterprise Finance Agency (SEFA) as an agency of DSBD. The Small Business Development Agency (SEDA) was created as an agency of the DSBD, as well to provide business development and support services for small businesses.

The Cooperative Amendment Act, No. 6 of 2013 provided for new support mechanisms for cooperatives in South Africa. These included the creation of the Cooperative Tribunal to deal with conflict among cooperatives, the Cooperative Development Agency (CDA) to enhance capacity in cooperatives, and the substitution of the Cooperative Advisory Board (CAB) with the Cooperative Advisory Council (CAC) (RSA, 2013:2). In addition to the support offered by government institutions, Titus (2014:29) points to the role of international organisations with a presence in the country, which provides mostly technical and business development support and project implementation support to cooperatives. In this regard, organisations such as the International Labour Organisation (ILO), the German Cooperative and Raiffeisen Organisation (DGRV) and the Canadian Cooperative Association (CCA) are some of international organisations providing support to cooperatives in the country.

At a provincial level, the Integrated Strategy on the Development and Promotion of Cooperatives calls for provinces to formulate Provincial Cooperative Strategies coupled with support programmes that will be delivered through a one-stop-shop/agency for cooperatives (DTI, 2012:60). To this effect, Titus (2014:30) says that cooperative support/development programmes are championed by the Department of Economic Development in provinces. Equally, there is a Provincial Small Business and Cooperatives Coordinating Committee led by the Department of Economic Development and provincial departments with a role to play in cooperative promotion and support of members.

At a local level (municipal level), the Strategy directs municipalities to formulate implementation plans for cooperatives located within their Integrated Development Plans

(IDPs). Municipalities are also directed to develop support programmes for cooperatives and provide business infrastructure and information centres (DTI, 2012:60). These plans must be aligned with their respective provincial strategies and should form part of the integrated cooperative support system.

From the foregoing discussion, it is evident that support mechanisms for cooperative enterprises in South Africa permeate all spheres of government. The next section will focus on conceptualising rural development and linking it with smallholder farmers' cooperatives.

### **2.3. Defining rural development**

There is no universally accepted definition of rural development and this has led to the term being used in various ways and divergent contexts. Owing to varying rural spaces, their characteristics, needs, required interventions and opportunities, Gwanya (2010:21) asserted that there must be flexibility in defining rural development. As a result, it becomes imperative to ensure that guiding approaches and principles are developed that can be adapted to suit local needs and conditions. As the term suggests, rural development implies the overall development of rural areas aiming at improving the quality of life of rural people. Previously Anríquez and Stamoulis (2007:1) had pointed out that the battle of reducing poverty and hunger would be won or lost in the rural areas of developing countries. Despite increasing urbanisation, extreme poverty continued to be a rural occurrence globally (Anríquez and Stamoulis, 2007:7).

The definition of rural development has evolved over time owing to variations in the observed approaches of development. Several authors and organisations have provided different definitions of rural development (Chambers, 1983; Hatti and Rundquist, 1993; IFAD, 2016; Ogbeide, 2015; Singh, 1999). According to Anríquez and Stamoulis (2007:2), a reasonable definition of rural development would be, "...development that benefits rural populations, where development is understood as the *sustained* improvement of the population's standards of living or welfare".

Hatti and Rundquist (1993:383) defined rural development as a multi-dimensional process that involved extending the benefits of development to the rural poor. Building on this, Ogbeide (2015:97) referred to rural development as a term used to denote the actions and initiatives taken to improve the standard of living of rural and remote communities. This concept is significant as an instrument for targeting development programmes, and the allocation of and eligibility for funds from such programmes. Ogbeide (2015:97)



encapsulates rural development as a process of problem identification, analysis, and the proposal of relevant solutions.

Attempts by the International Fund for Agriculture Development (IFAD) (2016:23) and other more recent attempts have built on the work of the World Bank (1975 in Chambers, 1983:147), for whom rural development is a strategy designed to improve the economic and social life of a specific group of people (the rural poor). This group of people includes small-scale farmers, tenants and the landless. IFAD (2016) points out that rural development does not only relate to agricultural development, but also to human development and social and environmental objectives. In this context, rural development incorporates aspects such as health, education and other social services and uses a multi-sectoral approach for promoting agriculture, extracting minerals, tourism, recreation, and niche manufacturing.

Earlier, Singh (1999:2) referred to rural development as a strategy to enable a specific group of people (poor rural women and men) to obtain for themselves and their children more of what they want and need. According to Singh (1999:3), regardless of the geographic location, culture and historical stage of development of a society, there are three basic elements that constitute a true meaning of rural development. The elements are necessities, self-respect, and freedom. The author (1993:3) however cautions against equating development with economic growth and argues that, while it is an essential element of development, it is not the only one as development encompasses more than the material and financial aspects of people's lives.

According to Obidike (2011 in Ogbeide, 2015:98), the characteristics of rural communities include inadequate financial power and poor access to it. Often individual members in rural communities lack financial resources to establish businesses and create employment. It is within this context that the formation of cooperatives can play a crucial role in providing initial capital, while the existing ones qualify to apply for loans and grants from various agencies of government established to support cooperative development.

Munyua (2000 in Ogbeide, 2015:98) states that rural enterprises, such as cooperatives, use information accessed on the supply of inputs, new technologies, early warning systems (drought, pests, and diseases), credit and market prices to enhance their competitiveness. Such access to knowledge and technology is not only critical to cooperatives but to rural communities as well (Ogbeide, 2015:98). Cooperative societies from a rural development standpoint involve the mobilisation of local resources into a critical mass and its structure

allows it to be more community-oriented (Ogbeide, 2015:98). Table 2 on the next page illustrates the outcomes/benefits of cooperatives to rural development:

Conceptual framework for the assessment of the impact of cooperatives on rural development

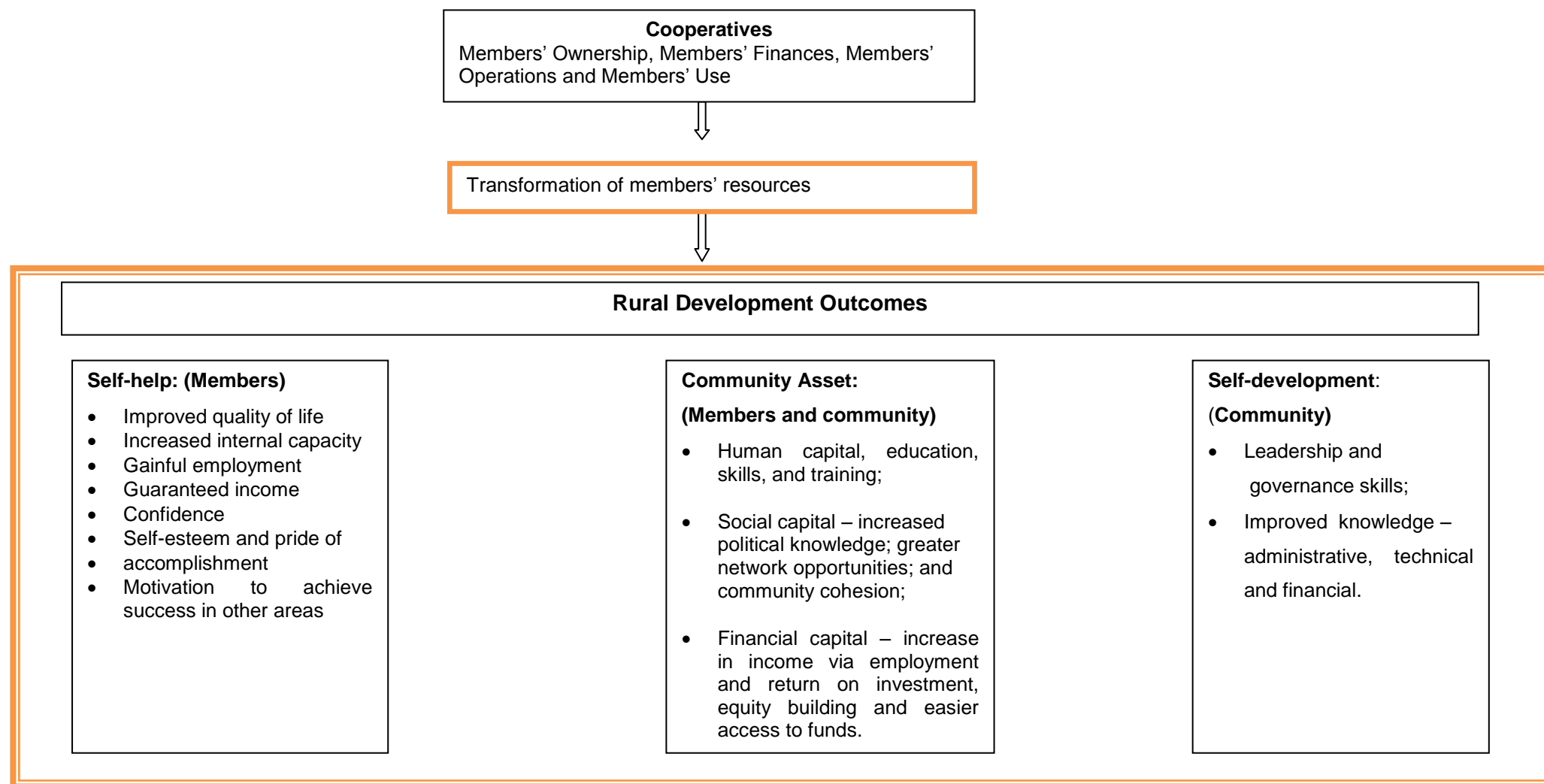


Table 2: Framework to assess the impact of cooperatives on rural development (Ogbeide, 2015:99).

#### **2.4. Conceptualising poverty**

According to the World Bank (2018:x), at the centre of South Africa's development policies and programmes, from the Reconstruction and Development Programme (RDP) in 1994 to the current National Development Plan (Vision 2030), is reducing poverty and inequalities. Rural development and poverty are inseparable. As described in the previous section, rural development is a process or a strategy whose objective is to improve the lives of the rural poor. It is within this context that this section is dedicated to the concept of poverty as it relates to rural development.

In conceptualising the concept, Richmond (2007:5) referred to poverty as a contested concept, with good reason. Concurring with Richmond, Mbuli (2008:4) pointed to the fact that there was no consensus on how to define poverty owing to the wide use of the concept. Current debates about poverty elicit complex and often contradictory assumptions about what people are supposed to need in order to live a minimally human life, the obligations between individuals and society, the relation between have and lack, ill-being, well-being and suffering, and about social life and individual agency (Richmond, 2007:5).

The commitment of fighting poverty in South Africa first found traction in the RDP (1994) and was later expressed in the NDP with the following statement: "No political democracy can survive and flourish if the majority of its people remain in poverty, without land, without their basic needs being met and without tangible prospects for a better life. Attacking poverty and deprivation will, therefore, be the first priority of the democratic Government" (NPC, 2013:24). However, the World Bank Report on Overcoming Poverty and Inequality in South Africa points to continuing high levels of poverty, inequality and unemployment (World Bank, 2018: x).

As indicated by Machete (2004:1), poverty is more pervasive in rural areas, particularly in the former homelands where the majority (65 percent) of the poor are found and 78 percent of those likely to be chronically poor. Commenting on poverty in developing countries, Ashley and Maxwell (2001:395) previously stated, "Poverty is not only widespread in rural areas, but most poverty is rural". According to Mbuli (2008:14), poverty is a multidimensional phenomenon that has different meanings for different people. Poverty can be described either as absolute or relative, as a lack of income, or failure to attain capabilities (Mbuli, 2008:20). In simpler terms, poverty refers to the condition of living below socially accepted living standards generally connected to suffering and the shortage of material needs (Letsoalo, 2015:15).

#### **2.4.1. Who are the poor?**

A report on overcoming poverty and inequality in South Africa produced by the World Bank in 2018 paints a country with a high level of income polarisation, characterised by a high concentration of low-income earners (regarded as the poor), very few rich people (high-income earners), and a small number of middle-income earners. According to an earlier discussion document by the Presidency (2008:48), there is an indication that in as much as poverty may affect a wide range of people in different circumstances, the most vulnerable groups includes older people, the unemployed, low-wage earners, women, and people with disabilities.

Moreover, Mbuli (2008:5) points to an existing relationship between poverty and factors such as race, age, gender, poor education and unemployment. In terms of race, May (1998 in Mbuli, 2008:5) argued that although poverty in South Africa was not confined to one racial group, it nonetheless had a high concentration among blacks. Similarly, the World Bank (2018:13) reports that black South Africans consistently exhibit the highest poverty rates and this is evident from the fact that 47 percent of households headed by black South Africans were poor in 2015 (World Bank, 2018:13). Race was also found to be a strong predictor of poverty, with the black race being chronically poor (World Bank, 2018:14).

In terms of age, Mbuli (2008:5) previously found that the youth and adolescents were more vulnerable to poverty owing to their heavy dependence on adults for provision of their basic needs. Poverty rates also tended to be higher among females, according to Mbuli (2008:5). Apart from gender, there was a strong correlation between poverty and the level of education and unemployment (Mbuli, 2008:5). According to the author (2008:5), the uneducated were likely to be susceptible to poverty. Similarly, unemployed people were vulnerable to poverty as they often lacked resources to acquire necessities (Mbuli, 2008:6). Finally, the author (2008:6) pointed out the relationship that existed between poverty and the lack of basic services, as poor households did not have the ability to access basic services.

#### **2.4.2. Where are the poor in South Africa?**

After exploring the issue of who the poor are, this section will attempt to locate the poor in the country. According to Mbuli (2008:4), poverty in South Africa had strong rural and regional dimensions. Rural areas had the highest poverty concentration and 60.3 percent of the poor were found in rural areas in 2006 (World Bank, 2018:16). As observed by Mbuli (2008:4), it was generally agreed that the majority of people living in rural areas were poor and at the same time, many poor people lived in rural areas; in fact, some 70% of people residing in rural areas were poor.

In terms of the distribution of poverty, evidence suggested that there was an uneven pattern in South Africa (Mbuli, 2008:4). This author (2008:4) cited the 2003 Human Development Report that stated that over half of the population in all provinces, with the exception of Gauteng and the Western Cape, lived in poverty, with Limpopo and the Eastern Cape with the highest number of people living in poverty. The incidence of poverty in these two provinces was estimated at 68.3% and 60.7% respectively (Mbuli, 2008:4). In Gauteng and the Western Cape, where the proportion of the population below the poverty line was lower, poverty rates were estimated at 20% and 28.8% respectively (Mbuli, 2008:4).

## **2.5. Measuring poverty**

Haughton and Khandker (2009:3-5) recognise the importance of measuring poverty for the purpose of keeping poor people on the agenda, identifying poor people and targeting them for interventions, monitoring and evaluating projects and policy interventions geared towards poor people, and evaluating the effectiveness of institutions whose goal was to help poor people. Poverty is measured using what is termed “Poverty Line”, which according to Richmond (2007:15) is a statistical representation of the value of all the goods and services considered necessary for either an individual or a household. The author (2007:15) states that once this value has been determined as a poverty line, it can be used to analyse the distribution of resources within a country using quantitative survey data in order to answer how many people in that country fall above the poverty line and how many fall below it.

According to Letsoalo (2015:21), in South Africa, StatsSA uses both one-dimensional and multi-dimensional approaches to measure poverty using income (consumption and expenditure). Three types of poverty lines are used to measure poverty: the Food poverty line (FPL), the Lower-bound poverty line (LBPL), and the Upper-bound poverty line (UBPL). In addition to the one-dimensional approach, StatsSA uses the subjective approaches, which include the self-perceived wealth question (SPVQ), the minimum income question (MIQ), and the income evaluation question (IEQ). For the purpose of this study, these concepts will not be explored in any depth.

### **2.5.1. Absolute poverty**

According to Rohwerder (2016:3), absolute poverty refers to the poverty level that is below an official line set at the “absolute standard of what households should be able to count on in order to meet their basic needs”. A person is said to be suffering from absolute poverty when he/she is unable to meet his/her basic needs, which include food, clothes, and shelter. The description of absolute poverty by Rohwerder is built on earlier work by Richmond (2007:24), which indicated that when the monthly salary of a household is insufficient to obtain necessities, such a household/family suffers from absolute poverty.

### **2.5.2. Relative poverty**

Previously, Hulme (2010 in Rohwerder, 2016:3) indicated that when poverty was defined in relation to other people in a particular society at the same time, such poverty was described as relative. In this context, there is an acknowledgement that people do not live in isolation but as part of a society, particularly in high-income countries. People are classified as poor not using the fixed poverty line, but comparison with others in the same society. Building on this, Letsoalo (2015:15) refers to poverty as being relative when people are considered to be poor in comparison to those around them; in this context, the definition of poverty changes over time and from place to place.

### **2.6. Smallholder farmers' cooperatives and rural development**

As stated by the FAO (2002), chronic food insecurity among the 27% undernourished African population is the result of climate change. Later studies by Chitongo and Magaya (2013:192) also highlighted the seriousness of food insecurity in most rural areas of the world, with climate change being one of the main causes leading to poverty. According to Chitongo and Magaya (2013:192), the challenges of poverty, under development and environmental degradation are intertwined, and are mainly caused by climate change.

The FAO (2011) has recognised the key contribution of agriculture to income and employment, particularly in rural areas. This is based on cooperatives' ability to improve the livelihoods of millions of smallholder farmers. The significance of agricultural cooperatives has been stressed by the Rome-based United Nations Agencies, such as the FAO, the International Fund for Agriculture Development (IFAD), and the World Food Programme (WFP). Quilloy (2015:362) affirmed the importance of farmers' cooperatives in rural development; in particular, their role in unleashing the potential of smallholder farmers to enhance productivity and livelihoods, as well as reducing poverty.

The International Labour Organisation (ILO) (2011:1) has also acknowledged the role played by cooperatives in rural areas where government services are lacking and private businesses are reluctant to venture into. Furthermore, cooperatives are key in employment creation and the provision of other critical services such as health care, education, and potable water. Quilloy (2015:362) has also attested to the challenges faced by smallholder farmers, limiting their ability to contribute to rural development. The author (2015:362) cited some of the inhibitors as poor access to natural resources, farm assets and markets, and inadequate knowledge and skills on farming systems. In overcoming these barriers, the mobilisation of smallholder farmers into farmers' associations and cooperatives was found to play a key role, particularly in terms of providing small farmers with enabling conditions for

their empowerment (Quilloy, 2015:362). This, in turn, would enhance access to production inputs, input and output markets, and other requirements for smallholder farmers to thrive.

Munteanu (2014:379) emphasised the significance of cooperatives in rural development, indicating that farmers who organised themselves in cooperatives had several advantages that improved their livelihoods. These included enhanced negotiating powers, prospects of success owing to increased volumes and other support facilities, as well as better profit margins. IFAD (2016) also recognised the importance of rural collective organisations, such as cooperatives, in bringing about inclusive rural transformation. According to IFAD (2016), these rural collective organisations or cooperatives provided structure for collective action in rural communities and several benefits accrued from this collective action, which in turn promoted inclusive rural transformation.

Trifan and Zeca (2017) observed the effectiveness of cooperatives in offering responses to global financial and economic challenges. In an earlier study, Zaimova, Zheliakaz and Gaidardjieva (2012:53) indicated that the decision by smallholder farmers to form cooperatives or other collective organisations was motivated by various aspects, with the economic motive at the centre in view of the anticipated financial gains.

### **2.6.1. Global context**

According to Yijun (2015:1), most people characterise rural China as poverty-stricken. The Chinese government saw the development of the rural economy and the industrialisation of agriculture as a solution to deal with poverty in rural China (Yijun, 2015:1). Owing to the limited capacity of farmers in China and in consideration of market competitiveness, the establishment of cooperatives was viewed as a mechanism to stimulate development in agriculture (Yijun, 2015:1). To regulate cooperatives in China, the national law on specialised farmers cooperatives was enacted in 2006 and came into effect in 2007 (Yijun, 2015:6). Song, Qi, Zhang, and Vernooy (2014:95) state that the 2007 cooperative law paved the way for collaboration among smallholder farmers to create economies of scale. The support offered through the legislation included VAT payment exemptions by cooperatives, either on inputs sold to their members or purchases from the cooperatives (Song *et al.*, 2014:96).

According to Yijun (2015:33), more than 730 000 farmers' cooperatives were registered in China by the end of 2013, with some 54 million members. Despite these milestones, cooperatives in China are not without their challenges. Yijun (2015:33) stated that the challenges included the quality of the services provided, which were said to be at primary



level, and as such needed to improve. In comparison with large cooperatives in other countries, Chinese cooperatives generally operated on a small scale.

Canada's agriculture is based on independently owned, family-operated farms (Shufang and Apedaile, 1998:5). Cooperation has always been a tradition in Canadian rural communities and has led to the formation of cooperative institutions, which afford smallholder producers an opportunity to earn better and steady incomes while contributing to rural modernisation (Shufang and Apedaile, 1998:5-6). According to these authors (1998), there has been consistency in farmers' cooperatives' growth and development in Canada, with major gains in business volume during the boom decades of the 1950s, early 1960s, and 1980s.

Aref (2011:38) presented proof of the role of rural cooperatives in poverty alleviation in Iran, despite a number of impediments. However, the contributory effect of rural cooperatives to poverty alleviation was minimal; this was attributed to the lack of organisational capacity and government policy.

In a study titled "Agricultural Cooperatives for Rural Development in Romania", Munteanu (2014:371) observed that there was a need for innovative strategies aimed at enhancing living conditions in the rural areas of Romania and Nepal. To this effect, the author (2014) proposed the creation of organic cooperatives, implemented by non-governmental organisations as a strategy. Despite evidence from literature affirming the significance of smallholder farmers' cooperatives in rural development, Mohammed and Lee (2014:34) caution that cooperatives in almost all parts of the world face similar challenges. The challenges, according to Mohammed and Lee (2014:34), include poor governance and uncommitted leadership. These challenges limit the ability of smallholder farmers' cooperatives to significantly contribute to rural development; thus, calling for appropriate interventions.

### **2.6.2. Regional context**

In Africa, the contribution of cooperatives to poverty reduction since liberalisation has been well demonstrated, as argued by authors such as Develtere, Pollet and Wanyama (2008). From a rural livelihoods perspective, the authors point to the existence of evidence supporting the notion that cooperatives contribute to job creation through capital mobilisation (Develtere *et al.*, 2008:16).

A study on cooperatives conducted by Calkins and Ngo (2010:561) in Ghana and Ivory Coast also demonstrated the positive impact of cooperatives in rural development in terms of

income generation and the health and well-being of the rural poor. Another study conducted by Nlerum and Ogu (2014:161) in Nigeria concluded that farmers' cooperative societies played a useful role in rural development at various levels. Furthermore, cooperatives united their members in tackling community problems, mobilised members to take part in other rural activities, and helped to train leaders who acted as drivers in other rural organisations (Nlerum and Ogu, 2014:161). Similarly, the role played by agricultural cooperatives in strengthening smallholder farmers in Rwanda to increase income and reduce poverty has not gone unnoticed, as articulated by Verhofstadt and Maertens (2014a:2).

In Ethiopia, agriculture is seen as the foundation of the economy of the country, considering the fact that 83% of the population live in rural areas (Mohammed and Lee, 2004:32). Cooperatives support smallholder producers and other marginalised groups to create sustainable employment in rural areas. In Zimbabwe, according to Mhembwe and Dube (2017:2), the economic downturn over the past two decades was mainly due to political instability, the disturbing impact of the HIV/AIDS pandemic, and the drought resulting from climate change. Owing to these conditions, the authors (2017) state that rural cooperatives have become crucial due to their potential to enhance food security, improve household incomes and increase employment opportunities.

As stated by Develtere *et al.* (2008:16), in the attempt to fight poverty, cooperatives are being offered as a solution due to the nature of the business model and its ability to combine business ventures with social virtues. This view was supported by Altman (2015:21), who highlighted the contribution of agricultural cooperatives to rural development, as vehicles of employment provision, food security, fairer income distribution, and potentially poverty alleviation in Africa.

### **2.6.3. South African context**

In South Africa, the Comprehensive Rural Development Programme (CRDP) approved in 2009 by the Cabinet became one of the country's key strategic priority areas in the Medium Term Strategic Framework Document (MTSF) (2009-2014). According to Sebiloane (2015:1), the aim of the Programme was to ensure that communities owned their destinies with the support of government to mobilise and empower them. In terms of the MTSF document (2009-2014), the third strategic priority area linked to the CRDP relates to the "Comprehensive Rural Development Strategy linked to land and agrarian reform and food security" (Presidency, 2009:19). One of the elements of this strategic priority area speaks to cooperative development, which seeks to ensure that the development of emerging cooperatives is adequately supported while encouraging and enhancing their role in the value chain (Presidency, 2009:22). This can be construed as an affirmation by the South

African government of the relationship between cooperatives, particularly those in agriculture, and rural development. This conviction and commitment to support and promote cooperatives as a strategy to support rural development did not only surface with the CRDP of the MTSF (2009-2014). Earlier, the Presidential Growth and Development Summit (PGDS), held in July 2003, endorsed special support measures for cooperatives as an effort to create jobs (Phillip, 2003:2).

Cooperative researchers, such as Phillip (2003) and Van Der Waldt (2005), have affirmed government's belief in the prospects of cooperatives to reduce poverty and create jobs. In the study titled, "The resuscitation of the Cooperative Sector in South Africa", Van der Waldt (2005) found that cooperatives have the ability to act as economic vehicles to increase the income for rural communities. According to Ortmann and King (2006:5), the development of South Africa's commercial agricultural sector can be credited partly to the role played by agricultural cooperatives in providing services, such as grain storage and transport, and as input suppliers and marketers of agricultural commodities. Wessels (2016:1) alludes to the prominence of cooperative promotion in various government documents and pronouncements aimed at fighting unemployment, poverty, and inequality. Furthermore, the National Development Plan (NDP) has also noted several benefits attributed to cooperatives, such as achieving economies of scale and establishing linkages to markets and value chains (Wessels, 2016:1).

Several studies have been conducted in South Africa focusing on a number of variables, including the contribution of agricultural cooperatives, and their performance, successes and challenges. Dlamini (2010) also conducted a study in the District of uMgungundlovu focusing of the elements constituting effective agricultural cooperatives. However, there has never been a study that focused on examining or assessing the contribution of smallholder farmers' cooperatives to rural development in the District. This study is an attempt to fill this gap by understanding the significance of smallholder farmers' cooperatives in improving the socio-economic conditions of rural communities in the District.

## **2.7. Constraints faced by smallholder farmers' cooperatives**

From the literature on the socio-economic importance of cooperatives, which is provided in Section 2.2.4 of this chapter, it is evident that cooperatives play a significant role in economic growth, job creation and poverty reduction globally. There is also consensus among several authors and institutions (Chibanda, 2009; COPAC, 2005; DAFF, 2011; Dlamini, 2010; Prakash, 2003; Twalo, 2012) that these enterprises face a myriad challenges, which prevent them from achieving their potential in contributing to economic growth, job creation and poverty reduction. As mentioned by Twalo (2012:12), challenges confronting

cooperatives include a lack of demand for their products, poor quality products, uncompetitive prices, the lack of business management and marketing skills and organisational and administrative skills, and poor teamwork skills.

Dlamini (2010:23-24) identified poor infrastructure and the poor provision of information to cooperative members by professionals, such as extension officers, as challenges faced by cooperatives. Low literacy levels was also a challenge as it led to poor networking with potential buyers and the inability to mobilise resources, and resulted in poor financial management (Dlamini, 2010:24). Wessels (2016:6) argues that the increase in the number of cooperatives in South Africa can be attributed to both political and administrative advocacy, more than people's desire to pursue economic objectives, resulting in government officials driving performance targets (the number of cooperatives established) and not paying attention to the business aspects. As a result, cooperatives are established without paying attention to the economic and business fundamentals. Some of the impediments confronting cooperatives as listed by Prakash (2000:2) include weak linkages, lack of communication, lack of resources (capital), and inadequate extension, training and education. In similar vein, poor management, lack of training, conflict among members and lack of funds appeared to be contributing factors as per the study conducted by Van Der Walt (2005:10) in Limpopo province, South Africa.

Analysis conducted by the Department of Agriculture, Forestry and Fisheries (DAFF) (2011:11) indicated that membership of cooperatives comprised of the elderly; this fact continuously weakened the management and governance of cooperatives. Attracting fresh and young professionals was a challenge to cooperatives, as pointed out by Veerakumaran (2007:22). In a study conducted by Rangarajan and Rangarajan (in Veerakumaran, 2007:22), it was found that only a small proportion of students pursuing professional courses were willing to join cooperatives due to the negative image of the sector and the low financial rewards (salaries) offered by cooperatives. The DAFF (2011:31) summarised the constraints facing cooperatives, which included the lack of access to finance, the lack of capacity, elite capture and male domination, the inability by cooperatives to scale up, and the lack of market access.

From the foregoing discussion, it is evident that, in as much cooperatives have demonstrated their ability to contribute to economic growth, job creation and poverty reduction, they are confronted by multiple challenges that stunt their development and limit their potential. This required targeted interventions aimed at addressing inherent challenges identified through various studies by several authors, as illustrated in this section.

## 2.8. Description of the study area

This section provides a brief description of the uMgungundlovu District Municipality, which includes the composition of the Municipality as well as the socio-economic profile of the District with a view of understanding the locus of the study. The section will first provide a map of the District, showing the local municipalities that constitute it, followed by a brief outline of the socio-economic status of the District.

# uMgungundlovu District Municipality










|   |  |   |  |
|---|--|---|--|
|  | <b>Mpofana<br/>Local Municipality</b>  |  | <b>uMshwathi<br/>Local Municipality</b>    |
|  | <b>uMngeni<br/>Local Municipality</b>  |  | <b>Msunduzi<br/>Local Municipality</b>     |
|  | <b>Impendle Local<br/>Municipality</b> |  | <b>Mkhambathini<br/>Local Municipality</b> |
|  |  | <b>Richmond Local Municipality</b>  |  |

Figure 2: Map of uMgungundlovu ([www.tikzn.co.za/open.php? Cat=investment\\_ma](http://www.tikzn.co.za/open.php?Cat=investment_ma))

### 2.8.1. Composition and population of uMgungundlovu District Municipality

uMgungundlovu is one of the ten district municipalities and one metropolitan municipality that make up the KwaZulu-Natal Province. The Ilembe, Umzinyathi, uThukela, Ugu and Sisonke District Municipalities and the eThekweni Metropolitan Area surround it. The District is located in the midlands region of the province; approximately 85km west of Durban. The next table reflects the population figures in the District:

| Municipality  | Population | Area (km <sup>2</sup> ) |
|---------------|------------|-------------------------|
| uMshwathi     | 106 374    | 1 924.55                |
| uMngeni       | 92 710     | 1 568.30                |
| Mpofana       | 38 103     | 1 679.37                |
| Impendle      | 33 105     | 947.9                   |
| Msunduzi      | 618 536    | 649.79                  |
| uMkhambathini | 63 142     | 766                     |
| Richmond      | 65 793     | 1 133.62                |

**Table 3: uDM population distribution (uMgungundlovu Growth and Development Plan, 2014)**

### 2.8.2. Socio-economic profile of the District

The District is one of the fastest growing areas in terms of both population and the economy. In 2001, the population was estimated at 932 131 people and the number increased to 1 017 763 people, according to the 2011 Census (uDM, 2014:85). In 2016, the population increased to 1 111 872 (uDM (2017:76). Okem (2016:8) noted the high levels of unemployment in the District, despite over half of the population being of working age. This was confirmed by uDM (2017:77), which reported unemployment levels of 29.1%. The majority of the unemployed were young people. Okem (2016:8) also found education levels to be very low; this was confirmed by uDM (2017:76), which noted that 24.6% of the youth completed Grade 12 in 2011 in a District where 38% of the population comprised of youth.

The District has a high prevalence of HIV/AIDS (Nel *et al.*, 2012:1), with infection rates of 42.3% in 2010, 39.8% in 2011/12, and 40.2% in 2016 (uDM, 2017:79). In terms of sanitation, 58% of the population had flushing toilets in 2016, while in the same period, 19.6% did not have potable water and used rivers, boreholes, rainwater-harvesting, springs and water vendors (uDM, 2017:76-77). Of the total population of the District, 45,6% lived below the Food Poverty Level (uDM, 2017:108). Of the seven local municipalities, uMsunduzi (with its seat in Pietermaritzburg) contributed 73% of the District's Gross Domestic Product (GDP) (uDM, 2017:110).

### 2.9. Conclusion

Rural development is described as a multi-dimensional process that involves the extension of development benefits to the rural poor. Globally, there is consensus that organisations such as cooperatives contribute to rural transformation due to their potential to provide instincts for initiating and stimulating growth, as well as providing a platform for the participation of rural communities in decision-making. The economic importance of cooperatives has been demonstrated in various countries. However, throughout history, the

cooperative business model has ebbed and flowed with successes and frustrations experienced in both developed and developing countries.

The literature places agriculture at the centre of rural development, owing to its potential to reduce poverty and create jobs in rural areas. For agriculture to thrive smallholder farmers have a role to play and as such they need to have better access to technology and improved technical efficiency, and easy access to extension services. Some authors argue that this could be achieved through collective efforts, which have seen a number of smallholder farmers' cooperatives established. Moreover, the significance of cooperatives in economic development has been documented by several authors.

The current legislative framework for cooperatives in South Africa makes provision for a four-tier pyramidal structure comprising of primary cooperatives, secondary cooperatives, tertiary cooperatives, and a cooperative apex. Cooperative support mechanisms globally are guided by Recommendation 193 (R103), which was adopted by the United Nations in 2002, with South Africa becoming a signatory in 2003. This Recommendation calls for countries to adopt measures to advance the interests of cooperatives globally.

As professed by several authors, cooperative enterprises are confronted by a myriad of challenges hampering them from achieving their potential of contributing to economic growth, job creation, and poverty reduction. Modern development literature points to a number of challenges for the future of cooperatives and for cooperative policy, as well. Rural producer cooperatives face the challenge of attracting young professionals due to the negative image of the sector and the low financial rewards (salaries) offered by cooperatives. This being the case, efforts are being made by various role players in the cooperative sector to ensure adequate support to enhance their sustainability in view of their potential role in rural development.

The next chapter provides a detailed account of the methodology followed to conduct this research.

## **CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY**

### **3.1. Introduction**

This chapter presents the research methods applied in this study, as well as the design followed by the researcher in order to achieve the aims and objectives outlined in the first chapter. Furthermore, this chapter will discuss the population from which the sample was selected and the sampling techniques followed the nature of the data collected and the instrument used to collect the data, as well as how the data gathered was analysed and interpreted.

### **3.2. Research design**

Saunders *et al.* (2016:163) define research design as the plan that articulates a path to be followed in answering the research question(s). As postulated by Leedy (1997:94), the design is the plan for the study developed once the problem has been concretely formulated to provide a format for the detailed steps in the study. Bryman (2012:50) distinguishes between five different types of research designs: experimental design, cross-sectional or survey design, longitudinal design, case study design, and comparative design. A case study design was used as the plan to execute this research. Leedy (1997:157) refers to a case study as a type of qualitative research design in which a researcher explores a single entity or phenomenon. "The case" is bound by time and activity and, in the process, detailed information is collected using various data collection methods during a specified period.

As pointed out by Maree (2016:81) a case is generally a bounded entity, which could be either a person, organisation, behavioural condition, event, or other social phenomenon. According to Bryman (2012:67), the most common use of the term "case" is as it associates with the case study in a location, such as a particular community or organisation with emphasis on an intensive examination of the setting. The case of uMgungundlovu District Municipality was chosen as the study area with the aim of understanding the role played by smallholder farmers' cooperatives in rural development.

### **3.3. Study area**

The study was based in the District of uMgungundlovu in the KwaZulu-Natal (KZN) Province. The Ilembe, Umzinyathi, uThukela, Ugu and Sisonke District Municipalities and the eThekweni Metropolitan Area surround the District. It is located in the Midlands region of the Province (KZN), 85km west of Durban. Okem (2016:8) noted the high levels of unemployment in the District despite over half of the population being of working age. This was later affirmed by the District Municipality (uDM, 2017:77), which reported the unemployment levels to be at 29.1%. The majority of the unemployed people comprise of youth. Okem (2016:8) also found education levels to be very low; this was affirmed by the



District, which noted that 24.6% of the youth completed Grade 12 in 2011 (uDM, 2017:76). Of the total population of the District, 45,6% live below the Food Poverty Level (uDM, 2017:108). Of the seven local municipalities, uMsunduzi (with its seat in Pietermaritzburg) contributes 73% of the District's Gross Domestic Product (GDP) (uDM, 2017:110).

### **3.4. Population**

According to Banerjee and Chaudhary (2010:60), in the 19<sup>th</sup> century there was an endeavour by researchers to study the whole population. This became a tedious exercise, leading to the actual research suffering. As research evolved, researchers began to focus on small portions of the entire population, referred to as a sample, from which inferences are drawn about the entire population (Banerjee and Chaudhary, 2010:60).

Various scholars have defined "population" in different ways, but their definitions point in the same direction. According to Saunders *et al.* (2016:274), population is defined as the full set of cases or elements from which a sample is taken. Bryman (2012:187) refers to a population as a unit of analysis from which a sample is selected. The author (2012:187) adds that a population is the world components/units from which a subgroup is selected.

For this study, the population is all the smallholder farmers' cooperatives within the District of uMgungundlovu as they appear on the Cooperative Data Analysis System (CODAS) of the DAFF. According to the System, there are 83 smallholder farmers' cooperatives in the District and all these cooperatives constituted the population for this study.

### **3.5. Sampling**

Obtaining data from the population of all smallholder farmers' cooperatives in the District and subsequent analysis and interpretation of the data would not only have been challenging, but impossible, to realise given time constraints and the limited financial resources available to conduct this study. By selecting a sample instead of endeavouring to study the entire population saved time and money. However, Saunders *et al.* (2016:272) posit that it is possible to involve all units in the population in the study; such a study is called a census. The authors (2016) further indicate that a census can be conducted when the size of the population is small, there is sufficient time to execute the study, adequate resources such as finance, human and materials are available, and conducting the census is the sole objective of the study.

A sample is defined as a portion of a population or universe, which may not necessarily refer to a number of people but may also refer to the total quantity of elements that are the subject of the research (Etikan *et al.*, 2016:1). To this effect, Leedy (1997) previously suggested that a sample should be carefully selected so that, through it, it would be feasible for the

researcher to identify all the attributes of the population in the same relationship in the event that the researcher had chosen to study the entire population.

According to DePoy and Gitlin (2005:146), selecting a subgroup that can accurately represent the population is the reason behind sampling; the purpose is for the researcher to be able to draw conclusions about the population that are accurate by only studying the sample. Maree (2016:192) also points to the importance of selecting/drawing a sample that will make it possible to validate the generalisation of the results to the population.

### 3.5.1. Sampling size

Leedy (1997:210) asserts that as a basic rule of thumb “the larger the sample, the better”. However, the author (1997:210) also argues that such a generalisation often is not helpful for all researchers, particularly in instances where a researcher has to make practical decisions with respect to specific situations. It is within this context that the size of a sample is largely dependent on the extent to which the population sampled comes close to some of the attributes, such as the qualities and attributes, of the general population.

The sample size for this study comprised of 32 smallholder farmers’ cooperatives within the District that were supported with training and capacity building by the DAFF in collaboration with the uMgungundlovu District Municipality. The sample was selected based on the cooperative’s potential to contribute to rural development, based on the support received. Table 4 below indicates the number of participating cooperatives and their location:

| Name of Local Municipality       | Town/Village                    | Number of cooperatives |
|----------------------------------|---------------------------------|------------------------|
| Richmond Local Municipality      | Inhlazuka, Nkumane and Phatheni | 6 cooperatives         |
| Impendle Local Municipality      | Lotheni                         | 4 cooperatives         |
| uMsunduzi Local Municipality     | Imbali and KwaShange            | 6 cooperatives         |
| uMngeni Local Municipality       | Lidgetton                       | 6 cooperatives         |
| uMshwathi Local Municipality     | Swayimane                       | 4 cooperatives         |
| uMkhambathini Local Municipality | Ntweka and Mdonini              | 6 cooperatives         |
| <b>Total</b>                     |                                 | <b>32 cooperatives</b> |

**Table 4: Number of cooperatives surveyed and their location**

### 3.5.2. Sampling techniques

Leedy (1997:24) states that the basic rule to be observed when one considers the methodology in relation to data relates to the fact that a researcher has to prudently look at

the nature, characteristics and quality of data to be able to appropriately select the methodology to deal with the data. To this end, Maree (2016:192) distinguishes between two categories within which sampling methods belong, namely probability and non-probability sampling.

Etikan *et al.* (2016:1) refer to non-probability sampling as a technique where the samples are gathered in a process that does not give all the participants in the population an equal opportunity of being included. It follows that randomisation is not that significant, but subjective methods are employed to decide on which elements are to be included in the sample. Etikan and Bala (2017:1) concur, pointing out that non-probability sampling techniques will not be a basis for any opinion of probability that elements in the population will have an equal opportunity of being included in the study. DePoy and Gitlin (2005:152) associate non-probability sampling with the use of non-random techniques to select a sample in which case members of the sample are not selected based on them having an equal opportunity of being included in the sample. There is no way that the researcher can forecast, estimate, or guarantee that each element in the population will indeed be represented in the sample (Leedy, 1997:204).

On the other hand, probability sampling refers to the opposite of non-probability methods. In this context, probability-sampling techniques refer to those methods that are based on the probability theory. It is based on the principle that the parameters of the population are known, with all members having an equal opportunity (DePoy and Gitlin, 2005:149). A distinguishing characteristic of the probability sampling technique lies in the fact that each unit in the population has an equal opportunity or probability of being selected (Etikan *et al.*, 2016:1). With probability methods, an objective mechanism is employed to select a sample (Maree, 2016:192).

This study adopted the non-probability sampling method (purposive sampling) to select the 32 cooperatives that were supported with capacity building and training by the DAFF in collaboration with the uMgungundlovu District Municipality. According to Etikan *et al.* (2016:2), purposive sampling is regarded as a deliberate selection of participants due to the qualities they possess. In this context, the researcher decides what needs to be known and goes ahead and selects participants willing to share information based on their familiarity and understanding of the subject being studied. Thus, the sample for this study was purposively selected, based on the participants' potential to contribute to rural development due to the nature of support they had received. This sample was considered a representative subset of the population in the study area.

### **3.6. Research methodology**

Once the research design (plan) is defined, the researcher needs to decide on the approach/methodology to be employed to execute the project. Kothari (2004:7) distinguishes between the concepts “research methods” and “research methodology”, describing research methods as all those methods and techniques used to conduct research, and methodology as a technique of solving the research problem methodically. This study employed the qualitative research approach in answering the research questions. The researcher mainly relied on the reality as constructed by the participants expressed in words (verbally).

#### **3.6.1. Qualitative research method**

In terms of qualitative research, Leedy (1997:105) points out that a researcher will normally begin with more general questions to gather extensive amounts of verbal data. This data is gathered from a smaller number of participants and the findings are presented in words reflecting the situation studied (Leedy, 1997). As Bryman (2012:380) puts it, the emphasis of qualitative research is on words as opposed to the quantification of numbers in collecting and analysing data. Kothari (2004:5) previously pointed out that the qualitative approach to research is mainly concerned with a subjective/judgemental assessment of attitudes, opinions and behaviour, and becomes the function of the researcher’s insights and impressions. Concurring with Bryman (2012), Maree (2016:53) also emphasised the reliance on linguistic (words) data in qualitative research, rather than numerical data.

#### **3.6.2. Data collection methods and strategy**

Once the research problem has been identified and the research design or plan created, the mission of collecting data commences. During the process of formulating a research proposal, the researcher must have some idea of the nature of the data and how such data will be sourced and interpreted to answer the research question (Leedy, 1997:115). Kothari (2004:112) suggests that in selecting the most appropriate method of collecting data, consideration should be given to many factors that include the nature, scope, and objective of the study, the availability of funds, time considerations, and the level of precision required by the study. Kothari (2004:95) further indicates that in making a decision on the data collection method to select for an enquiry, it is imperative for the researcher to bear in mind the two types of data that need to be gathered, namely primary and secondary.

##### **3.6.2.1. Secondary data sources**

Saunders *et al.* (2016:316) state that in the process of obtaining data to answer research questions, researchers are expected to consider carrying out further analysis of the data initially gathered for purposes other than their current project, which is classified as secondary data. Earlier on, Kothari (2004:111) described secondary data as referring to data already available. It could be gathered from various sources, which could be either published

or unpublished. For the purposes of this study, published sources such as books, journals, reports, and publications of various associations, scholarly reports and university dissertations/theses related to the topic were used to gather secondary data.

### 3.6.2.2. Primary data sources

When data is collected afresh for the first time by a researcher, such data is classified as primary and can be gathered using various methods that include observations, interviews, questionnaires, schedules and other methods (Kothari, 2004:95-96). Maree (2016:88) refers to primary data as data that has not been published, which the researcher has obtained/collected from participants or organisations directly. For this study, primary data was gathered through face-to-face interviews with selected participants. A structured questionnaire was used to conduct the interviews (**Annexure A**).

The face-to-face interviews were extremely useful in view of the high illiteracy levels among most respondents (the interviewees). In instances where respondents could not provide adequate answers, further probing was done to elicit more information. The principal researcher conducted the interviews with the assistance of two research assistants who were familiar with the study area.



**Figure 3: Assistant researcher explaining the letter of information to interviewees**

Bryman (2012:469) refers to the interview as the most commonly used means of gathering data in qualitative research studies, attributing this to its flexibility. Interviews involve the presentation of oral-verbal stimuli (questions) to elicit a reply in the form of oral-verbal responses (Kothari, 2004:97). Maree (2016:92) refers to an interview as a two-way conversation in which the interviewer asks participants questions to gather data, with the objective of learning about participants' ideas, beliefs, views, opinions and behaviours with the aim of attempting to see the world through their eyes, which could be a valuable source of information. Below is an example of a cooperative involved in tomato production in the uMsunduzi Local Municipality, which participated in the study.



**Figure 4: Example of a cooperative that participated in the study (uMsunduzi Local Municipality)**

### **3.7. Processing and analysis of data**

After collecting all the information, the primary action that needs to follow logically is to prepare and organise the data (DePoy and Gitlin, 2005:210). Data has to be processed and analysed following the outline laid down for the purpose at the time of developing the research plan. Kothari (2004:122) regards this as crucial for a scientific research as it assists in ensuring that all relevant data is available for analysis. According to Kothari (2004), when data is being processed, it is essentially being edited, coded, classified, and tabulated to ensure that it responds to the analysis process.

#### **3.7.1. Processing of data collected**

In preparation for analysis, the data collected for this study was edited to ensure accuracy and arranged accordingly to ensure a smooth coding and tabulation process. The edited data was coded by assigning certain marks/codes to the text to ensure that it was divided into meaningful units of analysis. Then the data gathered in the form of responses to questions posed to the participants was arranged into categories deemed appropriate to the research problem in question. Furthermore, the huge amount of data gathered was reduced into manageable homogenous groups that ensured that it was arranged into classes mainly based on common characteristics. Kothari (2004:123) refers to this process as data classification. Finally, the assembled data was summarised by the plotting of tables for further analysis through a tabulation process. Additionally, the data was translated into figures/graphs to amplify the textual information.

#### **3.7.2. Data analysis**

According to Leedy (1997:165), qualitative data analysis tends to be an inductive process of organising data into categories and identifying patterns or relationships among these categories of data. As posited by Maree (2016:109), the objective of qualitative data analysis

is to establish how participants make meaning of a specific phenomenon by analysing their perceptions, attitudes, understanding, knowledge, values, feelings, and experiences in an attempt to approximate their construction of the phenomenon. This process involves comprehending the various elements of the data collected to determine if any patterns or trends exist that can be isolated or identified. This is achieved through categorisation and manipulation, and it is summarised to obtain answers to research questions.

The data collected for this study was analysed using thematic and content analysis, summary tables and comparative analysis. The qualitative data gathered was subsequently transcribed and analysed thematically, after it was grouped into themes comprising of broad and specific categories.

### **3.8. Ethical considerations**

As this study had human beings as subjects, ethical issues were of concern to the researcher, particularly issues of responsibility, protection from harm, informed consent, privacy, anonymity, confidentiality, freedom from coercion and deception, and debriefing. All the data collection processes were in accordance with the ethical standards as provided for by the Research Ethics Committee of the Faculty of the Economic and Management Sciences of the University of the Free State and the approval granted (**UFS-HSD 2018/0684-Annexure B**).

Information letters on the project were given to all the participants and informed consent to participate in the study was signed by the participants and the researcher. The objectives of the study were clearly articulated in the informed consent and information letters and the respondents were informed that their privacy, anonymity, integrity, and confidentiality would be maintained. Moreover, the respondents were informed of their voluntary participation and the fact that they could withdraw from participation, should there be a need, without any fear of reprisal. Permission to use information relating to cooperatives, which was stored on the DAFF database, was sought and granted by the Director-General of the Department (as the accounting officer) (**Annexure C**).

### **3.9. Limitations**

This was a study of limited scope, which explored the following topic: “The role of smallholder farmers’ cooperatives in rural development focusing on the district of uMgungundlovu, KwaZulu-Natal Province”. One of the key limitations in conducting this study was the geographic location of the study area in KwaZulu-Natal, with the researcher based in Gauteng (Pretoria), which limited frequency of access to the study area. This required the meticulous planning and scheduling of appointments/interviews within a limited period with limited resources, as this study was self-sponsored.

The spatial distribution and location of the local municipalities involved in the study, coupled with a lack of adequate resources in terms of research assistants (field workers) to collect the data, was another limitation of this study. The researcher had to visit all the local municipalities spread across the District to collect data, which proved difficult in terms of time and the expenses involved.

Another limitation related to the low literacy levels among the representatives of the sampled cooperatives. At times, this forced the researcher to probe deeper in order to obtain more information from the participants. There was a general reluctance to disclose financial information, in particular, the financial support received from the government and other private funders. This was because of the fear or suspicion that such information, if disclosed, could jeopardise their prospects of obtaining additional financial support from the government in future. This challenge persisted despite it being covered in the information letter and the consent form.

Access to the areas where some of the respondents lived posed a challenge to the data collection process, particularly in the Richmond Local Municipality (Inhlazuka and Phatheni) as well as Impendle (Lotheni) where the access roads to the villages were gravel and the rough terrain made travelling faster difficult, if not impossible. This disturbed the schedule of interviews, resulting in some participants growing impatient and leaving the meeting venues. Thus, they had to be followed to their houses. In these instances, the normal times allocated for the interviews had to be reduced to allow the participants to continue with their normal household responsibilities.

A further limitation was the cultural differences between the respondents (Zulu) and the researcher (Pedi). Prior to conducting the study, the researcher had to familiarise himself with the respondents' backgrounds, values, culture, environment, spiritual beliefs and ethnicity, and the current issues and existing local institutions/organisations and their significance. This assisted the researcher to understand the dynamics that could affect the study and to respect what is regarded as sacred and secret by tradition. The fact that the researcher resided outside the geographic location of the study area and had a different cultural background was a limitation to the study.

### **3.10. Conclusion**

This chapter outlined in rich detail the research methods used in the study. The qualitative approach was used to examine the role played by smallholder farmers' cooperatives in rural development, with specific reference to the uMgungundlovu District Municipality. The non-probability sampling technique (purposive sampling) was used to select a sample representative of the population. Qualitative research methods were adopted by this project.



Both primary and secondary data sources were utilised, with interviews employed to collect the primary data. The data gathered was analysed using thematic, content and comparative analysis. A brief description of the study area was also provided.

In conclusion, the chapter clearly articulated how ethical issues were dealt with. Ethical clearance was obtained from the Research Ethics Committee of the Faculty of Economic and Management Science of the University of the Free State. In addition, permission was obtained to use departmental cooperative information from the DAFF.

The next chapter focuses on the presentation of the findings, and the interpretation and analysis of the data gathered in this study.

## **CHAPTER 4: DATA ANALYSIS AND DISCUSSION OF RESULTS**

### **4.1. Introduction**

This chapter presents and analyses the data gathered based on the methodology articulated in Chapter three. The study's findings are presented in thematic form. Main themes derived from the study include the basic description of the cooperatives, the nature of institutional arrangements in the cooperatives, their contribution to rural development, best practices adopted by these cooperatives, and the challenges they face in key operational areas. These challenges include ineffective leadership and governance issues, and the lack of transport, infrastructure and financial and general support, which hinder them from reaching their full potential and playing their role in rural development.

The identification of main themes provided an understanding of the difficulties that prevented the sampled cooperatives from effectively contributing to rural development. These findings are discussed in line with the literature review, the problem statement, and the research questions and objectives. The discussions below reflect the views of the participants, which were obtained through field work (the interviews).

### **4.2. Basic description and demographics of sampled smallholder farmers' cooperatives**

A total of 32 smallholder farmers' cooperatives across six local municipalities within the District of uMgungundlovu participated in the study. The chairpersons of the cooperatives were targeted to represent their cooperatives. However, not all the cooperatives were represented by their chairperson. In some instances, deputy chairpersons, secretaries, or treasurers stepped in due to a number of reasons, such as literacy levels, knowledge of the cooperative's history and its performance, and unavailability due to prior commitments.

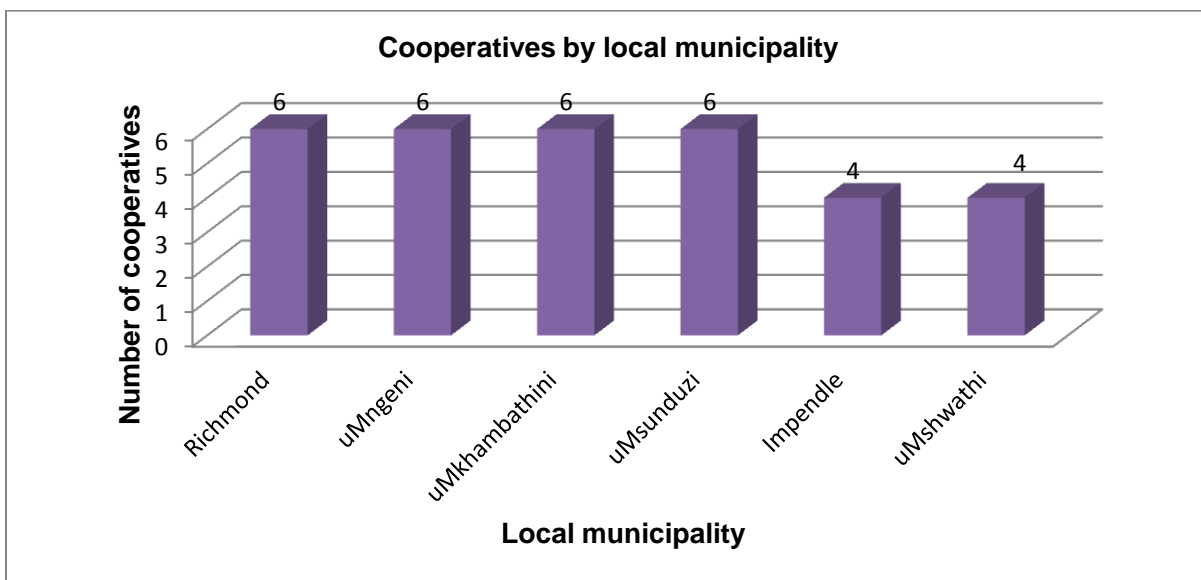
#### **4.2.1. Geographic spread of cooperatives within the District**

The cooperatives sampled in this study were all drawn from within the District of uMgungundlovu and spread across six local municipalities. Table 5 on the next page indicates the names and number of smallholder farmers' cooperatives that participated in the study, as well as their location:

| Name of Local Municipality   | Town/Village                    | Number of cooperatives | Names of participating cooperatives   |
|------------------------------|---------------------------------|------------------------|---|
| Richmond Local Municipality  | Inhlazuka, Nkumane and Phatheni | Six cooperatives       | <ul style="list-style-type: none"> <li>• Vezikhono Cooperative Limited</li> <li>• Fundukulinda Cooperative Limited</li> <li>• Siphamandla farming and Multi-purpose Cooperative Limited</li> <li>• Chibozumhlanga Cooperative Limited</li> <li>• Deda Ndlala Agricultural Cooperative Limited</li> <li>• Zizwezonke Cooperative Limited</li> </ul>            |
| Impendle Local Municipality  | Lotheni                         | Four cooperatives      | <ul style="list-style-type: none"> <li>• Ziwelele Cooperative Limited</li> <li>• Siphumelele Cooperative Limited</li> <li>• Emdaka Multi-purpose Cooperative Limited</li> <li>• Qalakabusha Farming and Multi-purpose Cooperative Limited</li> </ul>  |
| uMsunduzi Local Municipality | Imbali and KwaShange            | Six cooperatives       | <ul style="list-style-type: none"> <li>• Emaqandeni Egg Production and Other Projects Primary Cooperative Limited</li> <li>• Ixhiba Cooperative Limited</li> <li>• Siyavuna Buhlebemvelo Cooperative</li> <li>• Mpolweni Rural Women Cooperative</li> <li>• Thembekani Agricultural Cooperative</li> <li>• Sobantu Zimele Agricultural Cooperative</li> </ul> |
| uMngeni Local Municipality   | Lidgetton                       | Six cooperatives       | <ul style="list-style-type: none"> <li>• Masisekelani Cooperative Limited</li> <li>• Amahlathini amabili Cooperative Limited</li> </ul>   |

|                                  |                    |                        |   |
|----------------------------------|--------------------|------------------------|---|
|                                  |                    |                        | <ul style="list-style-type: none"> <li>• Unqobizwe Cooperative Limited</li> <li>• Isibopho Primary Cooperative Limited</li> <li>• Elokusa Primary Cooperative Limited</li> <li>• Buhle Bezwe Cooperative Limited</li> </ul>   |
| uMshwathi Local Municipality     | Swayimane          | Four cooperatives      | <ul style="list-style-type: none"> <li>• Ingululeni Cooperative Limited</li> <li>• Idudusi Primary Cooperative Limited</li> <li>• Mpolweni Rural Women Cooperative Limited</li> <li>• Mashayinyani Primary Cooperative Limited</li> </ul>   |
| uMkhambathini Local Municipality | Ntweka and Mdonini | Six cooperatives       | <ul style="list-style-type: none"> <li>• Minenhle Agricultural Cooperative Limited</li> <li>• Ngezandlazethu Cooperative Limited</li> <li>• Ingoqokazini Cooperative Limited</li> <li>• Vezukuhle Cooperative Limited</li> <li>• Senzokuhle Cooperative Limited</li> <li>• Swabuluka Cooperative Limited</li> </ul> |
| <b>Total</b>                     |                    | <b>32 cooperatives</b> |   |

**Table 5: Distribution of cooperatives by local municipality**



**Figure 5: Distribution of cooperatives by local municipality**

#### **4.2.2. Reasons for establishment of cooperatives**

A study conducted by Mhembwe and Dube (2017:2) into the role of cooperatives in sustaining the livelihoods of rural communities in Zimbabwe indicated that the Ministry of Small and Medium Enterprises spearheaded the development of cooperatives to sustain the livelihoods of rural communities through employment creations. It was anticipated that this would result in improved income and reduced poverty levels among communities.

In an article in *Farmers Weekly*, Erasmus (2017) suggests that when they function well, cooperatives have a role to play in assisting farmers to integrate into modern value chains through the provision of information and technical support, as well as through collective efforts (i.e. inputs procurement and marketing of commodities). The main reason for the establishment of cooperatives, as provided by the respondents in this study, was to fight poverty and create jobs; thereby improving the living standards of members and those of rural communities. Secondary to fighting poverty and creating jobs, the following were cited as the reasons for the establishment of cooperatives in the District Municipality under study:

- To contribute to economic development;
- Skills development;
- Collective sourcing of finance;

- Acquisition of training and capacity building collectively; and
- Community development through the supply of produce to vulnerable and poor households in the community.

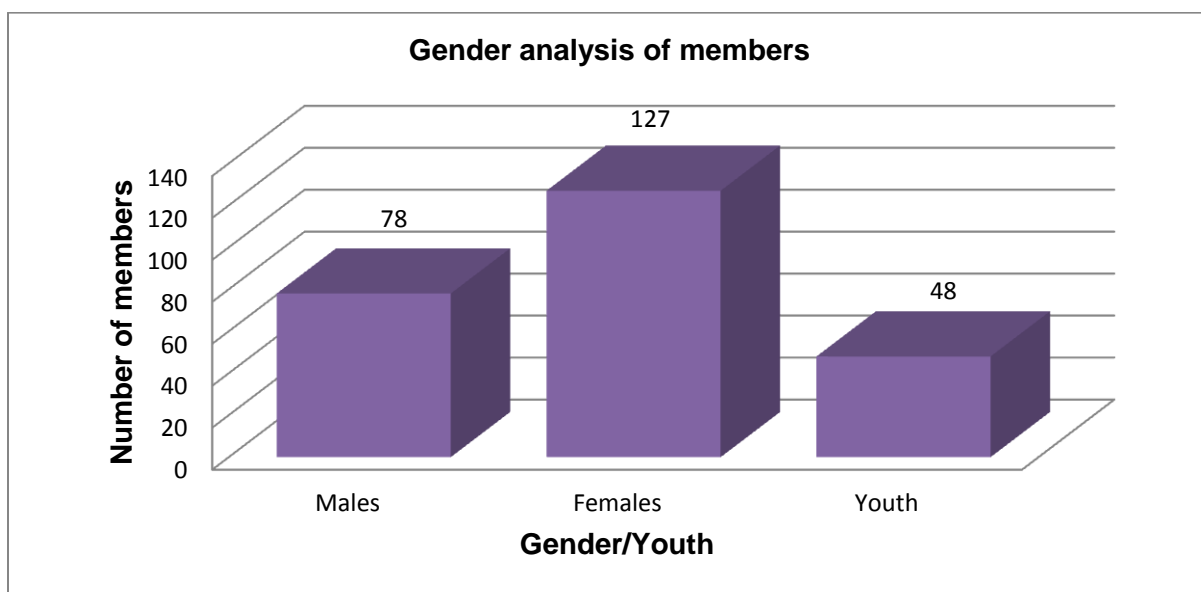
#### 4.2.3. Membership of cooperatives surveyed

Cooperative enterprises differ from conventional investor-owned businesses in the sense that they are wholly owned by members and the role played by these members determines their success or failure. A study conducted by Mzuyanda in 2014, whose objective was to assess the impact of primary agricultural cooperative membership on smallholder farm performance, found a positive relationship between cooperative membership and performance; although there was a need to implement certain development programmes to enhance member’s performance. Similarly, Verhofstadt and Maertens (2014b:3) found that in general, membership in cooperatives had a positive impact on different performance indicators on farms.

According to the DAFF (2015:7), membership is one of the crucial aspects without which cooperatives will not exist. It is members who shape the strategic direction of their cooperatives at the members’ annual general meeting. The table below indicates the total number of members in the cooperatives sampled broken down in terms of gender and youth:

| Number of cooperatives | Total number of members | Males | Females | Youth |
|------------------------|-------------------------|-------|---------|-------|
| 32                     | 205                     | 78    | 127     | 48    |

**Table 6: Membership in cooperatives surveyed**



**Figure 6: Membership in cooperatives surveyed**

Collectively, the 32 cooperatives surveyed had a total membership of 205, with an average of six members per cooperative. Of the 205 members, 78 were males, 127 females, and 48 youth. Nine of the cooperatives were female dominated, while two were youth dominated.

### **4.3. Institutional arrangements**

In terms of institutional arrangements, all the cooperatives indicated that their affairs were run by a Board of Directors (BOD) democratically elected at the annual general meeting of members, in accordance with the provisions of their constitution. However, contrary to standard business practices, only one cooperative reported to have a management team separate from the BOD. In all the other cooperatives, the BOD was responsible for the management of the day-to-day activities of the cooperative, over and above providing strategic direction and setting the vision for the cooperative. The reason for this was a lack of resources (funds) to appoint a management team separate from the BOD.

The BOD consisted of members only and no non-members were allowed to serve on the Board. When asked about this practice, one respondent anecdotally said, “We trust our abilities; hence, our BOD are all members”. From the interviews, it emerged that their constitution was well understood by the members of the cooperatives surveyed. In five cooperatives, the constitution had been translated in isiZulu (the vernacular in KwaZulu-

Natal). Another cooperative member responded by saying, “Our constitution is well understood as it was developed collectively by all members”.

#### **4.4. Contribution to rural development**

The study aimed to determine the contribution of smallholder farmers’ cooperatives in rural development in the District of uMgungundlovu, with the focus being on the socio-economic aspects of rural development. This section presents the results emanating from the interviews conducted with the representatives of the cooperatives surveyed.

All the cooperatives that participated in the study suggested that they contributed to economic growth through creating job opportunities, buying inputs locally, selling outputs locally, and employing local people who in turn spent their money locally, thereby enhancing local economic development. The cooperatives played a role in food security through the production of food and selling the food locally at reasonable prices, and the provision of income through wages and salaries for locals and their members. This ensured that communities were able to buy locally produced food close to them without having to travel long distances. In this way, even poor rural households had access to food produced locally.

By being members of cooperatives, the smallholder farmers indicated that their lives had changed for the better. The following benefits were highlighted:

- They were now getting salaries from their cooperatives to satisfy their needs;
- They had acquired some skills (technical/extension and business);
- They were offered a platform to network;
- One member had been able to send two of his children to university;
- They were able to buy basic foodstuffs;
- They could pay for social contributions; and
- They were creditworthy as they were able to honour their financial obligations.

The majority of the members indicated that their livelihoods were dependent on the income received from the cooperatives. Apart from this income, some members received an additional income in the form of social grants (old age and/or child grants). Others had short-term jobs elsewhere, over and above working in the cooperatives, while others



augmented their cooperative income by selling food such as chips, nuts and other consumables at local schools.

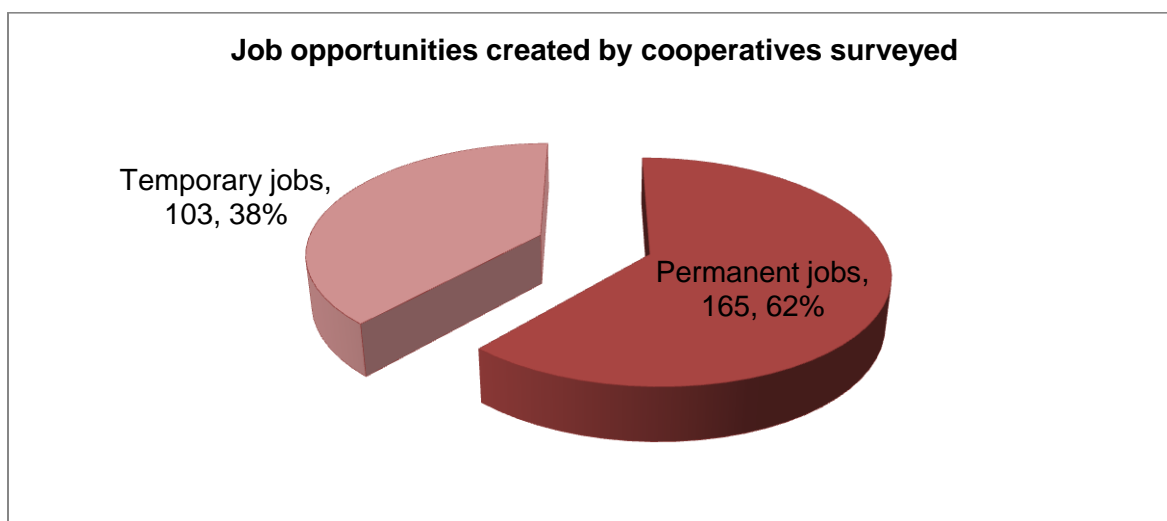
When asked if they would be able to sustain their livelihood should the cooperative collapse, many replied that it would be a struggle to survive without income from the cooperative. Other than social grants, there were no job opportunities in the District Municipality, particularly in the rural areas where the majority of the cooperatives surveyed were located. Members worked hard to ensure that their cooperatives did not collapse as they relied heavily on them for their livelihood.

Many of the sampled cooperatives operated on a small scale and did not have adequate resources to engage in community development initiatives such as infrastructure development projects. However, they were involved in charitable activities, such as donations of food to crèches, funerals, vulnerable households (child-headed) and traditional ceremonies. One cooperative provided meals to poor households and underprivileged people at least once a week. The cooperatives also mobilised other farmers in the area, clustered them, and created a platform to share and exchange information beneficial to smallholder farmers.

Owing to the fact that inadequate revenue was generated, cooperatives in the District had not been able to support students with bursaries. However, they provided opportunities for university students to do their experiential training with them and supported local pupils to learn farming skills from them as part of the school curriculum. None of the cooperatives surveyed provided retirement's benefits to their employees.

#### **4.4.1. Smallholder farmers' cooperatives and job creation**

Chavez Hertig (2009:1) reported that about 100 million jobs had been provided by cooperatives, as estimated by the International Labour Organisation (ILO). Cooperatives are the largest employers in countries such as Switzerland and the dairy cooperatives in India contribute jobs for 12.96 million families (Chavez Hertig, 2009:1). However, Babalola and Tihamiyu (2013:6) caution that while cooperatives can effectively create and maintain jobs in the urban and rural areas, most of them are not established to create jobs, but focus on the provision of economic services to their members. This study found that 268 job opportunities had been created by the participating cooperatives, as illustrated in Figure 7 on the next page:



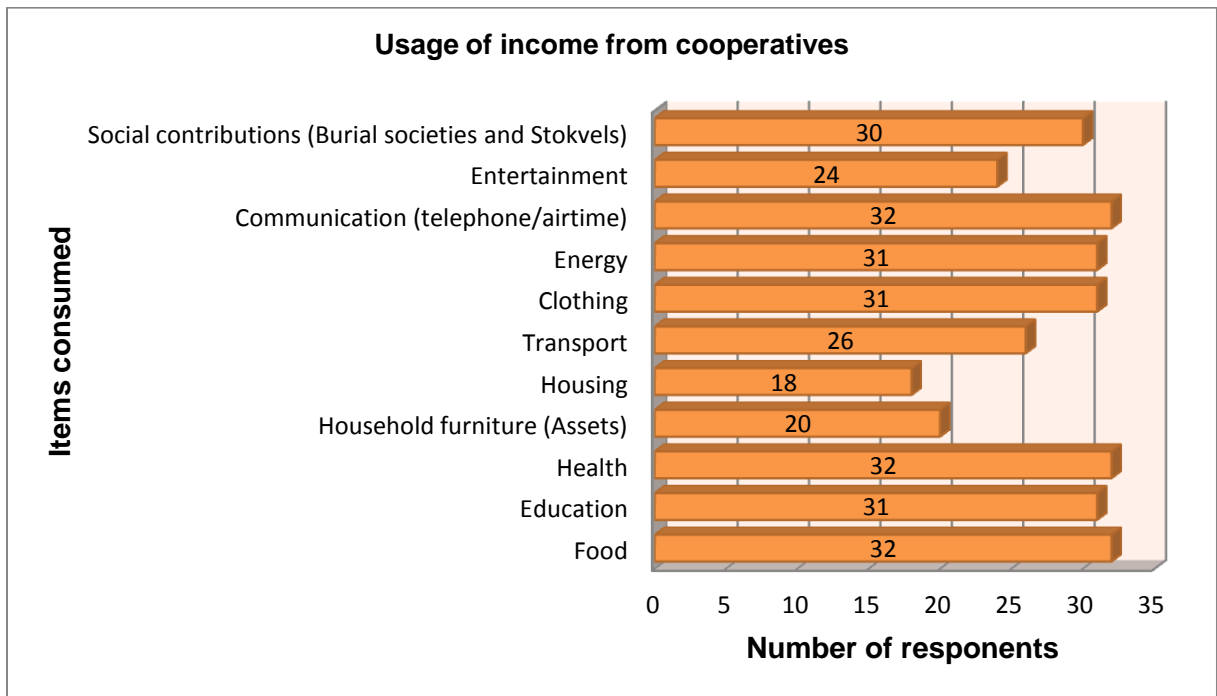
**Figure 7: Job opportunities created by cooperatives surveyed**

#### 4.4.2. How do members use the income derived from the cooperatives

The members of the cooperatives surveyed reported to receive an income either monthly or seasonally, depending on the farming activities they were involved in. This income was used for various purposes, as illustrated by Table 7 below:

| No | Item   | Number of members using income to buy this item | Percentage (%) |
|----|--|---|----------------|
| 1  | Food   | 32  | 100            |
| 2  | Education  | 31  | 96             |
| 3  | Health   | 32  | 100            |
| 4  | Household furniture (Assets)                         | 20  | 63             |
| 5  | Housing  | 18  | 56             |
| 6  | Transport  | 26  | 81             |
| 7  | Clothing   | 31  | 96             |
| 8  | Energy   | 31  | 96             |
| 9  | Communication (telephone/airtime)                    | 32  | 100            |
| 10 | Entertainment  | 24  | 75             |
| 11 | Social contributions (Burial societies and Stokvels) | 30  | 94             |

**Table 7: Utilisation of income derived for the cooperatives**



**Figure 8: Utilisation of income derived from cooperatives**

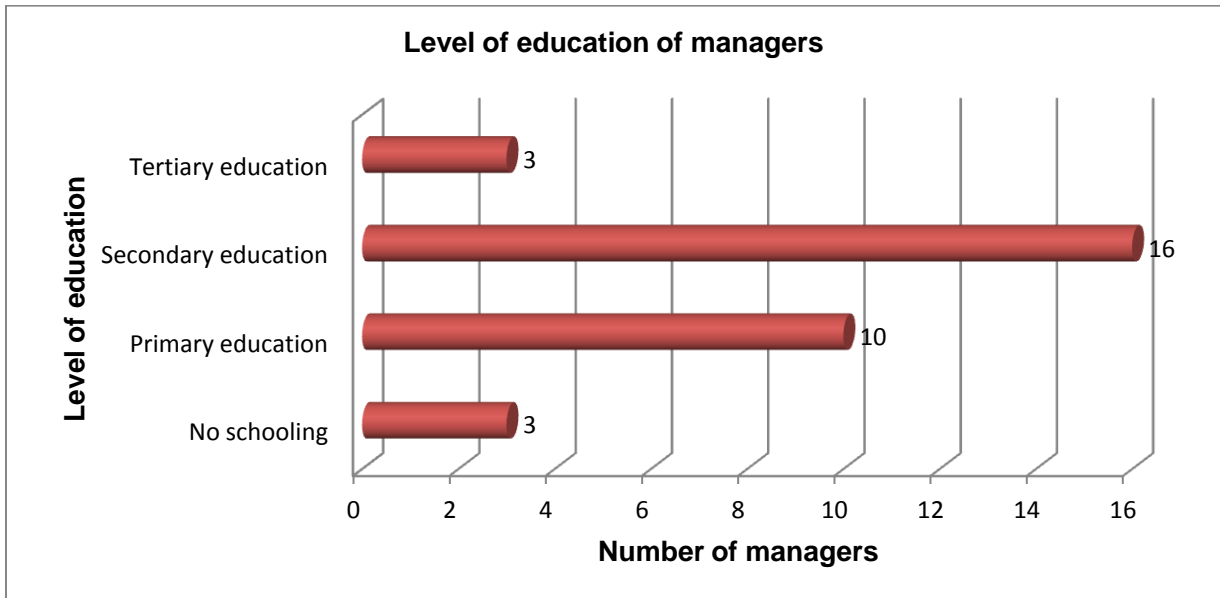
#### **4.5. Best practices**

##### **4.5.1. Management in cooperatives**

According to the DAFF (2015:9), there is a belief by cooperatives that management is a competitive asset for a company. Despite this belief, cooperatives battled to attract suitably qualified and experienced managers in general; this could be attributed to the perceived low or poor salaries/wages offered by cooperatives. The situation is not different in South Africa, and the following table bears testimony thereof:

| <b>Level of education</b>  | <b>Number of managers</b> |
|----------------------------|---------------------------|
| <b>No schooling</b>        | 3                         |
| <b>Primary education</b>   | 10                        |
| <b>Secondary education</b> | 16                        |
| <b>Tertiary education</b>  | 3                         |
| <b>Total</b>               | 32                        |

**Table 8: Level of education of cooperative managers**



**Figure 9: Level of education of cooperative managers**

#### **4.5.2. Capitalisation of cooperatives**

Like any other business, cooperative enterprises also require capital, which is generated in part through share investments of member-owners as well as debt and retained earnings. Generally, organisations have four options through which they can capitalise their businesses. The options include retained earnings, debt, equity and hybrid debt/equity (Uduma, Enimu and Otu, 2014:197). These authors (2014) further indicate that historically, cooperatives have focused on retained earnings, debt or equity.

Generally, smallholder farmers' cooperatives in South Africa have two options of financing their activities, namely internally or externally. Internally, cooperatives can be capitalised through equity (membership fees and subscriptions) or retained earnings. Externally, smallholder farmers' cooperatives can be financed through donor funding, grants and loans. As posited by Uduma *et al.* (2014:198), mainstream financial institutions, such as banks, generally offer lines of credit or loans legally secured by collaterals in order to minimise exposure to risk and maximise profit. In contrast, governments and donors generally provide credit, often at below market rates or provide grants motivated by socio-economic and political reasons.

As reported in the research methodology chapter, there was a general reluctance from the respondents to disclose information relating to financial support from either the government or the private sector, fearing that such a disclosure could jeopardise their prospects of obtaining further support in future. Of all the cooperatives surveyed, only seven were willing to disclose their financial information. Two cooperatives in the uMngeni Local Municipality had been supported by Toyota South Africa through grants for inputs, operations, and office furniture. The other cooperatives were supported through grants from the Department of Cooperative Governance and Traditional Affairs, the Department of Rural Development and Land Reform, the Eskom Foundation, the Department of Trade and Industry, and the uMgungundlovu District Municipality. Only one cooperative had been supported through a loan by Ithala Bank, which raises a question of sustainability among rural cooperatives.

#### **4.5.3. Types of machinery, equipment and buildings owned by cooperatives**

As the main producers of food in the world, Sims and Kienzle (2017:1) point out that smallholder farmers will have to increase food production by almost 100 percent to be able to feed the projected world population of 7.5 billion in 2050. To achieve this, the use of appropriate sustainable machinery (mechanisation) will be central to the process. The machinery to be used should be climate smart and environmentally friendly (Sims and Kienzle, 2017:1). These authors (2017) cite appropriate seeders and planters, as well as spacing instruments for the management of weeds.

However, the cooperatives surveyed were unable to practice sustainable farming as they did not have appropriate machinery and equipment. The only machinery some of them had was tractors and some working tools. Most of the cooperatives used the houses of chairpersons as their offices for the safe custody of the cooperatives' files and other related information. Those who benefited from land reform programmes had buildings and infrastructure on their farms.

#### **4.5.4. Utilisation of profits/surpluses from the operations of cooperatives**

Unlike in an investor-owned business where profits (dividends) are distributed to the members based on shareholding, the surpluses generated by cooperatives are distributed to the members based on patronage proportion. Patronage proportion refers to the proportion which the value of the transactions conducted by a member with a

cooperative during a specified period bears to the value of the transactions conducted by all members with a co-operative during the same period (RSA, 2005:4). Refunds based on patronage are a fundamental element of agricultural cooperatives, according to Royer and Smith (2007:1). This is one mechanism through which a cooperative returns earnings to members, based on use (patronage) (Royer and Smith, 2007:1).

In the cooperatives surveyed, the surpluses generated from the operations of the cooperatives were generally ploughed back into the business for expansion purposes and a portion was saved for unforeseen circumstances. In cases where the cooperatives generated sufficient surpluses, these were paid out to the members according to patronage.

#### **4.5.5. Record keeping**

As in other investor-owned businesses, it is important for the management of cooperatives to ensure that there are adequate, reliable and accurate accounting and recording systems. It is common practice for cooperatives and other investor-owned enterprises to use financial records as a yardstick to evaluate past operations and use that as the basis for decision-making on future projects. Cooperatives will also use financial records when they seek financial assistance from external sources, either in the form of grants or loans. Similarly, creditors will always scrutinise the financial records of cooperatives when considering applications for loan funding (United States Department of Agriculture, 1998:1). In order to prepare tax returns and financial statements, bookkeepers and accountants rely on the accurate records of the cooperative.

Although the cooperatives surveyed did not have a computerised accounting and recording system, they did have a basic bookkeeping system that recorded cash flow (money in-money out). Owing to the lack of adequate resources, most of these cooperatives did not have auditors/accountants to attend to their financial affairs, as prescribed by their constitution. Only two cooperatives had their financial statements audited by professional accountants/auditors. The reasons provided for non-compliance were a lack of understanding of auditing and the cost implications involved.

#### **4.5.6. Compliance**

In the context of this study, compliance refers to the appointment of an auditor by the cooperatives and the submission of annual financial returns to the South African Revenue Services (SARS) and the Companies and Intellectual Property Commission (CIPC). As discussed in the preceding section, there was non-compliance with the appointment of auditors by the cooperatives sampled.

##### **4.5.6.1. Auditing**

Section 47 of the Cooperatives Act (Act No. 14 of 2005) prescribes that the affairs of cooperatives be audited annually in respect of each financial year. It further provides that in the event that a cooperative is unable to afford the costs of engaging the services of an auditor, such a cooperative may apply for exemption under Section 55 of the same Act. As indicated in Section 4.5.5, only two cooperatives had appointed auditors to prepare their financial statements. Most of them were not aware of the provisions of Section 55 of the Cooperatives Act, which state that they can apply for exemption. Moreover, it should be noted that the cooperatives with auditors were also those that delivered to formal markets.

##### **4.5.6.2. Annual returns (SARS and CIPC)**

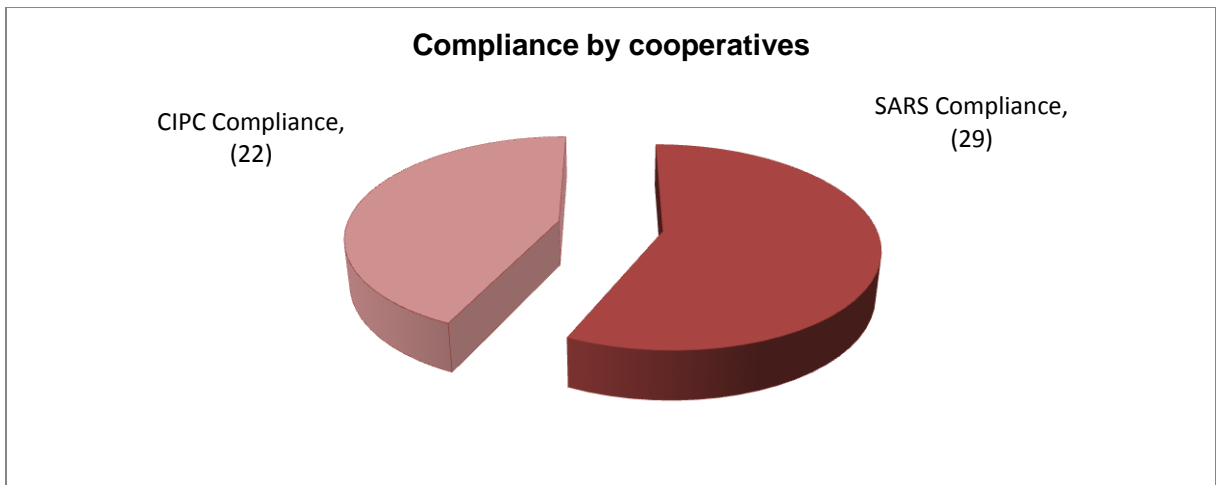
Like any other business that generates revenue, cooperative enterprises have to submit annual tax returns to SARS so that a determination can be made whether they have to pay tax or otherwise receive a refund based on the income threshold set by SARS. Similarly, according to the CIPC, cooperatives are required to send a copy of their annual financial statements to the Registrar of Cooperatives within 15 days after it has been approved and signed off. Section 39(1) of the Cooperatives Act (Act No. 14 of 2005) prescribes that a cooperative must notify the Registrar of Cooperatives in writing of the full names, address and identity number of each person appointed as a director, within 30 days of such appointment. The CIPC further prescribes that returns related to directors who have vacated their positions must also be provided; this must be done annually regardless of changes to the board.

Table 9 and Figure 10 on the next page illustrate the levels of compliance with SARS and the CIPC provisions on annual returns. Reasons for non-compliance were cited as a lack of information and knowledge on how to file returns and the assumptions that it was not a requirement to file returns with the CIPC. The high level of compliance with SARS

returns could be attributed to the fact that funders (grants and loans) often require financial statements and tax clearance certificates. Similarly, cooperatives are required to produce tax clearance certificates when they bid to supply certain formal markets, such as retail chain supermarkets. The non-compliance with the submission of annual returns could be attributed to what is contained in this statement by a respondent, “We are unable to file returns because we lack knowledge on how to do so and we also lack internet facilities.”

| Number of cooperatives submitting annual returns to SARS | Number of cooperatives submitting annual returns to the CIPC |
|--|--|
| 29   | 22   |

**Table 9: Compliance by cooperatives with SARS and CIPC (annual returns)**



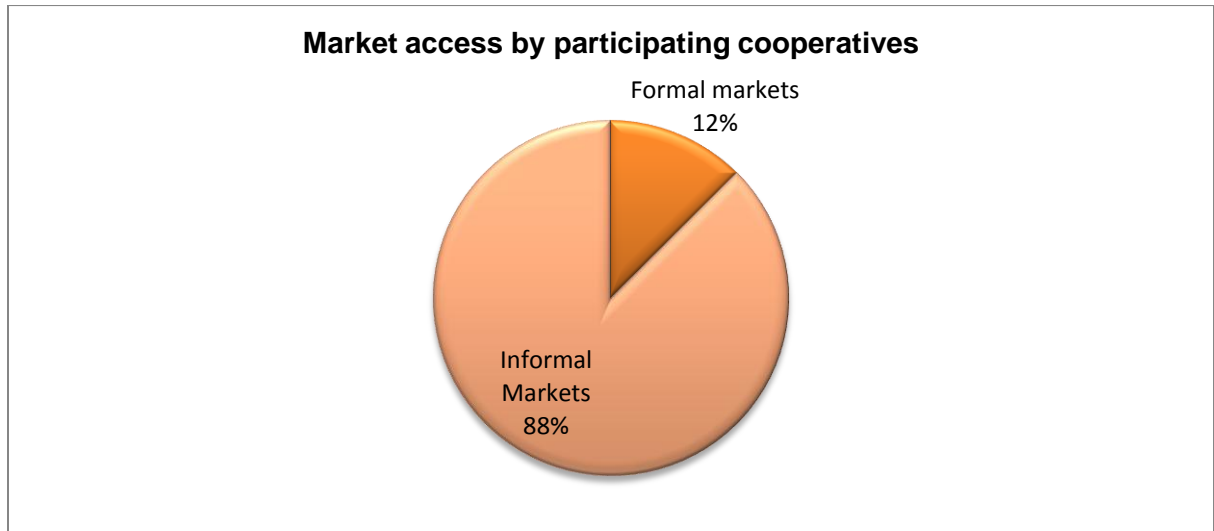
**Figure 10: Compliance by cooperatives with SARS and the CIPC (annual returns)**

#### 4.5.7. Market access

According to the DAFF (2015:25), through market access, the living standards of smallholder farmers improve and productivity increases. Markets can either be formal (contracts signed) or informal (no signed contracts). Only four of the 32 cooperatives sampled were found to be supplying formal markets, such as the Umkhondeni Market in Pietermaritzburg, Ethekewini Market, Capricorn and the School Nutrition Programme, while the rest supplied informal markets, such as the community, pension pay points,



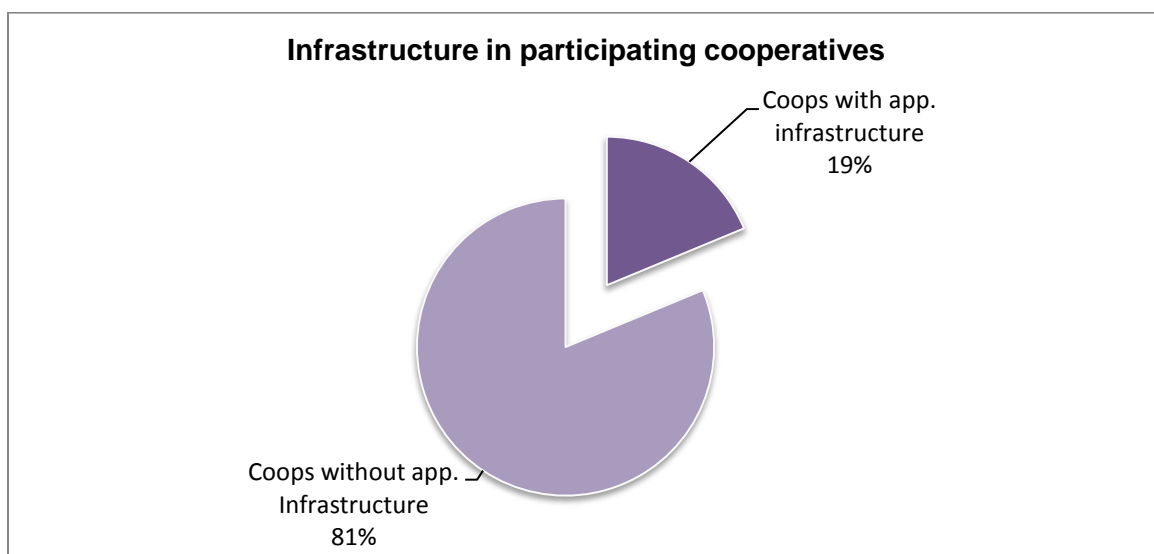
local shops, bakkie traders, schools and spaza shops. This is depicted in Figure 11 below.



**Figure 11: Market access by participating cooperatives**

#### **4.5.8. Appropriate infrastructure and logistics to support cooperatives**

As asserted by Patel (2014:1), rural infrastructure is essential in improving the quality of human life and hastening the process of agricultural development. The author (2014) however indicates that often infrastructure projects involve high capital investments, lengthy incubation periods and high risk, and sometimes they are characterised by low returns. According to Patel (2014:1), essentially rural infrastructure incorporates a range of services that facilitate production, procurement, processing, preservation and trade, and can be classified according to inputs (seeds, fertilisers, etc.), resources (irrigation systems, etc.), physical (road, transport, storage, etc.) and institutional (research, extension, technology, etc.).



**Figure 12: Infrastructure in participating cooperatives**

As depicted in Figure 12 above, six of the 32 cooperatives reported to have appropriate infrastructure and the requisite logistics to support their activities. Predominantly, these were the cooperatives that had benefited from the Department of Rural Development and Land Reform’s programmes, as well as those supported financially by Eskom, Toyota SA, CoGTA, DTI, municipalities and Ithala Bank. Despite being supported by these institutions, the cooperatives still reported inadequacy in terms of infrastructure. To illustrate the lack of appropriate infrastructure one respondent stated, “We use indigenous means for all our farming activities, including drawing water from wells”.

#### **4.5.9. Extension support**

As argued by Zwane and Kekana (2014:148), agricultural extension refers to a system of non-formal education for adults in rural areas, which is based on relevant content derived from agricultural, social and communication research synthesised into a body of concepts, principles and operational procedures. Neuchatel (2007 in Zwane and Kekana, 2014:147), asserted that well-designed extension services could potentially contribute towards improving production and land use, reduce poverty in rural areas, and bring about equitable economic development. As a form of business enterprise, cooperatives in agriculture can become sustainable through adequate extension support.

The study found that 20 cooperatives, which translated into 63%, received extension support. However, 12 of the respondents stated that they had not received any extension support. One respondent said, “We hardly receive support from the local agricultural office”, while another one stated, “Our extension officer is lazy”. This was corroborated by a third respondent who said, “We do receive extension support but the official is lazy and his support is not sufficient”. Thus, there is a need to reinforce extension support services to ensure that there is improved productivity, which will lead to improved standards of living of rural producers and their communities.

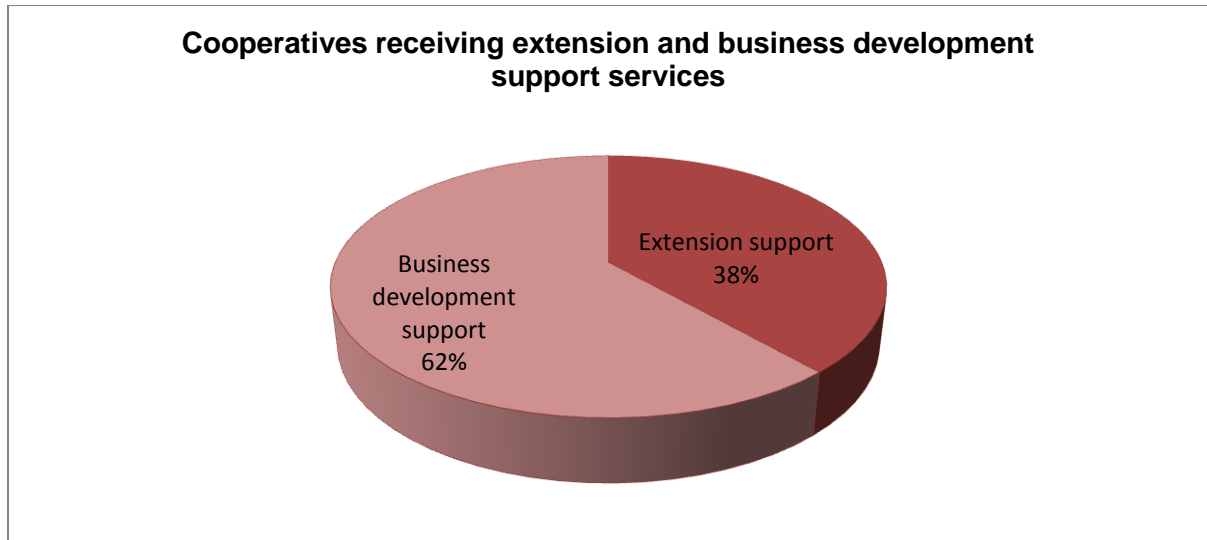
#### **4.5.10. Business Development support**

A study by Berhe (2009:ix) titled “Business Development Services for Cooperatives and Entrepreneurs: Experiences from Addis Ababa” indicated that once supported with business development services, cooperatives and other enterprises recorded remarkable improvements in income, bought more business equipment, engaged in more product diversification, improved sales and created more job opportunities. Berhe (2009:ix) defines business development services as one mechanism of business development, comprising of a wide range of non-financial services designed to support SMMEs to confront barriers, which result in increased profitability by improving productivity.

All the cooperatives that participated in this study received some form of business development support services, particularly from the DAFF through a programme called Farmtogether. This programme was designed to improve operational efficiencies in cooperatives by dealing with issues such as record keeping, financial management, conflict resolution, market contract negotiations, and making informed choices and investments. The sample for the study was purposively selected because they had been supported through Farmtogether training by the DAFF.

Over and above support by the DAFF, the respondents indicated that they had also received business development services from the Department of Rural Development and Land Reform (DRDLR), Amalgamated Banks of South Africa (ABSA), the Department of Public Works (DPW), Productivity SA, the National Development Agency (NDA), and the Provincial Department of Agriculture and Rural Development. These business development support services had largely assisted the cooperatives to keep records, identify community/local markets and negotiate contracts, and deal with internal

conflict among members. Figure 13 below illustrates the number of cooperatives that received extension support and those that were supported with business development support services.



**Figure 13: Cooperatives receiving extension and business development support services**

#### **4.6. Challenges faced by smallholder farmers' cooperatives**

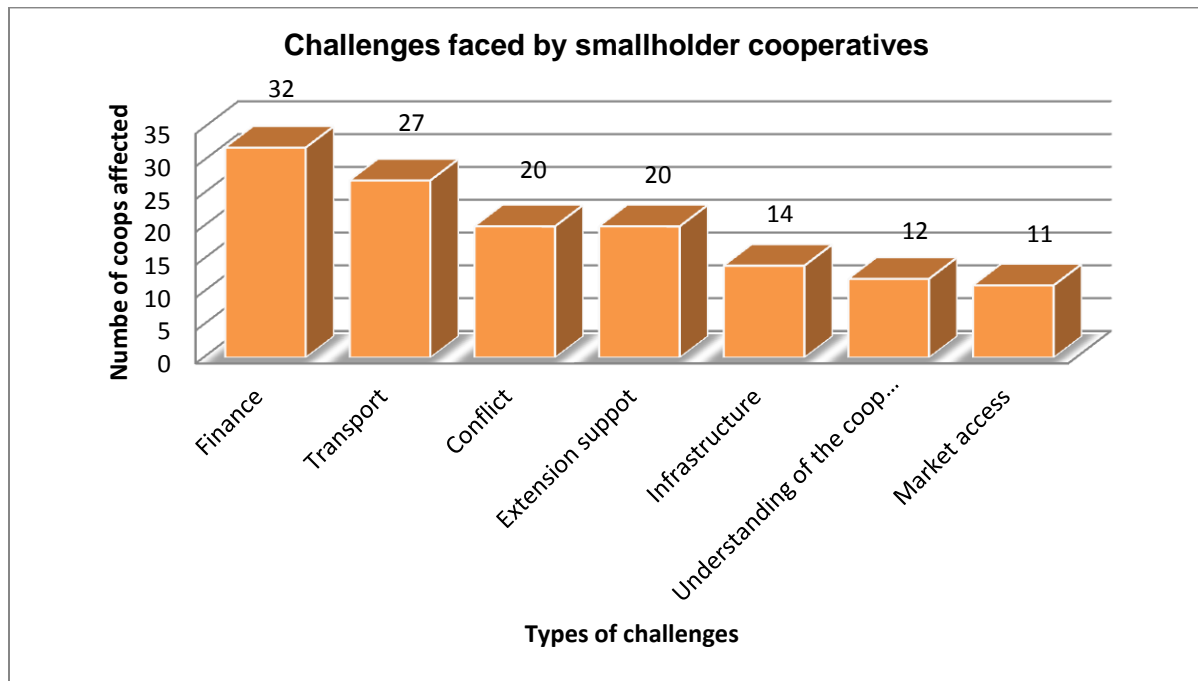
As posited by Barati *et al.* (2017:758), the role of cooperatives in sustaining rural livelihoods and fighting poverty has been reported by international organisations such as the ILO, ICA, UN and FAO. However, cooperatives are confronted by numerous challenges in sustaining rural livelihoods. These challenges have been extensively documented by several authors (Aref, 2011; Bello, 2005; Emanu, 2009; Dlamini, 2010; Gala, 2013; Longo, 2016; Ortmann and King, 2007; Simelane, 2011).

Generally, the challenges faced by cooperatives can be summarised in broad categories, which include financial access, market access, training and education, capacity building, conflict, technology and infrastructure. The DAFF (2011:31) listed elite capture and male domination, as well as the inability to improve their operations, as additional challenges confronting cooperatives and hindering their development. In a study on the role of agricultural cooperatives in food security in the Eastern Cape (the Nkonkobe Local Municipality), Dyalvane (2015:113) found that cooperatives in the area were challenged by a lack of transport, farming equipment and storage facilities, insufficient water supply, and inadequate farming land.

In this study, the respondents were asked a set of pre-determined questions and their responses were recorded. These questions covered several areas that potentially posed a challenge to cooperative development, which included the following:

Ineffective leadership and governance; a lack of transport and production and marketing infrastructure; group dynamics (conflict); low literacy levels; a lack of access to finance, value adding and processing opportunities, and market access; inadequate land; a lack of understanding of the cooperative business model; mismanagement of funds; a lack of financial management; and a lack of extension/technical support.

The challenges as provided by the respondents were ranked according to their prevalence and categorised in terms of the top and bottom seven, as illustrated by Figure 14 below and Figure 15 on the next page:

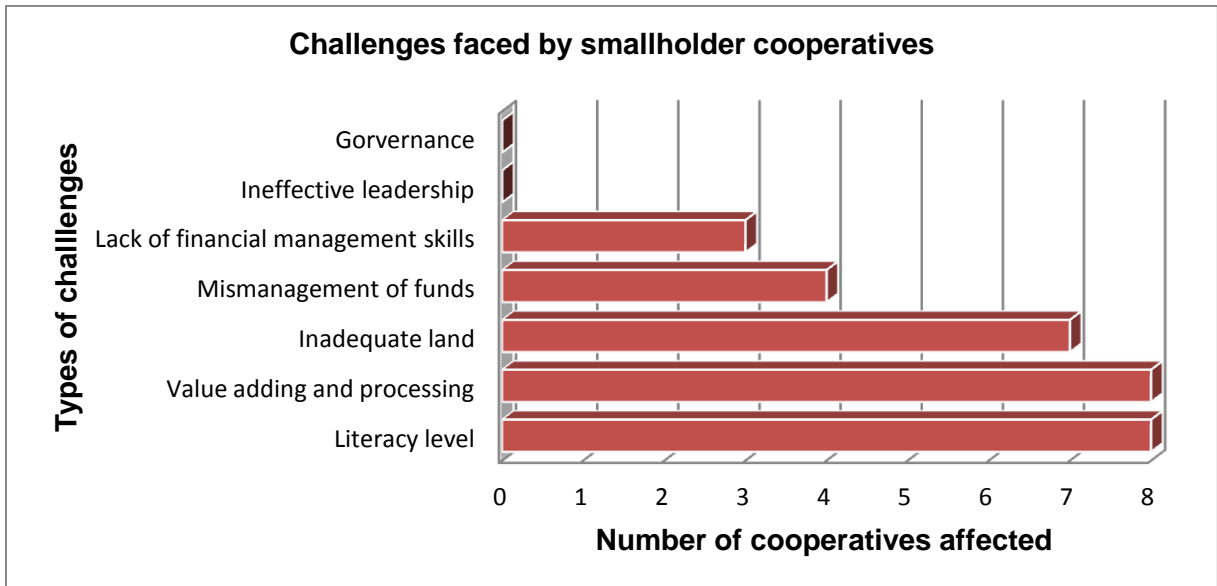


**Figure 14: Top seven challenges faced by cooperatives surveyed**

According to the figure above, 100% of the cooperatives that participated in the study indicated that they were all challenged by access to finance, followed by 84% that were affected by the lack of transport to take their produce to the market. To illustrate the challenge of a lack of transport, one respondent said: “We hire a bakkie on pay day to

take our products to pension pay points”. In terms of access to finance, another respondent said, “We need information on how to apply for funding from government”.

As expected with group enterprises, conflict was ranked third, with 63% of the respondents reporting to be challenged by internal conflict among members that threatened to ruin their businesses. The same number of respondents indicated that they did not receive sufficient extension support from the government. Production and marketing infrastructure, as well as a lack of understanding of the cooperative business model, also featured among the top seven challenges faced by the respondents, with 44% and 38% respectively. Thirty two percent of the respondents cited market access as a challenge.



**Figure 15: Bottom seven challenges faced by cooperatives surveyed**

According to figure 15 above, none of the cooperatives surveyed reported to be experiencing challenges with leadership and governance issues, which in a way are related. Effective leadership will ensure proper governance. Twelve percent of respondents experienced mismanagement of funds, while 9% were challenged by a lack of financial management skills. In terms of literacy levels and accessing value adding and processing opportunities, 8% of the respondents reported to be challenged in this area.

#### **4.7. General challenges**

Other than the challenges depicted by the two foregoing figures, the respondents cited other challenges. They included the theft of livestock allegedly by Lesotho nationals, particularly in the Impendle Municipality, the lack of adequate water supplies, inadequate land, the theft of crops by locals, the lack of infrastructure to draw water from the rivers, and their inability to meet market demands. Marketing, branding and the promotion of the respondents' products were also raised as a challenge.

#### **4.8. Conclusion**

This section focused on the presentation of the results of the fieldwork, and the discussion thereof. The section sought to respond to the objectives of the study as clearly articulated in the first chapter. The results indicated that job creation and poverty eradication, which result in sustaining the livelihood of members and that of local communities, were the main reasons for smallholder farmers to establish cooperatives in the District Municipality. The 32 cooperatives sampled had a collective membership of 205, averaging six members per cooperative, with 62 percent of members being female, 38 percent male, and youth constituting 23 percent.

In terms of their contribution to rural development, the study revealed that by being members of the cooperatives, the lives of the smallholder farmers in the uMgungundlovu District had improved as they were now able to earn salaries, acquire skills (technical and business), network, educate their children, buy food, pay social contributions, and improve their creditworthiness. A total of 268 jobs (165 permanent and 103 temporary) were created by the cooperatives. The study further indicated that the members of the cooperatives used the money they received from being involved in the cooperatives to pay for food, clothing, electricity, communication, healthcare, furniture, education, housing, entertainment, and social contributions.

In terms of management, the study found that the cooperatives did not have management teams separate from the Board of Directors and they were unable to employ full-time managers due insufficient resources. Financially, only seven cooperatives said that they had been supported through grants and one cooperative had been supported through a loan. The cooperatives relied heavily on informal markets in the District; this was evident from the fact that only four supplied formal markets. It

further emerged from the study that there was insufficient extension support by the Provincial Department of Agriculture in the area, with 63% of the respondents stating that they had not received support.

Through institutions such as the DAFF, the Department of Rural Development and Land Reform (DRDLR), the Amalgamated Banks of South Africa (ABSA), the National Development Agency (NDA) and Productivity SA, all the cooperatives involved had received some form of business development support. The following were identified as challenges confronting the smallholder farmers' cooperatives in the District: a lack of access to finance and markets, internal conflict, a lack of transport and extension support, a lack of production and marketing infrastructure, as well as a lack of understanding of the cooperative business model.

The next chapter provides concluding remarks and makes recommendations to assist cooperatives to play a meaningful role in rural development, based on the findings as reported in this chapter.



## **CHAPTER 5: CONCLUSION AND RECOMMENDATIONS**

### **5.1. Introduction**

Several authors (Barati *et al.*, 2017; Getnet and Anulo, 2012; Gertler, 2001; Gutiérrez-Rodríguez, 2011; Hatti and Rundquist, 1993; Mbanza, 2013; Ogbeide, 2015; Pinto, 2009) have articulated the role of smallholder farmers' cooperatives in uplifting the living standards of rural communities and subsequently reducing poverty. As observed by Barati *et al.* (2017:758), international organisations such as the Food and Agriculture Organisation (FAO), the United Nations (UN), the International Cooperative Alliance (ICA), and the International Labour Organisation (ILO) have also reported on the role played by cooperatives in poverty reduction. The significance of smallholder farmers' cooperatives in the creation of employment and the supply of services, such as health care, education and potable water, have also been recognised by the ILO. Previously, Calkins and Ngo (2010:561) acknowledged the positive impact of smallholder farmers' cooperatives on rural development in terms of generating income for rural communities, providing health care support, and generally improving rural livelihoods.

Furthermore, Verhofstadt and Maertens (2014a:2) attested to the poverty reduction and livelihood improvement role of smallholder farmers by smallholder farmers' cooperatives. Within the rural context, smallholder farmers are able to increase their income through cooperatives by collectively marketing their produce and securing inputs at discounted prices. As argued by Brown *et al.* (2015:163), one of the added benefits presented through the cooperative business model is the enhancement of local economic development through the circulation of smallholder farmers' income in the community by consuming goods and services sold and produced locally.

This section presents the conclusions of the study based on the literature review and the fieldwork. Furthermore, it makes recommendations on what needs to be done to ensure that smallholder farmers' cooperatives play a meaningful role in enhancing the livelihoods of rural communities.

### **5.2. Conclusions**

As articulated in the first chapter, the key objective of this study was to determine the contribution of smallholder farmers' cooperatives in improving the socio-economic

conditions of rural communities within the District of uMgungundlovu in KZN. The study's specific objectives were listed as follows:

- To preview the contribution of smallholder farmers' cooperatives to rural development globally;
- To identify the livelihoods of smallholder farmers' cooperatives in South Africa;
- To assess the role smallholder farmers' cooperatives play in the District of uMgungundlovu in KwaZulu-Natal; and
- To recommend best practices for smallholder farmers' cooperatives so as to enable their success.

Based on the review of literature on the topic, this study concluded that smallholder farmers' cooperatives globally do contribute to rural development, in particular to the upliftment of the living standards of rural communities (Barati *et al.*, 2017; Brown *et al.*, 2015; Gutiérrez-Rodríguez, 2011; Getnet and Anulo, 2012; Mbanza, 2013; Ogbeide, 2015; Verhofstadt and Maertens, 2014; Wanyama *et al.*, 2009). The study further concluded that locally, in respect of the locus of the study (the uMgungundlovu District), smallholder farmers' cooperatives played a significant role in enhancing the livelihoods of rural communities.

Evidence emerged that the livelihoods of many members of rural communities in the District depended on the income derived from the smallholder cooperatives. It is in this context that the study concluded that communities, particularly those in the rural areas could benefit by working together through cooperatives in view of the lack of other sources of employment in these areas. From the interviews conducted, the respondents indicated that the cooperatives played a role in job creation, poverty reduction, access to markets, economic empowerment, human capital development, the improvement of the creditworthiness of members, and the creation of platforms for networking.

The study concluded that smallholder farmers' cooperatives played an important role in improving the lives of the less fortunate in the District through donating surplus food to orphanages, the elderly and other vulnerable households, as well as to funerals. The study also concluded that cooperatives in the rural areas of the uMgungundlovu District

were the main source of income for smallholder farmers besides social grants. Evidence from the interviews indicated that in the absence of these cooperatives, smallholder farmers would struggle to sustain their livelihood. Apart from the income from the cooperatives, many farmers relied on social payments paid by the Department of Social Development. As most of the farming activities were seasonal, some members indicated that they augmented their cooperative income by doing casual jobs and selling a variety of consumables locally.

In terms of the reasons for the establishment of the cooperatives, the study concluded that the main reason for smallholder farmers establishing cooperatives was to fight poverty and create jobs, which in turn improved the living standard of the members and those of rural communities. Over and above this, smallholder farmers established cooperatives to contribute to economic development, skills development, access to finance, training and capacity development, as well as community development. The study also explored the participation of women in cooperatives and found that more women were involved than their male counterparts; this could be indicative of the concern of women for the welfare of their families.

Despite evidence emerging from the fieldwork on the role of smallholder farmers' cooperatives in the livelihoods sustenance of rural communities, the study concluded that many of these cooperatives faced many challenges, which limited their ability to effectively support rural development and enhance local economic development in the District. These challenges are summarised below:

- **Literacy levels**

From the interviews conducted, it emerged that most leaders of the cooperatives in the area were semi-literate, with only three of the 32 cooperatives having managers with post-matric qualifications. It is assumed that literate people have the ability to make carefully thought-out decisions and take calculated risks in farming to enhance productivity. Literate leaders are also able to network and source information that will assist in developing their cooperatives. Cooperatives in the District were unable to attract suitably qualified and experienced managers because of the perceived low or poor salaries/wages offered by them. These cooperatives operated on a smaller scale and did not have the financial resources to employ suitably qualified people.

- **Financial support**

The study concluded that access to financial support was a challenge for cooperatives in the District; hence, they were unable to adopt and adhere to good agricultural practices because of the lack of appropriate production and marketing infrastructure and logistics. The fact that only seven of the 32 cooperatives had been supported financially indicated the challenge facing smallholder farmers' cooperatives in accessing financial support.

- **Market access**

In order to increase income and improve the contribution of cooperatives to livelihood sustenance, smallholder cooperatives have to access high value markets. Evidence from the interviews revealed that only four of the 32 cooperatives supplied formal markets in the District, while the rest supplied local communities, bakkie traders and social grants pay points. Important here is that informal markets are not reliable or sustainable and could result in farmers suffering post-harvest losses due to not having buyers of their produce. The study therefore concluded that access to markets remained a challenge for smallholder farmers' cooperatives in the District.

- **Extension support**

As posited by Neuchatel (2007 in Zwane and Kekana, 2014:147), well designed extension service can potentially contribute towards improving production, land use and poverty reduction and bring about equitable development of the economy. A closer inspection of the interview response patterns indicated an interesting result, namely that extension support was inadequate. Based on this evidence, the study concluded that although 63% of the cooperatives interviewed did receive extension support, mainly from the KZN of Agriculture in the District, the support was either inconsistent, insufficient or inadequate.

- **Transport**

The availability of appropriate transport to bring the products of smallholder farmers to local markets is paramount in improving profitability and increasing income. Based on the evidence that 84% of the cooperatives sampled (27 of the 32) did not have transport to take their produce to their buyers (markets) and relied on hiring bakkies from the community, the study concluded that transportation of produce was a challenge for smallholder farmers' cooperatives in the District.

Lastly, despite all the challenges, the study concluded that cooperatives would continue to form an integral part of rural communities as they improved the inclination of smallholder farmers to sustain their livelihood and those of the rural communities within which they operated.

### **5.3. Recommendations**

Taking into consideration the findings of this study and the conclusions reached, the following recommendations are made:

#### **5.3.1. Aggregation (Clustering approach)**

Being collective organisations, if well managed, smallholder farmers' cooperatives can play a central role in pooling resources among members of rural communities to ensure growth and development. However, it is evident from the study that the smallholder farmers' cooperatives sampled faced numerous challenges, including a lack of transport, markets, access to finance, and appropriate infrastructure. Thus, it is recommended that these farmers consider clustering the existing producer cooperatives following the commodity based approach model per local municipality to address the challenges of market access.

As reported by Montiflor (2012:iii), aggregation will result in the consolidation of smallholder farmers' products and the delivery of produce to the market in bulk, thus saving on transport and transaction costs in the process. Aggregation of produce through the clustering process will provide greater advantages to smallholder producers and strengthen their negotiation position. Other benefits that could come with aggregation, according to Montiflor (2012:iii), included enhanced competitiveness, improved access to market information, technical and business support, and production and market linkages.

#### **5.3.2. Extension support**

Extension support was found to be insufficient and inadequate. In response to this, it is recommended that the KZN Department of Agriculture and Rural Development improve and expand the extension support provided to ensure that productivity is improved and income increased, resulting in the general improvement of smallholders' livelihoods. Adequate extension support will ensure adherence to good agricultural practices, which is essential for market access.

### **5.3.3. Compliance**

A lack of knowledge was identified as the reason for non-compliance, particularly with regard to the submission of annual returns to the Companies and Intellectual Property Commission (CIPC) and the South African Revenue Services (SARS). Hence, it is recommended that the Local Economic Development unit in the District Municipality, in collaboration with institutions such as the DAFF and/or the Provincial Department of Agriculture (PDA) facilitate workshops for smallholder farmers' cooperatives. Organisations such as SEDA, SARS and the CIPC should be invited to disseminate information on compliance (annual returns), business promotions, marketing and branding.

### **5.3.4. Production and marketing infrastructure**

If smallholder producers are to adhere to good agricultural practices, the pre-conditions for market access and the availability of appropriate infrastructure, technology and logistics are of utmost importance. It is recommended that the PDA and other stakeholders consider expanding support for smallholder farmers with appropriate production infrastructure and technology, as well as marketing infrastructure for the cooperatives through the Comprehensive Agricultural Support Programme (CASP) and other appropriate programmes. The PDA should take the lead in this initiative.

### **5.3.5. Forging strategic alliances (PPPs)**

Given the fact that smallholder farmers' cooperatives contribute to sustaining rural livelihoods through generating income, creating networking platforms and supporting vulnerable households, it is evident that this role should be enhanced and expanded in the future. Despite all the evidence of their contribution to rural development provided by this study, it should be acknowledged that cooperatives would not be able to do all the work alone. Hence, it is recommended that the government should drive public-private partnership initiatives, which involve smallholder farmers' cooperatives as key partners in rural development. It is anticipated that these partnerships will reduce the heavy reliance by rural communities on state social support contributions (grants).

### **5.3.6. Financial access**

Access to financial support by smallholder farmers has been found to be a challenge. Chimucheka and Rungani (2013:18) have identified the lack of collateral security, poor business plans, the lack of knowledge, and the lack of financial deposits as some of the

obstacles to accessing financial support by small businesses. From the interviews conducted, it emerged that most smallholder farmers' cooperatives lack information on how to access financial support. Thus, it is recommended that financial literacy workshops/sessions be facilitated by the DAFF in collaboration with the PDA and the uMgungundlovu District Municipality (LED section). Development financial institutions, commercial banks and other funding organisations should be invited to provide information on their product offerings and requirements, and on how to access these products.

Furthermore, it is recommended that smallholder farmers' cooperatives in the District explore the possibilities of establishing a Cooperative Financial Institution (CFI) and eventually a Cooperative Bank owned by all smallholder farmers in the District. This will assist in resolving the challenge of collaterals/security and ease the burden on the government to provide grant funding.

In conclusion, the results of the study provided information on the role played by smallholder farmers' cooperatives in sustaining the livelihoods of rural communities and unearthed specific challenges limiting the ability of the cooperatives to enhance performance, create jobs, and effectively contribute to economic growth. The study concluded by providing recommendations to policy makers and other stakeholders on how to improve the performance of these cooperatives. Once implemented, they were expected to yield a multiplier effect that included increased productivity and economic growth and a reduction in poverty in the rural areas where most of the cooperatives are located.

#### **5.4. Implications for future research**

The study focused on the contribution of smallholder farmers' cooperatives to rural development, specifically in the District of uMgungundlovu in the KwaZulu-Natal Province. The cooperatives that participated in the study were those that received support from the DAFF in the form of training using the Farmtogether agricultural cooperatives training programme, in collaboration with the uMgungundlovu District Municipality.

Future studies could explore a similar topic in other districts of the province, focusing on smallholder farmers' cooperatives that did not receive similar training as those in this study to determine if different outcomes would be arrived at. Should this be the case, it could be recommended that the Farmtogether training programme becomes an essential component of any smallholder farmers' cooperative development programme in South Africa to enhance their contribution to rural development.



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## Annexure A: Questionnaire for interviewing participants

### ANNEXURE A: STUDY QUESTIONNAIRE FOR INTERVIEWING SMALLHOLDER FARMER COOPERATIVES

TOPIC: THE ROLE OF SMALLHOLDER FARMERS' COOPERATIVES IN RURAL DEVELOPMENT: A CASE OF UMGUNGUNDLOVU DISTRICT MUNICIPALITY, KWAZULU-NATAL PROVINCE

#### SECTION 1: BASIC DESCRIPTION OF THE COOPERATIVE

- 1.1. What is the name of the cooperative:  
.....
- 1.2. Location: (Village and Local Municipality)  
.....
- 1.3. What are the reasons for establishment of the cooperative:  
.....
- 1.4. How many members? .....
- 1.5. Gender (Males.....Females.....)
- 1.6. How many youth? .....

#### SECTION 2: INSTITUTIONAL ARRANGEMENTS

- 2.1. Does the co-operative have a democratically elected board of directors? **Yes/No.** If no- how are they elected?.....
- 2.2. Do you have non-member directors serving on the board? **Yes/No.** If yes, why?  
.....
- 2.3. Does the board hold regular meetings and provide reports to members? **Yes/No.** If no why?.....
- 2.4. Does the board convene an annual general meeting of members? **Yes/No.** If no, why? .....
- 2.5. Does the co-operative have a constitution which serves as a guiding document for members? **Yes/No.** If no. why?.....
- 2.6. Is the constitution understood by all members? **Yes/No.** If no, how are you addressing this?.....

2.7. Does the cooperative have a management team separate from the board of directors? **Yes/No**. If no, why? .....

**SECTION 3: CONTRIBUTION TO RURAL DEVELOPMENT**

3.1. Is the cooperative contributing to economic growth and job creation in the District Municipality? **Yes/No**. If yes, how? .....

3.2. Is the cooperative contributing to poverty reduction in the area? **Yes/No**. If yes, how? .....

3.3. Has your life changed since becoming a member of the cooperative? **Yes/No**. If no-why? If yes-How?.....

3.4. Is your livelihood dependent on the income received from the cooperatives? **Yes/No**. If Yes, How?.....

3.5. Other than the cooperative, what other source of income do you have? e.g. social grants. Please list them.....

3.6. Should the cooperative fail/collapse, will you be able to sustain your livelihood? **Yes/No**. If yes, how? .....

3.7. Is the cooperative involved in any infrastructural project(s) in the community? **Yes/No**. If Yes, please list them.....

3.8. Is the cooperative involved in any charitable work in the community? **Yes/No**. If Yes please list them.....

3.9. Has the cooperative made any donation(s) in the community? **Yes/No**. If Yes please list them.....

3.10. Is the cooperative involved in organizing farmers that are unorganized/scattered around the district? **Yes/No**. If yes-how? .....

3.11. Is the cooperative involved in any child and elderly care support? **Yes/No**. If yes please elaborate .....

3.12. Has the cooperative offered any financial assistance towards education (Bursaries) for members children? **Yes/No**. If no, why and if yes-How many and the institution the beneficiaries have enrolled at and what does the bursary cover?.....



3.13. Has the cooperative offered any internship/leaner ships/experiential training opportunities to members of the community? **Yes/No**. If yes please elaborate.....

3.14. Is the cooperative offering benefits such as retirements to employees?.....

3.15. How many job opportunities have been created by the cooperative?.....

3.15.1. Permanent (.....) and Temporary (.....)

3.16. Do you derive any income from the cooperative? **Yes/No**. If no- why? If yes- Is it weekly, monthly, annually or other. Please elaborate. ....

3.17. If yes, how do you use the income derived from the cooperative? Tick from the table below:

| No | Items   |                  | Yes | No |
|----|---|------------------|-----|----|
| 1  | Food  |                  |     |    |
| 2  | Education                                     |                  |     |    |
| 3  | Health  |                  |     |    |
| 4  | Household Furniture (Assets)                  |                  |     |    |
| 5  | Housing                                       |                  |     |    |
| 6  | Transport                                     |                  |     |    |
| 7  | Clothing                                      |                  |     |    |
| 8  | Energy (Electricity, Gas, Paraffin, firewood) |                  |     |    |
| 9  | Communication (telephone)                     |                  |     |    |
| 10 | Entertainment                                 |                  |     |    |
| 11 | Social contributions                          | Burial societies |     |    |
|    |   | Stokvels         |     |    |

**SECTION 4: BEST PRACTICES**

4.1. What is the level of education of the cooperative manager? .....

4.2. How is the cooperative capitalised?

| Grants | Source |  | Value | Purpose |
|--------|--------|--|-------|---------|
|        | 1      |  |       |         |
|        | 2      |  |       |         |
|        | 3      |  |       |         |
| Loans  | Source |  | Value | Purpose |
|        | 1      |  |       |         |
|        | 2      |  |       |         |
|        | 3      |  |       |         |

| Equity | Value | Purpose |
|--------|-------|---------|
|        |       |         |

4.3. Type of machinery/equipment owned by the cooperative

| Nature of infrastructure       | Description |
|--------------------------------|-------------|
| Buildings/Fixed infrastructure |             |
| Machinery/equipment            |             |
| Other                          |             |

4.4. How do you use profits/surplus from the operations of the cooperative?  
 .....

4.5. Does the cooperative have a record keeping system? **Yes/No**. If yes, please elaborate  
 .....

4.6. Are your books audited and financial statements produced annually? **Yes/No**. If no-why?  
 .....

4.7. Do you submit annual financial returns in respect of

- SARS (Yes/No) - If no why?  
 .....

- CIPC (Yes/No) - If no why?  
 .....

4.8. Do you have formal or informal markets (Please list the names)

- Formal (.....)
- Informal (.....)

4.9. Do you have appropriate infrastructure to carry out the objectives of the cooperatives? **Yes/no**. If no-why? If yes please elaborate .....

4.10. Do you have the necessary logistics to support the activities of the cooperatives? (Storage, warehouse, transport). **Yes/No**. If no why? If yes, please elaborate.  
 .....

4.11. Do you receive extension/technical support? **Yes/No**. If yes, from which institution (s). If no why?.....

4.12. Have you received any business development support services? **Yes/No**. If yes, from which institution(s). If no why?.....

**SECTION 5: CHALLENGES FACED BY SMALLHOLDER FARMERS' COOPERATIVES**

5.1. Please indicate the type of challenges confronting your cooperatives from the table below:

| No | Nature of challenge                                     | Yes | No | If yes, how are you mitigating the challenges |
|----|---|-----|----|---|
| 1  | Ineffective leadership                                  |     |    |   |
| 2  | Governance  |     |    |   |
| 3  | Transport   |     |    |   |
| 4  | Production and marketing infrastructure                 |     |    |   |
| 5  | Group dynamics (conflict)                               |     |    |   |
| 6  | Literacy levels   |     |    |   |
| 7  | Access to finance                                       |     |    |   |
| 8  | Value adding and processing opportunities               |     |    |   |
| 9  | Market access   |     |    |   |
| 10 | Inadequate land   |     |    |   |
| 11 | Lack of understanding of the cooperative business model |     |    |   |
| 12 | Mismanagement of funds                                  |     |    |   |
| 13 | Lack financial management skills                        |     |    |   |
| 14 | Lack of extension/technical support                     |     |    |   |

5.2. Other general challenges affecting the cooperative

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## Annexure B: Ethical clearance approval



Faculty of Economic and Management Sciences

17-Jul-2018

Dear Mr Mmemogolo Malomane

**Ethics Clearance: THE ROLE OF SMALLHOLDER FARMER COOPERATIVES IN RURAL DEVELOPMENT: A CASE OF UMGUGUNDLOVU DISTRICT MUNICIPALITY.**

Principal Investigator: Mr Mmemogolo Malomane

Department: Centre for Development Support (Bloemfontein Campus)

### APPLICATION APPROVED

With reference to your application for ethical clearance with the Faculty of Economic & Management Sciences, I am pleased to inform you on behalf of the Ethics Committee of the faculty that you have been granted ethical clearance for your research.

Your ethical clearance number, to be used in all correspondence is: UFS-HSD2018/0684

This ethical clearance number is valid from 17-Jul-2018 to 16-Jul-2021. Should you require more time to complete this research, please apply for an extension.

We request that any changes that may take place during the course of your research project be submitted to the ethics office to ensure we are kept up to date with your progress and any ethical implications that may arise.

Thank you for submitting this proposal for ethical clearance and we wish you every success with your research.

Yours Sincerely

Dr. Petrus Nel

Chairperson: Ethics Committee Faculty of Economic & Management Sciences

**Economics Ethics Committee**

**Office of the Dean: Economic and Management Sciences**

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**Annexure C: Permission to use cooperative information on the Cooperative Data Analysis System of the Department of Agriculture, Forestry and Fisheries**



agriculture,  
forestry & fisheries

Department:  
Agriculture, Forestry and Fisheries  
REPUBLIC OF SOUTH AFRICA

Director-General, Department of Agriculture, Forestry and Fisheries  
Private Bag X250, Pretoria 0001

Tel: (012) 319 7219. Fax number. E-mail: EA.DG@daff.gov.za

Enq: Ms K Komape

Tel: 012 319 6201 or E-mail:KwenaK@daff.gov.za

Mr M A Malomane  
Unit 15 Libertas manor  
931 Libertas Avenue  
**Equestria**  
0184

**REQUEST TO USE COOPERATIVES INFORMATION ON THE COOPERATIVE DATA ANALYSIS SYSTEM (CODAS) FOR ACADEMIC RESEARCH PURPOSES**

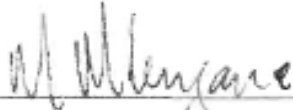
I have pleasure in informing you that your request to use cooperatives information on the Cooperative Data Analysis System (CODAS) of the department for the purposes of conducting academic research with the title, *"The role of smallholder farmer cooperatives in rural development: A case of uMgugundlovu District Municipality"*, has been granted with the following conditions:

1. The Study should be conducted under conditions of complete anonymity (no names of cooperatives or members thereof should be mentioned or revealed in the Report).
2. Upon completion, the report of the study should be discussed with the Directorate: Agricultural and Forestry Legal Support before it is submitted to the University of Free State.
3. At least one copy of the final Report should be submitted to the Library of the Department for storage and reference purpose.

I would like to take this opportunity to wish you every success in your endeavour to conduct such a valuable Study.

Kind Regards

*The DAFF shall benefit in the research results for its own use!*



**M M Miengana**  
Director-General

Date: 18/8/18

I hereby accept the conditions stated above.

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**MA Malomane**

Date: 21/08/2018