

AN EXAMINATION OF THE SUCCESS FACTORS OF CO-OPERATIVE-RUN AGRICULTURAL SCHEMES: A CASE STUDY OF INTLANTSI AGRICULTURAL SECONDARY CO-OPERATIVE LIMITED

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Abstract: Around the world, cooperatives have and are being used as instruments of socio-economic development. In South Africa, the cooperative model of development was adopted as one of the tools for advancing the country's development following the transition to democracy. The adoption of cooperatives was hinged on the view that the cooperative model of development is an ideal tool suited for redressing injustices of the apartheid era through the empowerment of the previously disadvantaged. Over the years, the performance of the South African cooperative sector has remained largely unimpressive. The sector is characterised by high mortality, poor performance and extensive dependence on government for survival. In addition, existing cooperatives are often small and unable to produce expected outcomes such as income generation and employment opportunities. Using the case study of Intlantsi Agricultural Secondary Co-operative Limited (Intlantsi Agri), this paper examines the factors that could enhance the growth and sustainability of co-operative-run agricultural schemes in South African.

Key words: Agricultural Schemes; Co-operative; Sustainability; South Africa

INTRODUCTION

Over the years, countries around the world have regarded cooperatives as an instrument of socio-economic development. Following the transition to a multi-party democracy in South Africa in 1994, cooperatives was adopted as one of the strategies aimed at addressing challenges of poverty, unemployment and inequality. Over the past two decades, the country's cooperative sector has remained largely weak and has failed to make meaningful contributions to the economy. This paper aimed to understand whether farming as collective impacts the success of agricultural cooperatives. For the purpose of this study, a co-operative as defined by the Co-operatives Act No. 14 of 2005 is "an autonomous association of persons united voluntarily to meet their common economic and social needs and aspirations through a jointly-owned and democratically-controlled enterprise organised and operated on co-operative principles" (Republic of South Africa, 2005). Seen in this a manner, a co-operative addresses not only members' economic needs but their social needs as well. The paper is organised into six sections. In the first section, we present an overview of co-operatives as a viable model for socio-economic development. This is followed by an exploration of the socio-economic factors that informed the adoption of co-operatives in South Africa. Section three presents the status and challenges faced by co-operatives in South Africa. Section four presents an overview of Intlantsi Agri followed by the research methodology in section four. In section five of the paper, we present findings of the study while section six concludes the paper with some recommendations.

Co-operative as a Model for Socio-Economic Development

Around the world, extreme form of poverty is a reality that confronts people on a daily basis. According to the report of the United Nations' 2012 Conference on Sustainable Development (United Nations, 2012), one in five people live in extreme poverty. This amounts to over a billion people that live in extreme poverty¹. The same report

¹ Extreme poverty refers to those who live below the food poverty line.

noted that about 14% of the global population is undernourished (United Nations, 2012). In South Africa, the challenge of poverty continues to persist despite two decades of deliberate government policies aimed at redressing the historical legacies of inequalities created during the apartheid era. The intractability of poverty has deemed the optimism that characterised the transition to a multi-party democracy in 1994. In a report which examined the trend of absolute Poverty in South Africa between 2006 and 2011, Statistics South Africa (2014a) reported that about 23 million South Africans live below the upper-bound poverty line.² This translates into about 44% of the country's population³ that falls in this category of poverty. The problem of poverty has been worsened by high unemployment. In the 1st quarter of 2014, unemployment in South Africa was 25.2% representing a 4.9% increase from the 4th quarter of 2013 (Statistics South Africa, 2014b).

Eradicating poverty is one of the challenges facing the world today. In recognition of this challenge, commitments to freeing humanity from poverty and hunger has been identified as a matter of urgency (United Nations, 2012). Around the world, countries are coming up with models of development that address the issue of poverty in a sustainable manner. Over the years, the co-operative model has been recognised as an indispensable tool in addressing the challenge of poverty and unemployment (Develtere, Pollet, & Wanyama, 2008; Getnet & Anullo, 2012; Ofuoku & Urang, 2009). This is because co-operatives are underpinned by principles and values which commit them to improving the socio-economic conditions of both members and communities where they operate (Guozhong, 2010; International Cooperative Alliance, 1995; Okem & Lawrence, 2013). The relevance of co-operatives is particularly important in the context of Africa where a large proportion of the population rely on subsistence agriculture or own and operate small businesses (Okem & Lawrence, 2013).

According to Brandt and Otzen (2006), labour intensive agricultural growth is particularly important for poverty reduction in Africa because agriculture provides employment for up to 70 per cent of the labour force. Promoting agriculture gives rural small scale farmers opportunities to achieve their personal goals. Small farmers in both developed and developing countries share certain basic goals. For the most part, farmers wish to increase the security of income while retaining their independence as owners and operators of a farm enterprise. Co-operative-run agricultural schemes (CORAS) provide a viable option for achieving this goal. According to Gerald F Ortmann and Robert P King (2007), people form or join agricultural co-operatives for a number of reasons. These include poverty, transaction costs, accessing missing services (input and/or marketing), drive for self-help, enhancing bargaining strength, market failure, and distortions in the supply chain. Market failures, according to the Department of Agriculture, Forestry and Fisheries (2012:2), have mainly been in the form of exploitation of individual farmers or producers largely by market intermediaries. This results in remunerative prices not reaching individual producers. Distortions in supply chain are mainly through market intermediaries who get into a zero sum game for themselves from the supply of raw material or agricultural inputs to the disposal of the produce.

Besides being a tool for poverty alleviation and employment creation, co-operatives have played important roles in economic development at the global level. It is estimated that co-operatives contributed about 158.75 (billion USD) to the global economy in 2013 (International Cooperative Alliance, 2013). According to the International Cooperative Alliance (2007), over 800 million people belong to co-operatives globally. In addition, it is estimated that co-operatives employ about 100 million people. Through this, the co-operative movement is impacting the lives of people around the world (both directly on members and people employed by co-operatives and relatives of those directly involved with co-operatives).

The South African Co-operative Sector

In South Africa, the origin of the co-operative movement can be traced back to the 19th century when it was introduced as a strategy to improve agricultural outputs of white farmers (Kanyane, 2009). For this reason, co-operatives in pre-democratic South Africa were largely white-owned. Following the transition to multiparty democracy in 1994, the government led by the African National Congress adopted co-operatives as a tool for redressing some of the socio-economic challenges it faced. In keeping with the tenets of the 2005 Co-operative Act and the 2013 Co-operative Amendment Act, the focus of the democratic government been has mainly on black-owned co-operatives. In response to government's stance on co-operatives, the country has witnessed a sudden increase in the number of co-operatives with an estimated 11 000 registered co-operatives, with agricultural co-operatives dominating with about 30% of co-operatives operating in the agricultural sector (Department of Trade and Industry, 2011). Agriculture as a whole occupies an important position in the country's economy. In 2013, it

² South Africa has three sets of poverty lines recommended for use in the study of poverty in the country. These are: the food poverty line, lower-bound poverty line and upper-bound poverty line

³ According to the 2011 National Census, the population of South Africa was 21.8 million.

contributed 2.6% (R72 billion) to the country's GDP (Department of Agriculture, 2013). To further enhance the contribution of agriculture, particularly small-scale producers, the South African government encourages collective farming. It has done this in various ways including the formulation and implementation of policies as well as support institutions for co-operatives. Co-operative-run agricultural schemes (CORAS) are a product of government's drive to ensure economic viability of agricultural co-operatives. The argument that underpins the formation of CORAS is their ability to network with other CORAS and primary co-operatives in the supply chain. This has played a key role in the sustainability of co-operatives in the US, in Italy and Spain and the UK. The argument here is that through network, producer co-operatives lower transaction costs thus becoming positioned to improving their productivity and success.

The sustainability of co-operatives has been severely compromised because of various factors that have impacted negatively on these co-operatives. Co-operatives around the world are facing major challenges as they respond to industrialised agriculture, globalisation, and free trade. With regard to South Africa, co-operatives have generally been unsuccessful in promoting agricultural development and members' economic welfare. Factors that have undermined the sustainability of co-operatives in South Africa include lack of financing, rising input costs, lack of security of tenure, free-riding, failure to capitalise on economies of scale due to limited production levels (Chibanda, Ortmann, & Lyne, 2009; Dlamini, 2010; Gadzikwa, Lyne, & Hendriks 2007; Okem & Lawrence, 2013; G F Ortmann & R P King, 2007). Ortmann and King (2007) further state that poor management, lack of training and conflict among members are important contributory factors for the failure of co-operatives. As a result of the challenges, co-operatives in South Africa experience an 88% mortality rate (Parliamentary Monitoring Group, 2010).

Intlantsi Agri Cluster – An Overview

Intlantsi Agricultural Secondary Co-operative Limited (hereinafter referred to as Intlantsi Agri) is a tertiary agricultural enterprise owned by its producer members. The primary aim of Intlantsi Agri is optimum wealth creation for its members. Intlantsi Agri is a dynamic enterprise committed to identifying opportunities for enhanced growth in the agricultural sector. Through sustained growth, Intlantsi Agri is also committed to its members and other interested parties by adding value. Intlantsi Agri aims to develop a conducive mechanism in which all member primary co-operatives optimise production in their respective commodities and serves as an anchor to the agricultural community in and around the Zululand District Municipal area where it is located.

Intlantsi Agri was incorporated in 2012 with initial six-member primary co-operatives. It trades under its shortened name as Intlantsi Agri. Since inception, Intlantsi Agri has doubled its membership to fourteen primary co-operatives currently comprising 96 individual members. Intlantsi Agri carries out farming operations on a combined holding of approximately 13 794 hectares. The climate, soil and water in the area are ideal for cultivating maize, sunflower, grain sorghum, dry bean, soya bean, and potatoes. Although the main crops grown in the area are maize, and soya bean, alternative crops such as horticultural crops are also produced. Livestock farmers in the area focus mainly on beef and dairy production, pigs, and broiler chicken.

Intlantsi Agri is strategically focused on agribusiness. Intlantsi Agri has invested in the beef, pigs, poultry, horticultural, and agribusiness services through acquiring and serving interests of participating primary co-operative and its strategic partners. Intlantsi Agri employs sound financial expertise and advanced technological know-how in the selection of target portfolios and commodities for the purpose of achieving viable financial returns to its members and strategic partners, and supporting the economic developments and job creation in the Zululand District Municipal Areas.

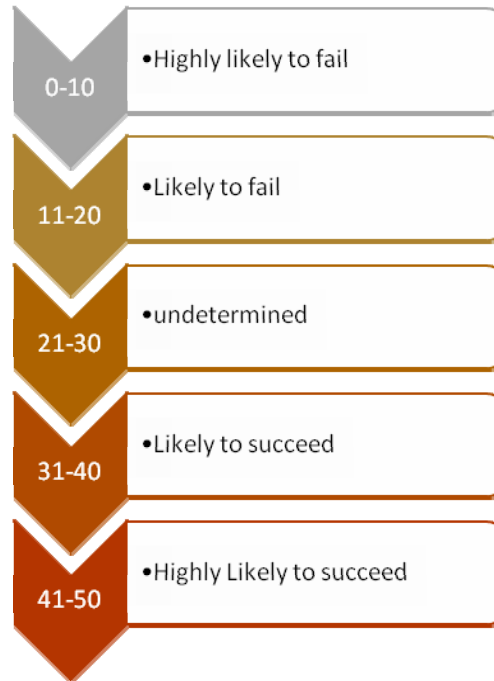
As Intlantsi Agri belongs to its producer members, it not only offers more bargaining power to individual producers, but also offers them direct input in and control over their affairs. Intlantsi Agri's Board of Directors consists of eleven members elected from members of primary agricultural co-operatives. A director's tenure of office is three years and directors may be re-elected. To qualify as a director, a candidate concerned must be a *bona fide* member of a member primary agricultural co-operative. The Chairperson and Vice-Chairperson are elected biennially by Board members. Intlantsi Agri supports the Code III recommendations of the King Commission. For this reason, there is a training programme for directors to keep them abreast of the latest developments in agriculture and to inform them of their fiduciary duties.

Research Method

This study used the quantitative method to assess the sustainability of Intlantsi Agri. A survey was developed to assess the co-operatives in terms of the success factors of co-operatives developed by Marx and Link (2002). In a study of the success factors for co-operative ventures in innovation and production systems, the authors identified 50

success factors of co-operatives. These were grouped into five broad categories: initiation, partner selection, setup, realisation and termination. Each category has a total possible score that a co-operative can attain (see figure 1). As shown in the figure, co-operatives that scored from zero to 9 are highly likely to fail while those that score 41 and above are highly likely to succeed. What this entails is that besides assessing the status of co-operatives according to the success criteria, it is also important to understand under the factors in which they underperform in order to be able to support them to improve their performance in those criteria.

Figure: Scale of the Success factors of Co-operatives



Source: Created by authors

The interview schedule developed for this study assessed co-operatives according to these 50 criteria. In interview was carried out with the leader of Intlantsi Agri to assess the co-operative on this set of criteria. In this research, the co-operative was awarded 1 point if a success factor is present and 0 if absent. Items that were not relevant to Intlantsi Agri were identified as being non-significant. At the end, the score was tallied to determine the position of Intlantsi Agri on the sustainability scale. Using the score from the survey, the sustainability of co-operatives was assessed according to the above criteria. Members of the

Research Findings

In the previous section, we presented the success factors of co-operatives as identified by Marxt and Link. These success factors were used to access the performance of Intlantsi Agri. Table 1 below presents findings of the research in terms of the performance of Intlantsi Agri on the above success factors. Using the success factors of co-operatives, this study found that Intlantsi Agri is performing minimally on the sustainability scale. However, the performance of Intlantsi Agri varies across the different categories of the success factors.

Table 1: Rating of Intlantsi Agri. On The Success Factors Of Co-Operatives

Initiation	Detailed SWOT-analysis	1	Development of a cooperation culture	1	Risk dialog	0
	Clear strategic definition	1	Experience in cooperative venture	1	Risk awareness	1
	Realistic and clearly defined goals and objectives of the project	1	Positive attitude	1	Willingness to share and bear risks	0
					Project risk analysis	0
Partner Selection	Required profile	1	Cultural compatibility	1	Partner's readiness for risk and information sharing	0
	Strategic fit	1	Similar values	1	Similar premises of security and risk	0
	Equality of all parties	0	Commitment to partnership	1	Partner risk analysis	0
	Similar structure	1	Trust, openness & honesty	1		
	Past experience	1	Confidence in capabilities	1		
Setup	Win-win-situation	1	Information transfer from top management	0	Mutual benefits and interdependence	0
	Detailed project goals	1	Buildup of trust	1	Joint project risk analysis	0
	Goals agreed by all parties	0	Bridge the cultural Differences	n/a	Formalized risk/reward sharing agreement	0
	Initial collaboration Agreement	0				
Realization	Accountabilities, ground rules and responsibilities	0	Commitment of top management	1	Systematic risk management	0
	Experience & social skills	1	Communication frequency	1	Project controlling to identify risks	0

	Effective controlling	0	Create team spirit	1	Avoid outlearning	0
	Collaboration champion	0	Efficient conflict solving	1		0
Termination	Analyze and development of the cooperation as a whole	0	Establish good interpersonal relationship	1		1
	Project-to-project knowhow-transfer	0	Willingness to develop the cooperation	1	Learning about risk and project failure or success	0
	STRUCTURE		CULTURE		RISK	

As shown in the table, there are 48 possible scores that a co-operative can achieve (two other success factors were considered not applicable to Intlantsi Agri). The scale of the success factors of co-operatives earlier explored showed that there is a positive correlation between the score of the success factors and the sustainability of co-operatives. Using the score to assess Intlantsi Agri as shown in table 1, the co-operative have a total score of 26 indicating that it falls within the range of co-operatives whose success/failure is undetermined.

Across the five categories of success factors, Intlantsi Agri performs best at the initiation phase with a score of 70% (7/10). However, when it comes to addressing risks associated with operating as a business, the co-operative is underperforming. In this regard, Intlantsi Agri is not involved in risk dialogue and risk awareness. The implication of this is that risks are not properly analysed. This could result in the unwillingness of member co-operatives in sharing the risks of Intlantsi Agri.

In terms of partner selection, the performance of Intlantsi Agri is above average with a rating of 69%. However, it is faced with challenges such as partners' readiness for risks and information sharing, similar premises of security and risk, partner risk analysis, commitment to partnership and equality of all parties. What the foregoing show is that although Intlantsi Agri has succeeded in attracting and selecting a pool of partners, it is still struggling with the challenge of coordinating members' activities in terms of risks and commitments.

With regard to setup, the co-operative has a performance rating of 30%. Partner is important in determining the success of a co-operative particularly secondary co-operative. This is because the activities of primary co-operatives that form the secondary co-operative have a direct bearing on its success/failure. This is evident in the failure of the co-operative in determining mutual benefits and interdependence, Joint project risk analysis, formalized risk/reward sharing agreement and developing initial collaboration agreement. Although Intlantsi Agri performed poorly on this, this was attributed to the fact that the co-operative is relatively young and still had a long way to go in addressing these issues.

Realisation of the objectives of partnership is another success factor identified in the literature. Calculation of items under this factor indicates that Intlantsi Agri scored less than half (5/12). What this entails is that the co-operative is performing below average in realising the goals of partnership. This is evidenced in its failure to meet strategic issues such as accountabilities, ground rules and responsibilities, Systematic risk management, and effective controlling.

The last category of success factors of co-operatives is "termination". Items under this category include analysis and development of the cooperation as a whole, establishment of good interpersonal relationship, project-to-project know-how transfer, willingness to develop the cooperation, and learning about risk and project failure or success. In the assessment of Intlantsi Agri on the list of items under termination, it scored 3 out of a possible 6 points. The co-operative failed on the following items: analysis and development of the co-operative as a whole, project-to-project knowhow-transfer, and learning about risk and project failure or success.

Conclusions And Recommendations

Since the transition to multiparty democracy in 1994, the South African co-operative sector continues to underperform consistently despite increasing government support. CORAS is one of the strategies aimed at increasing the sustainability of agricultural co-operatives. Using Intlantsi Agri a case study, this study has shown the

formation of CORAS does not automatically guarantee the success of small holder agricultural co-operatives. This is because CORAS are characterised by a set of dynamics the management of which result in either the success/failure of co-operatives. This study has shown that although Intlantsi Agri is performing averagely on the success factors of co-operatives, the future of prospect of the co-operative is undetermined. For the success of the co-operative to be enhanced, it is recommended that efforts are made towards capacitating the co-operative to address items under which it is currently underperforming.

To ensure the success of a CORAS as whole, various measures are recommended. The first of these is economic sustainability since, to a member of an agricultural scheme, it is important for stakeholders to understand that one of the primary objectives of establishing a collective agricultural scheme is income generation for members. Therefore, the adoption of sound business approach to running these schemes is crucial. Proper financial management should entail that financial records are properly kept in order to mitigate risks. In addition, profits of the scheme must be equitably distributed to members. This will go a long way to improving members' commitment to the co-operative.

Although people mainly join CORAS for economic reasons, it should be noted that they are also social beings. Therefore, how members interact with one another and with the community at large is critical. Justice should be seen to be done in the initiation and running of the collective scheme. The scheme will only be successful if it is accepted by community members in general and the scheme members in particular.

Furthermore, there is need for strict governance protocol to ensure judicious use of resources and ensuring that contractors/ service providers perform according to expectations. Where necessary, legal agreements or service level agreements must be entered into with service providers. It is recommended that members especially members of management committee be trained in skills such as commodity production, business, financial management, organisational administrative skills and human relations. It is important to educate members about how co-operatives are run and managed.

Some of the money related problems are caused by the unrealistically high expectations that are normally created when CORAS, such as Intlantsi, are initiated. When the initiators of such schemes are desperate for funding, there is a temptation to overstate the benefits and rewards of working as a collective while understating associated risks. As shown in this study, risk identification and risk sharing are issues that the co-operative has failed to address. When initiating these collective schemes, there is a need to manage the expectations of the members. In addition, it is pertinent that leaders of the co-operative get primary members in risks identification as well as risk sharing.

In addition to the above, there is a need to deal with governance issues to ensure that there is accountability for funds generated by the scheme as failure to manage the scheme properly could have a disastrous consequence. From the assessment of Intlantsi Agri, it is clear that the scheme members and their management committee will rely on external managerial assistance if they are to succeed. In terms of beefing up the managerial capacity of the scheme, there is a need to appoint a management agent that is competent. A service level agreement must be signed with whoever is appointed to provide managerial assistance. Alternatively, extension services staff of a relevant provincial Department should be asked to provide some assistance. To deal with operational and marketing risks, members must take responsibility. Education and communication will be crucial in managing these risks. This will ensure adherence to legal provisions governing the collective scheme.

Openness and trust are critical values in a collective scheme. This includes the sharing of information amongst members. The management committee and the mentor/ management agent must ensure that members are regularly updated on what is going on in the CORAS. This includes getting information on financial matters. The quality of leadership can make or break a CORAS. Accountability of both leaders and the management agent of the scheme (employed or contracted) to members is crucial. Members should be empowered to have a say in the management of the scheme. Annual general meetings should take place and members should be given opportunity to elect members of the management committee. There is a need to get the buy-in of members particularly when major decisions are being made. This will ensure that members take ownership of the scheme given that member-control is a key principle of the co-operative movement.

The focus of government and other support must be on creating an environment where the capacity of co-operatives must be to build their organisations themselves. Government support needs to be precisely focused, targeted and attuned to challenges facing co-operatives and must be guided by the level of development of specific co-operatives, co-operative sectors and the co-operative movement as a whole. In doing this, it is imperative for government to be responsive in a manner that does not compromise the independence of co-operatives. General support and other forms of assistance, including financial and management assistance, from stakeholders is also critical. These

stakeholders must be mobilized and work together to ensure the sustainability of the scheme. However, before any direct assistance is given, members of CORAS must reaffirm their commitment to the scheme in its current form or suggest viable alternatives.

In conclusion, CORAS are the appropriate agencies to establish and operate and manage sustainable agricultural schemes initiatives because they have the distinct and unique advantage of their closeness and support of their farmer-members. An emphasis must be placed on pragmatism and profitability since they are businesses and in the years ahead, they must focus on solving business problems and providing value to their members. If they do not, members will stop patronizing them and they will just fade away.

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