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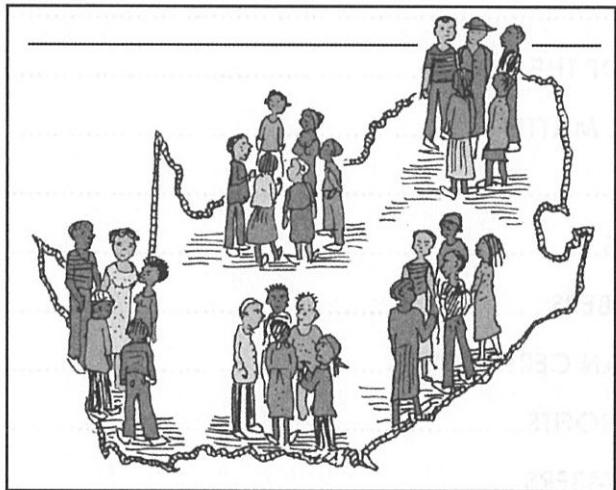
CO-OPERATIVE

GOVERNANCE

Training Manual

LEARNER GUIDE

SUCCESSFUL CO-OPERATIVES



Version 1 - 20 November 2011

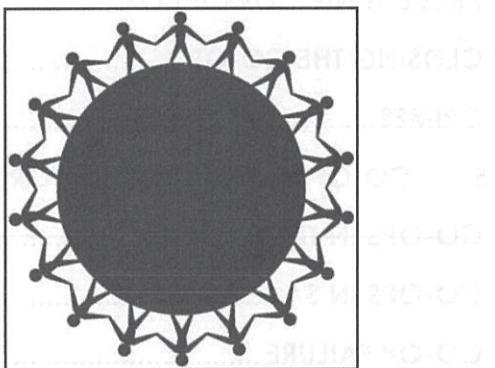
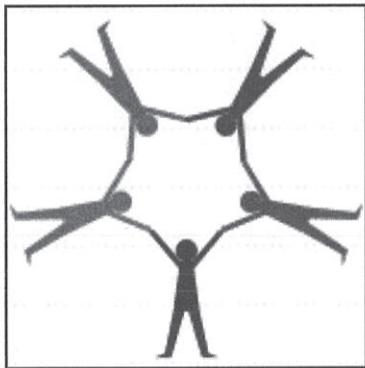
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INTRODUCTION

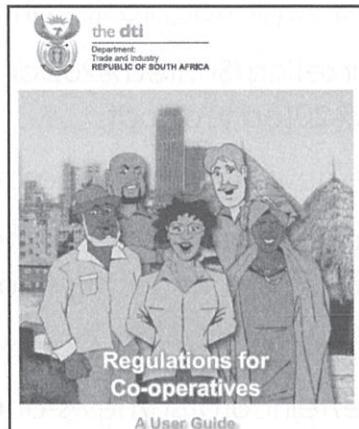


This four-day training course has been developed by SEDA in pursuit of its strategic mandate and is to be used for the benefit of its customers: South Africans who are engaged in or intend to engage in a co-operative venture.

There is no basic requirement for undertaking this course, but a proficiency in English, reading, writing and verbal communication will be of great assistance. After completing the course, you will have a good understanding of:

- What Co-ops are; the different types; activities that can be engaged in
- The legal requirements for Co-ops; how to register a Co-op; how to run a Co-op i.t.o. good governance practices
- Legal documents prepared and used by Co-ops, including: constitution; forms CRI -CRI 3
- Why Co-ops succeed and why they fail
- The most important documents published by government on Co-ops, including the Act, the Policy, the Regulations, etc., as well as where to obtain additional information on Co-ops

ACKNOWLEDGEMENTS AND REFERENCES



This training programme was prepared using a number of documents published by the South African government and its agencies, principally: SEDA, the dti; National Youth Development Agency; Western Cape Provincial Government; KwaZulu-Natal Provincial Government; Copac. These documents include the following:

- Guide to the SA Co-operatives Act 2005, from which supporting graphics have also been taken.
- The Co-operative Act, 2005
- Regulations for Co-operatives, from which supporting graphic explanations have been taken.
- CIS Guidelines
- Co-operatives Handbook
- SA Co-operative Development Policy (2004)
- Starting a Co-operative - A Guide

(Copies of all the above documents, plus other related documents can be obtained from the offices of the mentioned government entities.)

Additional supporting material was obtained from a number of websites, including (in no particular order):

www.dtcc.org.za

www.ica.coop

www.ngopulse.org

www.paper-round.co.uk/brighton/about-us/index.shtml

http://en.wikipedia.org/wiki/File:The_Co-operative,_Ainsty_Road.jpg

www.businessdailyafrica.com/-/539552/642478/-/57g6xs/-/index.html

[www.fairtrade.org.uk/producers/coffee/gumutindo_coffee_cooperative_uganda/default.aspx?
printversion=true](http://www.fairtrade.org.uk/producers/coffee/gumutindo_coffee_cooperative_uganda/default.aspx?printversion=true)

www.croptocup.com/farmerRegional_profiles.php

[http://durbanportal.net/Marketing/Shared%20Documents/Gijima%20co-ops%20POPULAR%20english%20\(edited\).pdf](http://durbanportal.net/Marketing/Shared%20Documents/Gijima%20co-ops%20POPULAR%20english%20(edited).pdf)

www.uneeka.com/fairtrade-news/?tag=co-operative

<https://sites.google.com/site/reincorpfish/news-andannouncements/southafricanfishermencasttheirhopesonco-opsystem>

www.sarpn.org/documents/d0000786/P872-Co-ops_October2003.pdf

<https://sites.google.com/site/reincorpfish/news-andannouncements/southafricanfishermencasttheirhopesonco-opsystem>

www.southafrica.org.za/tour-sa-early-explorers-footsteps.html

[www.south-north.co.za/cray_rt_ebenhaeser.html.](http://www.south-north.co.za/cray_rt_ebenhaeser.html)

www.sarpn.org/documents/d0000786/P872-Co-ops_October2003.pdf

www.ica.coop/coop/statistics.html

[http://venezuelanalysis.com/analysis/2393.](http://venezuelanalysis.com/analysis/2393)

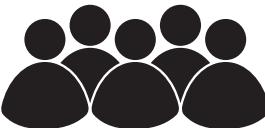
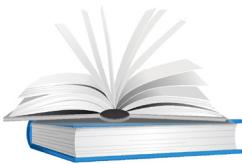
www.clothinglinehelp.com/clothing-line-production.html

All sources are recommended additional reading and attendees are encouraged to obtain copies of the documents listed and to visit the websites listed above for more detailed information.

EXPLANATION OF ICONS

Different activities will be required of you in order to ensure and enhance your learning, including: reading, listening/discussion, looking/watching and doing. This is in line with standard adult education methodology and with the latest thinking on experiential learning.

The following icons indicate the different actions required:

	Introduction: This is used to introduce you to a new module or learning unit.
	Individual Activity: This is work that you must complete on your own.
	Group Activity: Your facilitator will instruct you whether to work in pairs, small groups or full class.
	Reading: The course material is designed to be experiential, which means we want you to experience learning and practice skills, but it also means learning from others by reading case studies, guides and best practice. Note that reading is experiential when it is tackled with effort and an intention to learn and when learning takes place.

ABBREVIATIONS AND ACRONYMS

Some useful abbreviations and acronyms relating to the business of cooperatives are listed below.

CBO	Community Based Organisation
CIPC	Companies and Intellectual Property Commission
Co-op	Co-operative
DED	Department of Economic Development (KwaZulu-Natal)
DTI/dti	Department of Trade and Industry
FET	Further Education and Training
Gijima KZN	Gijima KwaZulu-Natal LED Support Programme
ICA	International Co-operative Alliance
Ithala	Ithala Development and Finance Corporation
KZN	KwaZulu-Natal
LED	Local Economic Development
NCASA	National Co-operative Association of South Africa
NGO	Non-government Organisation
NYDA	National Youth Development Agency
SA	South Africa
SACCOL	Savings and Credit Co-operative League of South Africa
SEDA	Small Enterprise Development Agency
SMME	Small, medium and micro enterprise

UNIT 1
UNDERSTANDING
CO-OPS

What is a co-operative?

We are all members of the Rainbow Clothing Co-operative.

Definition of a co-operative

Independent, self-governing ← A co-operative is an **autonomous** association of persons united **voluntarily** to meet their economic, social and cultural needs and aspirations through a jointly owned and **democratically** owned **enterprise** → Willingly, by free choice

Owned by the members and managed by their elected representatives ← → Business

What is a co-operative?

It is a business that belongs to all of us and we all benefit from this business.

We all contribute our services and our products equally to this business.



This module will provide you with an understanding of Cooperatives (Co-op), including: what a Co-op is; the different forms a Co-op can take; its purpose uses and functions in an economy. You will then have a thorough understanding of what a Co-op is, and how it can improve lives if run well. Unfortunately, all Co-ops are not successful and we will look at the issue of success and failure of Co-ops in a later module.

Before we start learning, let's see what we know. Here is an activity for reflection for you to determine what you really know already.



GROUP DISCUSSION: CO-OPS

In groups, discuss what you already know about Co-ops - provide specifics please. What Co-ops have you read about or been exposed to? What do they do, specifically? Are they successful or not? Why/why not? Share the best example from your group with the class.

(Here is space to make notes from the discussion.)

1.1 WHAT IS A CO-OP?



The word “co-operative” comes from the word “co-operate”, which means working together to reach a common goal. SA’s Co-operative Act, 2005 uses the international definition of a Co-op, defining a Co-op as follows:

A co-operative is an autonomous association of people who unite voluntarily to meet their economic, social and cultural needs and aspirations through a jointly owned and democratically owned enterprise.

This definition comprises the main points that act as the universally accepted guidelines by which cooperatives exist, i.e. put their values into practice.

The seven principles of a co-operative

1 Voluntary and open membership



Anybody may join a co-operative if they are able to use the co-operative's services and are willing to accept the responsibilities of membership.

We co-operate with each other to make this business work.

2 Democratic member control



One member, one vote: each member participates in making decisions for their co-operative.



3 Member economic participation



Members contribute equally towards the capital of their co-operative (e.g. all members may be required to pay an equal membership fee, including a monthly subscription fee).

We all have an **equal say** in deciding how to run this business.

4 Autonomy and independence



Co-operatives are controlled by their members. Even if they enter into agreements with other organisations, they must make sure that their members keep control.



5 Education, training and information



Co-operatives must provide education and training for their members to help develop their skills (e.g. all members could receive business skills training).

That means that control of our co-operative has to be **democratic**.

6 Co-operation amongst co-operatives



The spirit of co-operation should be applied to other co-operatives by willingly sharing ideas, knowledge and experience.



7 Concern for community



Co-operatives should contribute to the sustainable development of their communities for a better life for all.

Co-op Principles

A Co-op must ascribe to the seven Co-op principles, i.e.:

- Self-help
- Self-responsibility Democracy
- Equality
- Solidarity
- Honesty
- Openness

We will look at some aspects of these principles to try to understand the principles better.

Education and Training

Co-ops inform the general public - particularly young people and opinion leaders - about the nature and benefits of Co-ops. They also provide ongoing education, training and information for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operatives. A Co-op teaches all its members about the administration and management of the Co-op, the rights and duties of membership, and the business of the Co-op as all of the members of the Co-op should be equipped to contribute effectively to the development of the Co-op. But it can also do additional training, e.g. ABET.

Voluntary Organisations

Co-ops are voluntary organisations with voluntary and open membership, so no-one can be forced to join a co-operative. They are open to all people who are able to use their services and who are willing to accept the responsibilities of membership. There must be no gender, social, racial, political, or religious discrimination. Importantly, a Co-op comprises a group of people who freely decide to come together to meet common needs and goals.

Independent Organisations

A Co-op is an independent organisation. It must stand on its own feet or fall, as it is an autonomous self-help organization controlled by the members. If the Co-op enters into an agreement with another organization, including government, or raises capital from external sources, it does so on terms that ensure democratic control by the members and maintains co-operative autonomy, i.e. it must not be controlled by an outside party.

Primary Duty

A Co-op is jointly owned and its primary duty is to its members, not to anyone else outside the Co-op. The primary aim of a Co-op is to provide services to its members at affordable prices, or to create employment for its members. The members of a Co-op may want to market their products at a good price; they may want to purchase goods at a bargain; they may want to be able to get a loan at a reasonable interest rate; workers in worker Co-ops want to earn good wages. Whatever the specific need, the aim of the Co-op is to provide the desired benefits as effectively as possible, in a sustainable way and any services provided by a Co-op must be provided mainly to its members. For example, a farmer's marketing Co-op should market mostly crops or livestock produced by its members, not by persons outside the Coop. The sewing machines that belong to a sewing Co-op should be mainly for the use of its members, not for people outside the Co-op.

What does it mean to be democratic?



It means that each of us has an equal right to share in making decisions. Each of us has to be asked when decisions are made. The final decision has to be agreed upon by the majority of the members.



The values of a co-operative

A co-operative is expected to include the following values in all the work that it undertakes:

- Equality:** For the democratic functioning of a co-operative, every member must have an equal chance to participate.
- Self reliance:** Co-operative members should not rely on others to get the job done; they should work together to do it themselves.
- Self help:** Co-operative members should not rely on others to solve their problems; they should work together to find solutions themselves.
- Self responsibility:** Co-operative members should not allow others to take charge of their business or blame others in the face of obstacles; they themselves are responsible for making their co-operative work.
- Social responsibility:** Co-operatives have a duty help the community in which they live and work.



May I join your co-operative?



Yes, anybody is welcome, if you can use the services or products of this co-operative and if you are willing to accept the rules and responsibilities of being a member.

Community

There is concern for community and Co-ops work for the sustainable development of their communities through policies approved by their members. The decisions are made by the members, but the members are expected to show concern for community development, which can help everyone; so Co-ops work for the sustainable development of their entire communities. There is also co-operation among Co-ops, as they serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

Economic Participation

There is member economic participation, with members contributing to the "capital" of the Co-op and controlling the economic affairs of the Co-op. Therefore the benefits of the Co-op are shared by all the members. At least part of the capital is usually the common property of the Co-op and members usually receive limited compensation, if any, on capital subscribed as a condition of membership. "Capital" is the money and equipment which the co-operative uses to carry out its goals. Co-operatives can get capital

from money paid for shares issued to members, membership fees, grants, donations, loans and surplus money left over from previous years of operation. Some (possibly all) the capital that the Co-op uses actually belongs to the members, usually in the form of shares and bonus shares. Each member invests some money and gets some shares in return. The shares show that the member owns some of the assets (the money and property) of the co-operative. Any other capital which the Co-op uses belongs to the Co-op.

Rules for making decisions

Decisions are taken at meetings

Decisions about the business and activities of a co-operative are made collectively by the members, using the method of the democratic vote. This means that each member must have one vote (see Rule 12). For practical reasons, decisions are discussed and made at meetings held by the co-operative.

Rule 14:
The highest decision-making body of a co-operative must be a general meeting of its members.

What happens at the co-op meetings?

We discuss the business of the co-op and decide what to do next.

What if you don't agree?

Then we take a vote. We agree on the decision that receives the most votes.

Democracy in action

Democratically Controlled

A Co-op is controlled democratically by the members; so each member has an equal voice in decisions made and members take an active part in setting policies and making decisions. The Co-op might elect particular members to be on certain committees or to carry out certain tasks, but these members must always answer to the members as they are accountable to them. They must carry out their responsibilities in the interests of the Co-op and keep members informed about what they are doing. Everyone in a primary Co-op has an equal voice, i.e. one member, one vote -regardless of how many shares a member holds, how much business a member does with the Co-op or how much work each member does. Every member has an equal say in all major decisions. Voting rights in higher-level co-operatives must also be organised in a democratic manner.

John and Jack are members of the Sakhile Brick-making Co-operative.

John has 5% shares in the Co-op and Jack has 8% shares. They both have equal voting rights on matters affecting the Co-op, although Jack has more shares than John.

What a Co-op is not

Note that people sometimes pool money or other resources to set up a business that is designed to make a profit. But if the enterprise does not employ members, or serve the needs of the members (other than their need to make money), then it cannot be a Co-op. So a CC or (Pty) Ltd, for example are not Co-ops. A Co-op differs from a for-profit company in that members do not usually receive a big return on the amount they contribute to the capital of the co-operative as a condition of membership. This makes a Co-op different from a company. A shareholder in a company buys shares in the hopes of making a profit. A member of a Co-op joins the Co-op and contributes to its capital because the Co-op will provide a benefit to its members.

If the Co-op has money left over after it has paid all its debts and taxes and provided the planned benefits to its members, this is called a "surplus". This surplus is allocated to any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership. So the surplus is normally used to develop the co-operative. For example, a co-operative usually plans to have some surplus which it can use to expand and develop the co-operative's business or the services it offers to its members.

But if there is an extra unplanned surplus, this means that (in a worker co-operative) the wages could have been higher or (in a service co-operative) the prices or fees or commissions charged for the service were too high. In this case, the surplus can be returned to the members, or used to support other activities approved by the membership. Any surplus that is returned to the members must be shared in proportion to the contribution each member made to the surplus. For example, a grocery co-operative might return a portion of its surplus to its members, in proportion to the value of the purchases made by each of them during the year.

Also note that Co-ops are not the same as non-profit organizations. There are different implications for organisations that register as non-profits and those that choose the Co-op model, in membership, structure, distribution of resources, legislation with which they must comply, etc.

We will learn all about Co-ops during this course, but here is an easily understandable comparison of Co-ops to other business structures in SA, taken from the KwaZulu-Natal Provincial website (<http://durbanportal.net/Marketing/Shared%20Documents/Gijima%20co-ops.pdf>), where you can find additional information:

Comparison of South African business structures

	ASSOCIATION	SOLE PROPRIETORSHIP	PARTNERSHIP / JOINT VENTURE	CLOSED CORPORATION (CC)	NON-PROFIT ORGANISATION SECTION 21 CO	TRUST	COMPANY (PTY) LIMITED	COMPANY LIMITED	CO-OPERATIVE SOCIETY
Ownership	Members	Individual	Partners	Members	Members	No owners	Shareholders	Shareholders	Members
Governing law	Common law and any applicable legislation / regulations in terms of products / services	Common law and any applicable legislation / regulations in terms of products / services	Common law and any applicable legislation / regulations in terms of products / services	Close Corporations Act No. 69 of 1984	Companies Act & Non-profit Organisations Act No. 71 of 1997	Trust Property Control Act no. 57 of 1988	Companies Act No. 61 of 1973	Companies Act No. 61 of 1973	Companies Act No. 61 of 2005
Qualifications for ownership	As determined by constitution	N/A	As determined by partnership agreement	As agreed by members	Not open	Not open	Purchase of shares. Shares not offered to public and some restriction on transfer of shares	Shares offered to public	Subscription to purposes, purchase of shares
Minimum founding members		Not applicable	2 or more, max 20	Individual, max 10 members (natural persons)	Min 7 no max	Min 2 Trustees	2 - Not necessarily a natural person. Limited to less than 50 for a private company.	Min 7 no max	As determined by co-operative laws
Management/ Control	Members	Individual	Partners	All members	Board of Directors authorised by shareholders (min 2)	Trustees	Board of Directors authorised by shareholders (min 1)	Board of Directors authorised by shareholders (min 2)	General meeting of members
Voting	Determined by constitution	N/A	As determined by partnership agreement.	As per Founding Statement and memorandum of association	Determined by memorandum of association	Determined by Deed of Trust	Determined by shareholding	Determined by shareholding	One member one vote irrespective of shareholding

	ASSOCIATION	SOLE PROPRIETORSHIP	PARTNERSHIP / JOINT VENTURE	CLOSED CORPORATION (CC)	NON-PROFIT ORGANISATION SECTION 21 CO	TRUST	COMPANY (PTY) LIMITED	COMPANY LIMITED	CO-OPERATIVE SOCIETY
Liability	Members may be sued jointly	Individual / Owner responsible	Partners bear equal liability	Limited	Limited	Limited	Limited	Limited	Limited
Capital - Initial	Member contributions	Own	Partner contributions	Member contributions	Donation	Donation	Sale of shares	Sale of shares	Sale of shares
Surpluses	Dependant on purpose	Own	Distributed as determined by partnership agreement	Dividends may only be paid if the CC remains solvent after payment	Not distributed	Distributed to beneficiaries	Distributed to shareholders	Distributed to shareholders	Distributed to shareholders/members in terms of Act
Financial reporting	Simple accounts	Nil	Nil	Reliable financial statements submitted by an accounting officer. No audit.	Audited accounts	Reliable financial statements submitted by an accounting officer. No audit.	Audited accounts	Audited accounts and statutory returns	Audited accounts
Purpose	Basic grouping of people with a common purpose e.g. sports clubs etc.	Basic business.	To carry on business in terms of the partnership agreement	To carry on business in terms of the founding statement and memorandum of association	To carry on business in terms of the founding statement and memorandum of association	To service identified beneficiaries	To carry on business for the benefit of the shareholders	To carry on business for the benefit of the shareholders	To carry on business for the benefit of members who are both the shareholders and clients

	ASSOCIATION	SOLE PROPRIETORSHIP	PARTNERSHIP / JOINT VENTURE	CLOSED CORPORATION (CC)	NON-PROFIT ORGANISATION SECTION 21 CO	TRUST	COMPANY (PTY) LIMITED	COMPANY LIMITED	CO-OPERATIVE SOCIETY
Registrations required	As required in terms of applicable regulations and bylaws etc.	<ul style="list-style-type: none"> ■ Tax – SARS Where appropriate: ■ Employees tax ■ VAT ■ Trading licences. ■ Business name. ■ Regional Services Council. ■ UIF. ■ WCA ■ Industrial Council. ■ Trade mark. ■ Copyright, patents, designs. 	<ul style="list-style-type: none"> ■ Tax – SARS Where appropriate: ■ Employees tax ■ VAT ■ Trading licences. ■ Business name. ■ Regional Services Council. ■ UIF. ■ WCA ■ Industrial Council. ■ Trade mark. ■ Copyright, patents, designs. 	<ul style="list-style-type: none"> ■ Tax – SARS Where appropriate: ■ Employees tax ■ VAT ■ Trading licences. ■ Business name. ■ Regional Services Council. ■ UIF. ■ WCA ■ Industrial Council. ■ Trade mark. ■ Copyright, patents, designs. 	<ul style="list-style-type: none"> ■ Tax – SARS Where appropriate: ■ Employees tax ■ VAT ■ Trading licences. ■ Business name. ■ Regional Services Council. ■ UIF. ■ WCA ■ Industrial Council. ■ Trade mark. ■ Copyright, patents, designs. 	<ul style="list-style-type: none"> ■ Tax – SARS Where appropriate: ■ Employees tax ■ VAT ■ Trading licences. ■ Business name. ■ Regional Services Council. ■ UIF. ■ WCA ■ Industrial Council. ■ Trade mark. ■ Copyright, patents, designs. 	<ul style="list-style-type: none"> ■ Tax – SARS Where appropriate: ■ Employees tax ■ VAT ■ Trading licences. ■ Business name. ■ Regional Services Council. ■ UIF. ■ WCA ■ Industrial Council. ■ Trade mark. ■ Copyright, patents, designs. 	<ul style="list-style-type: none"> ■ Tax – SARS Where appropriate: ■ Employees tax ■ VAT ■ Trading licences. ■ Business name. ■ Regional Services Council. ■ UIF. ■ WCA ■ Industrial Council. ■ Trade mark. ■ Copyright, patents, designs. 	<ul style="list-style-type: none"> ■ Tax – SARS Where appropriate: ■ Employees tax ■ VAT ■ Trading licences. ■ Business name. ■ Regional Services Council. ■ UIF. ■ WCA ■ Industrial Council. ■ Trade mark. ■ Copyright, patents, designs.

Here is one example of a Co-op in SA:



CASE STUDY: ISIQUALO POULTRY CO-OP

Isiqualo Poultry Co-op is located at Simunye within the Westonaria Local Municipality, its main core activity is poultry production and its targeted market is the community of Westonaria. It has six members. Below are some pictures of: the members with their chickens; a member feeding the broilers; some of the members attending a financial skills workshop.



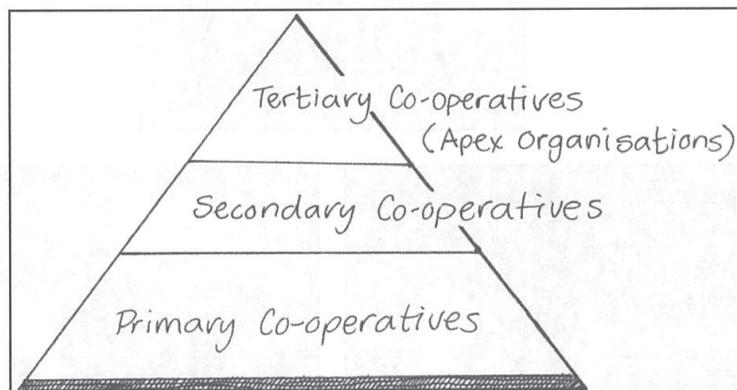
Co-op Values

You already know that Co-ops are based on the values of self-help, self-reliance, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, Co-op members believe in ethical values of trust, honesty, openness, social responsibility and caring for others. Of importance here, is that Co-op members understand that they can help themselves and that they can provide a decent life for themselves and their families. They understand that resorting to welfare, charity, government grants and the like is not empowering, nor is it an approach that is going to lead to a good life for themselves or their families. Nor will it build the hard-working, economically active and stable population that this country needs.

In addition, it will not build self-esteem, self-reliance, independence and competence in an individual. Co-op members understand the value of hard work, accepting their responsibility for providing for themselves and their families and for caring for others in their community. They are individuals who believe in themselves and their ability to earn a living and make a difference in their community. Co-ops therefore are ideal institutions of people to create employment and empower people in improving their socio-economic conditions. They can be instrumental in giving the poor women, youth and other marginalized members of the community a purpose and pride as a result of their financial independence and contribution to the economy of the country.

1.2 DIFFERENT TYPES OF CO-OPS

Not all Co-ops are exactly the same, even though all are governed by the Cooperatives Act of 2005. This Act provides for three levels or types of Co-ops. i.e.:



Primary Co-op

A primary Co-op is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. All the members are individuals and the purpose of a primary Co-op is to provide employment or services to its members and to promote community development. It takes at least five people to form a primary Co-op. In this course, we will focus on this type of Co-op and you have already looked at an example.

Three levels of co-operatives

Co-operatives come in different types and different structures.

Types of co-operatives include agricultural, marketing, housing, financial services, consumer, services , crafts, burial societies and so on.

Co-operatives may take the form of primary, secondary or tertiary co-operatives, and some of the rules differ slightly depending on which of these three structures or levels they fall under. This User Guide focuses on the rules for primary co-operatives.

Primary: If you form a co-operative made up of a group of five or more individual members and your purpose is to provide services and employment for one another and promote community development, then you will fall in the category of a primary co-operative.

Secondary: Secondary co-operatives are formed when two or more primary co-operatives come together because they are involved in similar activities and want to promote their services in the sector in which they are active.

Tertiary: Tertiary co-operatives are formed by secondary co-operatives which come together to promote the interests of their members to government bodies, the private sector and other stakeholders.

I think we should form a secondary co-operative with the Viva Sewing Co-operative

Because they also make clothes like we do, and if we work together we can sell our products to bigger shops that need more stock.

Why should we do that?

Secondary Co-op

A secondary Co-op is a Co-op formed by two or more primary Co-ops to provide services to its members. It takes at least two primary Co-ops to form a secondary Co-op, with primary Co-ops that are involved in similar activities coming together in order to help primary enterprises serve their members more effectively and more comprehensively. They provide services such as auditing, training, bookkeeping and advise.

Tertiary Co-op

Secondary Co-ops may form a tertiary Co-op in a specific sector or regional area, the purpose being to advocate the interests of the member Co-ops to government bodies, the private sector and other stakeholders. Another name for a tertiary Co-op is an apex organisation. An “apex” is the word for the top of a pyramid shape.

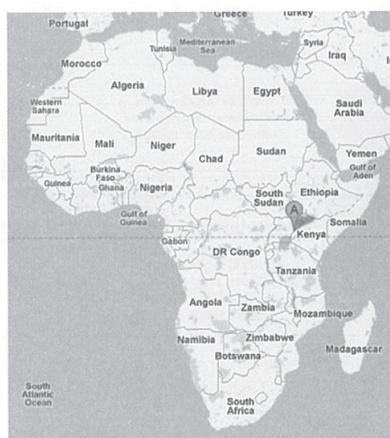
Here is an example of a second level Co-op, taken from http://www.fairtrade.org.uk/producers/coffee/gumutindo_coffee_cooperative_uganda/default.aspx?printversion=true and http://www.cryptocup.com/farmerRegional_profiles.php plus a group activity to do after you finish reading the case study. (You can read more about the coffee Co-ops in Uganda on the internet.)



GROUP DISCUSSION: WHAT DID YOU LEARN?

Read about a Co-op in Uganda (below). Now discuss: what learning can you share with your group members about running Co-ops successfully? Share your two most important learnings from your group with the class.

GUMUTINDO COFFEE CO-OPERATIVE ENTERPRISES LTD, UGANDA



Location: Mount Elgon, Mbale district, south-east Uganda

Producer type: Second Grade Co-operative Society

Total farmer members: 3,034

Members: Six village co-operatives: Busamaga (422 farmers), Bumayoga (428), Buginyanya (690), Nasufwa (553), Konokoyi (745), Peace Kawomera (576)

Total Area: 842 hectares

Average Farm size: 0.5 to 2 hectares, with 0.2 hectares under coffee

Product: Washed arabica coffee

Organic certified: All co-operatives except Konokoyi, whose members are in conversion.

Fairtrade sales: between 83% and 100% of production - estimated 36 tonnes for 2006/07.



Gumutindo Coffee Co-Operative

The coffee farms of Gumutindo members are located in the Mbale district of eastern Uganda, on the lower slopes of Mount Elgon, Uganda's highest mountain which reaches 4,321 metres (14,200 feet) at its peak, and about 90km from the border with Kenya.

The rich, fertile volcanic soil and subtropical climate are ideal for growing high quality arabica coffee. Farmers cultivate small farms, known as sham bas, of 0.5 to 2 hectares (1.2 to 5 acres) at between 2,000 and 3,500 metres above sea level. Coffee is grown on 0.2 hectares on average and is inter-cropped with staples such as cassava, beans, bananas, sweet potato and avocado grown for home consumption. Inter-cropping improves soil fertility, helps prevent soil erosion and provides shade to the coffee trees.

At harvest time, farmers pick the ripe red cherries from the coffee trees then carry out primary wet processing on the farm. The cherries are soaked in water then fed through a hand-cranked pulping machine that removes the beans from the outer pulp which is added to the farmer's compost heap to ferment before being used as fertiliser for the coffee bushes. Now covered in a sticky mucus layer, the beans are laid out on racks to dry in the sun. The resulting parchment coffee, so called because of its dry, paper-like protective covering, is then taken to the co-op's coffee store before being delivered by truck to the Gumutindo warehouse for processing and storage.

Because Gumutindo receives pre-finance from Fairtrade buyers it can pay farmers a first payment on delivery followed by a second payment at the end of the season. The coffee is delivered by truck in bulk to the Gumutindo central store where secondary processing is organised - grading and hand-sorting followed by milling at a local private mill to remove the parchment layer - then the green coffee is packed in 60 kg bags and stored in the warehouse ready to be trucked to the port of Mombasa in Kenya for export.

Export documentation and invoicing are carried out by Union Export Services (UNEX), an export company owned by co-operative unions. Gumatindo acquired its own office space and warehouse facilities in 2006, a major asset for the organisation. The development was funded by a loan from Shared Interest, a UK co-operative lending society that provides finance for fair trade projects.

Background

Gumatindo, which means "excellent quality" in the local Lugisu language, began in 1998 as a joint project between Bugisu Co-operative Union (BCU), a union of 250 primary or village co-operative societies, and Twin Trading. The project initially comprised four primary cooperative society members from BCU. Its long-term aim is to enable members to provide a reliable supply of the highest quality coffee in order to command better prices. A knock-on effect will be to improve the reputation of Ugandan arabica coffee on the world market which has been damaged as a result of liberalisation of the coffee sector.

BCU, however, was faced with a growing number of economic problems and collapsed in 2003. The participating cooperative societies decided to establish their own secondary level organisation to market coffee independently to Fairtrade and organic markets and formed Gumatindo Coffee Cooperative Enterprise Limited (GCCE) in July 2003. The original shareholder co-op members, Busamaga, Buginyanya, Bumayoga and Nasufwa, were later joined by Konokoyi and Peace Kawomera.

Gumatindo was registered as a secondary level cooperative organisation in October 2003. Gumatindo holds the Fairtrade certificate and organic licence and is a licensed exporter. It has set up the Gumatindo Management Agency (GMA) to take over day-to-day running of the company from the board and provide organic conversion and marketing services. This ensures transparent business practices in which none of the six co-op members has undue influence over strategy and decision making processes. Members of Gumatindo attend quality improvement seminars and practice traditional cultivation and processing methods to ensure the highest quality crop. These include good pruning, picking and drying techniques, the use of organic fertilisers and terracing to prevent soil erosion and water run-off.

Gumatindo exported its first organic coffee in 2002. Five of the Co-ops are now certified organic by Eco-cert, while Konokoyi is due to receive organic certification in 2008.

Coffee in Uganda

Agriculture is the most important sector of Uganda's economy and directly or indirectly employs 80% of the population. Agriculture and agribusiness account for 95% of total export revenue. Coffee is by far the most important export crop, accounting for around 50% of all export commodities. Annual production of around 180,000 tonnes earns revenues of around \$350m each year.

Village-based co-operatives were established by farmers as a means of avoiding exploitation by middlemen and private coffee traders. From the late 1940s they developed strategic control over the supply and export of coffee in Uganda. The chaotic political and economic situation during the Idi Amin dictatorship of the 1970s led to a collapse in coffee marketing and consequent weakening of co-operative structures.

Production recovered post-Amin, but the liberalisation of coffee export marketing, begun in the early 1990s, caused the collapse of most of the co-operative unions. They lacked the business structures and market knowledge necessary to survive in the new competitive environment that brought many private traders into the market, all scrambling to purchase and export coffee. As a result, both the quality and price of Ugandan coffee has been driven down in the stampede for quantity.

(Here is space to make notes during the discussion.)

You have now seen two examples of Co-ops, one in SA and one in Uganda. These two organisations are involved in two different farming ventures and indicate that there are many areas that Co-ops can become involved in and there are many different types of cooperatives, including: agricultural Co-ops, consumer Co-ops, marking and supply Co-ops, housing Co-ops, financial services Co-ops, social Co-ops, burial society Co-ops, service Co-ops and workers' Co-ops. So you already understand that there are different activities that Co-ops can be involved in and that there are different levels of Co-ops.

You should also understand that there are many reasons why groups of people could wish to form Co-ops, including to supply inputs or provide processing and marketing services as people seek to improve their income or economic position through improved bargaining power. Individual producers cannot consistently and reliably control the prices that they receive for their products or the prices they pay to produce these goods. However, people can form Co-ops to improve their income or economic position or to provide a much needed service through:

- Improved bargaining power: Combining the volume of several members to leverage their position when dealing with other businesses.
- Reduced purchasing price: Volume purchasing reduces the purchase prices of much needed supplies, assisting Co-op members in reducing their input cost.
- Obtaining market access or broadening market opportunities: Value is added to products by processing or offering larger quantities of an assured type and quality to attract more buyers.
- Improved products or service quality: Member satisfaction is achieved by adding value to the products and competition the Co-operatives provide, and improved facilities, equipment and services.
- Obtaining products or services otherwise unavailable: Co-ops often provide services or products that would not attract other private businesses.
- Reduced costs/increased income: Reducing Co-op operating costs increases the earnings available for distribution to members to boost their income.

User Owned (Services) and Worker Owned

In general, co-operatives are either user-owned (services) Co-ops or worker-owned Co-ops, i.e.:

- Worker-owned Co-ops are founded to meet the employment needs of their members through a collectively-owned and democratically controlled enterprise. They may be formed through:
 - i) a conversion of a conventional private enterprise into a worker-owned Co-ops, including take-overs and rescues of enterprises facing financial troubles or closure
 - ii) unemployed persons, through incubation
 - iii) opportunities that come through the restructuring of state-owned assets and public services
- User-owned Co-ops are established by members that have their own enterprise or household. The members use the jointly-owned Co-op enterprise to obtain goods or services required for their enterprises or household. Examples are agricultural marketing and supply Co-ops, savings and credit Co-ops, housing Co-ops, and consumer Co-ops.

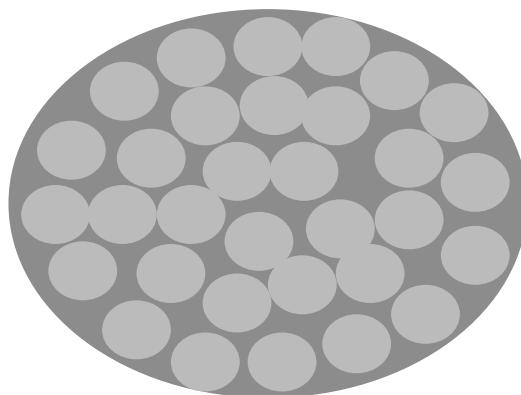
Some people are suited to a Workers Co-op, where they wake up every morning and go to work in this business and the members do not have any other source of employment. But one of the problems with Co-ops is related to working at a worker's Co-op, i.e. size and viability. Consider this problem using the following example.



ACTIVITY: SIZE AND VIABILITY

A Co-op was formed by the Extension Officer of DAFF at Malamulele, in Limpopo. This was an Egg Production Co-op and the Government donated the structures and start-up capital. The structures had a capacity to accommodate 100 layers. The Extension Officer expressed his desire to create jobs and alleviate poverty in the community, as he had grown up in the community. He went on a recruitment drive on his own and managed to recruit 50 members. In simple arithmetic terms, this meant that every member owned two layers, each of which had a capacity to lay two eggs per day.

Do you think this is a viable business? Will the Co-op ever make any real money? Will these jobs be sustainable? Justify all your answers with an explanation of why / why not? (Space to make notes has been provided below.)

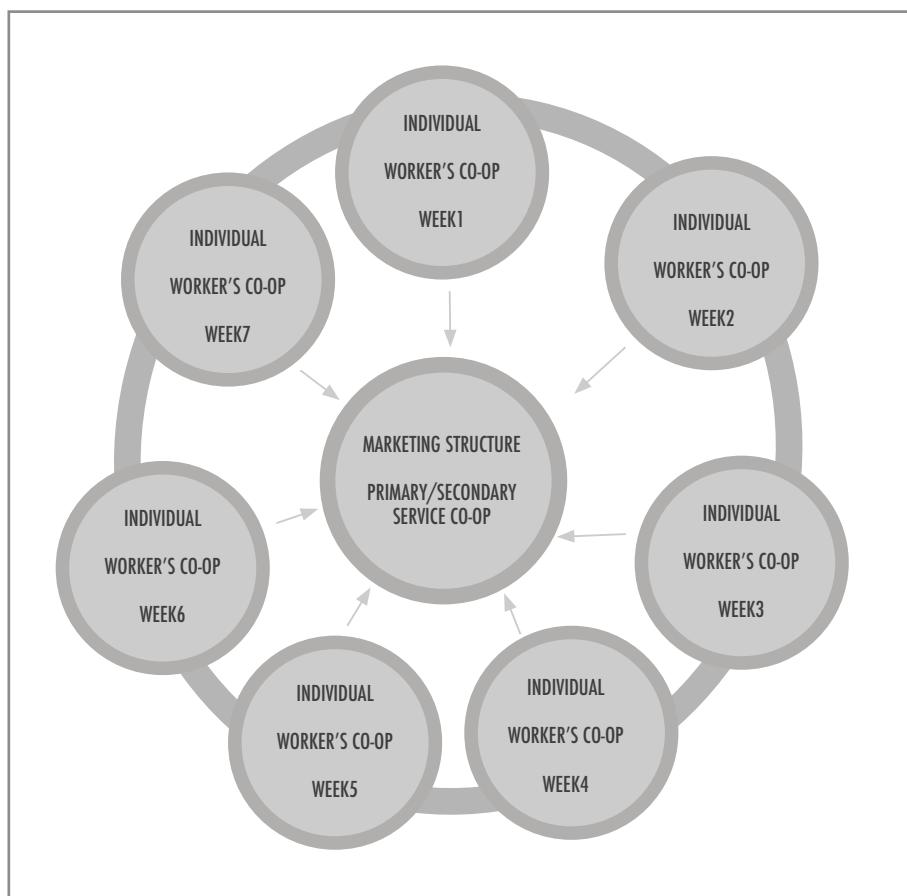


In a Services Co-op, owners prefer to have their own businesses, but establish a Services Co-op to access services such as joint buying or joint selling. In South Africa 99% of the new Co-operatives that are formed are worker Coops. When considering forming a Co-op, it is of vital importance to form the right type of Co-operative that is compatible with the type of business and the owners of that particular business.



CASE STUDY: BROILER CO-OP

A group of 6 broiler producers in QwaQwa decided to get together to form a ward-based broiler services Co-op. Each producer had a broiler production unit producing 500 broilers every six weeks. They decided to buy their stocks together in order to get a bulk discount from the feed and chick supplier. In this way, they would make one payment and the supplier would deliver 500 chicks per week to each member of the Co-op, as per a given schedule. They also decided that they would have one common selling place and each member would deliver 500 broilers as per the production schedule. The production side remained with the individual producer; and there was no interference from other producers, except in cases where a producer failed. In such a case the production unit would be taken over by someone consistency.



Here are some obvious advantages and disadvantages of the two different types of Co-ops:

Advantages	Disadvantages
<p>Worker Co-ops</p> <p>People of varying skills can come together to form a Worker's Co-op</p> <p>It is easier for family units to form a Worker's Co-op and access assistance from Government</p> <p>It is easier for these groups to access assistance from Government and other funders</p>	<p>Conflict arises, with people spending time fighting amongst themselves</p> <p>Accountability, as members can hide behind others and avoid accountability</p> <p>Exploitation, as these groups can easily be exploited by outsiders</p> <p>Productivity, as it is easy for lazy people to hide behind others and not be productive</p> <p>Size, because if the Co-operative has more members than necessary, viability problems will quickly emerge in a "one woman one chicken" scenario</p>
<p>Services Co-ops</p> <p>Businesses are operated and managed separately</p> <p>Good business will flourish and bad business will fall by the way-side</p> <p>Members will use their numbers to get good discounts from suppliers, buying power</p> <p>Members do not have to worry about selling and marketing, as this is done centrally through the Service's Co-op</p> <p>The patronage principle of Co-ops applies in this format, so the members who use the Co-op services more receive more dividends</p>	<p>Loss of decision making by individuals regarding buying and selling</p> <p>A poor choice of Service's Co-op management can result in loss of investment</p>

Type by Function

You may also understand Co-ops types as being organized according to function, i.e.:

- Production Co-ops are often owned by people who produce similar types of products. By working together, Co-op producers leverage greater bargaining power with buyers. They also combine resources to more effectively market and brand their products.
- Supply Co-ops purchase products and services that are required as inputs/stock for their member's individual businesses.
- Services Co-ops are owned and governed by independent business owners that come together to enhance their purchasing power, lowering their costs and improving their competitiveness and ability to provide quality services and products.

- Marketing Co-ops are frequently organized according to commodity or groups which engage in the supply of production inputs to members and market of their products. Marketing Co-ops may be involved in processing, assembling and packaging as well as selling member's products on both domestic and foreign markets.
- Purchasing Co-ops buy supplies and goods and sell these at a reduced price to members. These lower member costs. This type was first used by farmers to gain access to affordable and quality supplies such as feed, fertilizers, etc.

Here is an activity for you to do on types of Co-ops, including a case study on Ntuzuma Co-op (taken from <http://wiki.ulwazi.org/index.php5?>).



CASE STUDY: NTUZUMA CO-OP



Read the case study below and then answer the questions.

1) Ntuzuma Co-operative was founded in 2005 by Mr Paulos Gwala, but the members of this NGO are women. It is situated in Ntuzuma G section. Their focus is on cleaning and looking after the environment. They started the co-operative after a lot of crime in the area. They clean the bush where thugs used to hide and rob the people and turned that area into vegetable gardens. On the 17 September 2010 Ntuzuma Co-operative was celebrating five years.

The celebration was to encourage the community to look after the environment. There were different government departments to address the community about services that are offered by the government. The community was encouraged to start the one home one garden initiative by government. With the help of eThekweni Municipality, Ntuzuma Co-operative went to America to for knowledge sharing. The Co-operative works with other community organisations like schools etc.

2) What type of Co-ops are the three Co-ops you have already studied:

	Worker or User owned	Level and Function
Isiqualo Poultry Co-op Explain your answer:		
Gumutindo Coffee Co-op Explain your answer:		
Ntuzuma Co-op Explain your answer:		

1.3 THE PURPOSE OF A CO-OP



Whatever their business, the main purpose of a Co-op is to promote their members, their well-being and their livelihoods. The Government recognizes that the main purpose of a Co-op is to render services to members and that Co-ops contribute to the development of the nation or communities through improvement of the socio-economic situation of their members. Whereas the development potential of Co-ops is in principle not different from that of other types of enterprises, the double nature of Co-ops (members are at the same time owners and users) makes them more appropriate for specific population groups, geographical areas, sectors or situations. Hence, Co-ops possess an inherent special potential for socio-economic development -and this is most important.

One of the great challenges facing the South African economy is to increase the number and variety of viable and sustainable economic enterprises. Accordingly, it is central to government's economic policy that it promotes the development of emerging economic enterprises and diversifies the ownership, size and geographic location of those enterprises. The government's policy statement deals with the promotion and support of developing/emerging Co-ops, including small, medium, micro and survivalist Co-ops -because a viable, dynamic, autonomous, self-reliant and self sustaining Co-op movement can play a major role in the economic, social and cultural development of SA, through effective and efficient services extended

by co-operative enterprises to their members. By doing so, Co-ops contribute to the creation of jobs, income generation, resources mobilization, and broad-based economic empowerment, thereby enhancing sustainable human development in SA.

Co-ops are therefore recognised by the SA government as a viable form of economic growth and sustainable development for disadvantaged, vulnerable and marginalised groups, as well as those with limited resource capabilities. The creation of an economy of scale in a Co-op improves the odds of success and establishes a separate legal personality to represent the members' interests, which: minimises the financial risk involved in starting a small enterprise; provides a means for members to achieve long-term ownership of the organisation's sustainable activities.

More specifically, the government's policy on Co-ops indicates the purpose it sees of a Co-op in SA and the justification for its support of Co-ops as follows:

Potential contributions of Co-ops to development

The Government acknowledges that a genuine, autonomous and economically viable cooperative movement and its membership have a vast development potential to:

- create and develop income-generating activities and sustainable decent employment
- develop human resources capacity and knowledge of the values, advantages and benefits of the Co-op movement through education and training
- develop business potential, including entrepreneurial and managerial capacities
- strengthen competitiveness as well as gain access to markets and to institutional finance
- increase savings and investment
- improve social and economic well-being, taking into account the need to eliminate all forms of discrimination
- contribute to sustainable human development
- establish and expand a viable and dynamic distinctive sector of the economy that responds to the social and economic needs of the community
- enhance broad-based economic empowerment, thereby assisting the Government in achieving the objectives of its micro-economic reform strategy, the IMS and the BEE

Co-ops and the “informal economy”

- The Government acknowledges the existence, relevance and value of less formal, traditional Co-op organizations and the important role of Coop development in transforming the informal economy into legally protected work that is fully integrated into mainstream economic life, however, without destroying an identity. Government therefore facilitates the establishment of Co-op networks of individual entrepreneurs or micro-enterprises through which certain economic functions are organized (e.g. net control stations operated jointly by independent taxi drivers organized as a Co-op).
- The Co-op model can enhance small business competitiveness nationally and globally in accessing opportunities through its comparative advantage of economies of scale, synergies, increased bargaining power, joint innovation, member involvement and stability.

Co-operatives and targeted groups

- Government acknowledges the specific potential of Co-ops, as enterprises and organizations inspired by solidarity, to respond to members' needs and ensure greater black participation in the mainstream economy, especially persons in rural areas, women, persons with disability and youth.

- Government introduces support measures for the activities of Co-ops that meet specific social and public policy outcomes, such as employment creation and the development of activities benefiting disadvantaged groups or geographical areas.
- Special consideration in Co-op promotion is given to increase the participation of women in the Co-op movement at all levels, particularly at management and leadership level and future support programmes I place particular emphasis upon emerging black Co-ops.

1.3.1 Benefits and Advantages of a Co-op

Here are five good reasons for forming a Co-op, together with supporting examples:

Co-ops are community enterprises	<ul style="list-style-type: none"> • Co-ops keep economic benefits within a community. Profit is not siphoned off by outside interests, because the Co-ops members are its owners and the Co-op exists to fill a need in a community that is not being met by other businesses. • Agricultural Co-ops satisfy the need for supply, processing and marketing of goods. • Consumer Co-ops provide members with the goods and services required, of the preferred quality, at competitive prices. • Worker Co-ops are formed to create or maintain employment in a community. • Housing co-operatives give low-income people the opportunity to own their own homes. • Savings and credit Co-ops serve people of limited income not reached by commercial banks, and extend credit to small businesses that might otherwise not be able to secure financing. • Tourism Co-ops provide opportunities for holidays and travel, and offer fair prices and good quality service to their members. • Electric and telephone Co-ops meet rural peoples' needs for power and telecommunications not satisfied by private business. • Community development co-operatives are formed for the overall development of local communities and are specifically concerned with social, economic and cultural development.
Co-ops promote democracy	<ul style="list-style-type: none"> • Co-op members own their business. They provide share capital, elect a board of directors, and receive the benefits of ownership through better service and patronage refunds based on use. • Co-ops bring people outside the mainstream into the nation's economic and political life. • Co-ops teach people how to resolve problems democratically. Many individuals who received their education in democracy from Co-ops have gone on to become political leaders in their nations. • In emerging democracies, Co-ops help throw off the chains of a non-market economy. Their members develop the skills of entrepreneurship and learn market values.

Co-ops build open markets	<p>As more and more governments sell off state-owned enterprises, there is a danger that these monopolies may be moved intact into private hands. Co-ops help avoid this pitfall by ensuring wide participation by the users of the former state service.</p> <p>Co-ops spread economic power and encourage competition. They provide market leverage to small producers victimized by powerful cartels or sole-source companies. They undercut middle-men and money lenders, whose charges are often exorbitant.</p> <p>By ploughing profits back into the business, co-ops can operate on narrower margins. Thus they help drive down unfair prices and set a competitive range for goods and services.</p>
Co-ops raise human dignity	<p>Co-ops help people escape poverty and achieve dreams, such as owning a home or giving their children an education. Since educated decision-making is essential to a Co-ops' success, Co-ops also teach new skills, from adult literacy to business operations.</p> <p>Co-ops empower individuals by giving them a chance to participate in decisions that have an impact on them. Armed with the ability to effect change, members find solutions to social and economic needs.</p> <p>Co-ops provide an organized way for low income people to relate to sometimes distant governments and economic power structures.</p>
Co-ops are systems for development	<p>Co-ops draw community businesses into regional and national networks. Local Co-ops benefit from larger business volume, operating efficiencies and professional management. The economic pyramid enables farmers to purchase supplies at volume discounts, and receive profits from value-added processing and consumer sales.</p> <p>Credit unions pool their resources and are able to transfer surplus savings to credit unions in lower income areas.</p> <p>Electricity co-operatives join together to buy power at a lower cost. They become an engine for development, spurring the growth of enterprises that is not possible without reliable energy.</p> <p>Co-op insurance companies are tied into a worldwide reinsurance network to protect against major losses. They pool groups of individuals not served by commercial companies to guard against personal and business risks.</p>

And here are some advantages of forming a Co-op, rather than another type of enterprise:

Democratic control	<p>As we have seen, Co-ops operate under the principle of one member, one vote. Members have a right to be fully informed about matters relating to the Co-op and every member has a right to take part in important decisions.</p> <p>Other forms of businesses are not always so democratic.</p>
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Unity of interests	<p>In a service Co-op, the people who own the shares and make decisions on behalf of the Co-op are the people who are served by the Co-op. It is in the interests of the members to provide the best possible service at the lowest possible cost. In a workers' Co-op, the people who own and make the decisions on behalf of the Co-op are the people who are employed by the Co-op. It is in the interests of the members to pay the highest possible wages. This unity of interests does away with some of the conflicts that other groups experience. For example:</p> <ul style="list-style-type: none"> • Workers who have created jobs for themselves do not have to struggle with employers about their wages. • People who market their own products do not have to wonder if the cut being taken by the middleman is fair. • People who buy products from a shop that they own and run themselves do not have to worry that prices will be hiked to increase profits. • People who join together to build their own houses or pool their money and make loans to themselves do not have to pay higher rents or higher interest rates for someone else's profit. <p>In a Co-op that is working as it should, there is no reason for anyone to exploit anyone else.</p>
Supervision and assistance	<ul style="list-style-type: none"> • Co-ops operate independently, but they receive support and supervision from government, which helps them to operate more effectively. The law on Co-ops contains rules to ensure everyone in the Co-op is treated honestly and fairly. The rules on financial matters help co-operatives prevent corruption and mis-management. • Government is committed to the development of the national Co-op movement in SA. It helps Co-ops operate successfully in many different sectors of the economy. It also gives special support to Co-ops that serve disadvantaged or marginalised people.

In addition, Co-ops could: provide loans to its members, share information, sell their produce at a central point, bargain on behalf of members, assign transportation and delivery location, arrange the timing and scheduling of delivery, set the delivery location, market end products for its members and secure prices.

But things can go wrong: merely forming a Co-op does not mean it will be a success. Failure is always possible and success has to be worked at. We will look at success and failure of Co-ops later in this manual. To finish off Unit 1, you will do an activity on your own Co-op or the one you hope to form or join.

Let's do a final exercise for this section of the training programme in order to reflect on what you know and what you have learnt thus far.



REFLECT ON YOUR OWN CO-OP

Using all your learning thus far, write down everything about the Co-op you hope to form/join, including:

- a. What level of Co-op are you interested in becoming involved in and why (primary, secondary, tertiary)?

- b. What type of Co-op are you interested in becoming involved in and why (user-owned or worker-owned)?

- c. What business activity are you interested in becoming involved in and why (farming, transport, tourism, etc.)?

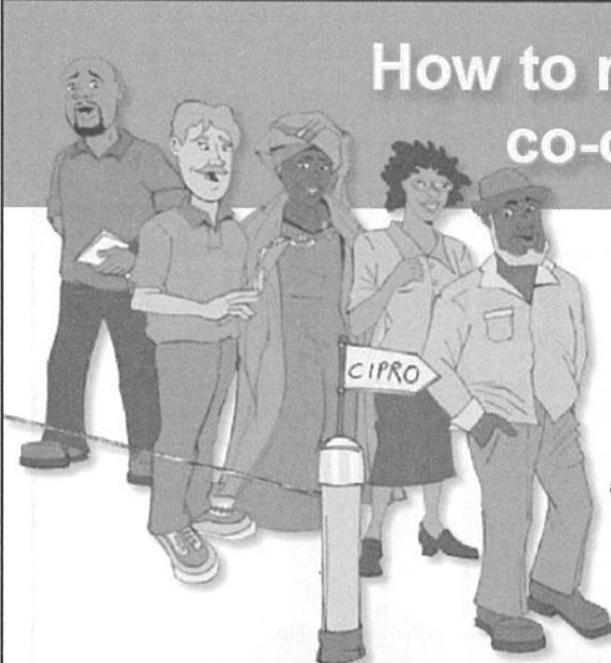
- d. Where will the Co-op be located and who will be members?

- e. What capital will be required to start it up and where will this come from?

- f. What is the name of the Co-op or what are the possible names you have come up with?

- g. What else can you tell us about the Co-op you hope to form/join?

UNIT 2
FORMING A CO-OP



How to register a co-operative

If you want to form a co-operative you need to hold a meeting with all the interested persons and decide to register a co-operative.

Rule 2:
There must be at least five people in order to form a co-operative.

Rule 3:
You have to register your co-operative with the Registrar of Co-operatives which is part of South Africa's Companies and Intellectual Property Regulatory Office (CIPRO).

You have to contact CIPRO to register your co-operative. CIPRO is located at the Department of Trade and Industry (the dti) in Pretoria. You may visit their offices, or you may telephone or write to them to get the information and documents you need, or you may visit the dti website for more information.

Contact details for CIPRO
Telephone: 0861 84 33 84
Physical Address: the dti Campus, 77 Meintjies Street, Sunnyside, Pretoria
Postal Address: Write to CIPRO: Co-operatives, Private Bag X237, Pretoria, 0001
Web: www.thedti.gov.za



In Unit 1 you learnt who! a Co-op is, as well as the different forms a Co-op can take and its purpose uses and functions in an economy. You should, therefore, have a thorough understanding of what a Co-op is and how it can improve lives if run well. But, as we have said, all Co-ops are not successful and we will look at the issue of success and failure in a later module.

Next, we will learn about all the 37 rules that a Co-op must comply with. First we will look at how to form and register it. We will then look at financial matters relating to Co-ops and then at all the rules and regulations that have to be complied with by all Co-ops in SA not yet dealt with. You will then have a complete understanding of all the requirements of registration and functioning required by the Act and which you must comply with.

2.1 REGISTERING A CO-OPP

What does it mean to be registered?

It means that your co-operative is recognised as a legal company by government's official Registrar of Co-operatives. A registered co-operative has legal powers and rights similar to those of companies and other registered business groups.

According to the law, the records of your registration have to be kept by the Registrar of Co-operatives and it has the authority to check that you meet the financial reporting and auditing requirements for co-operatives (see page 34 for more information).

Six steps for registering a co-operative

Step 1: Reserve the name of the proposed co-operative. This means that you apply for permission to use the name you have chosen. You do this by completing form CR5 and delivering it or posting it to the CIPRO office. Make sure that the name has the word 'Co-operative' in it and that it is followed by the word 'Limited' or 'Ltd', e.g. The Rainbow Clothing Co-operative Ltd. When CIPRO notifies you that your choice of name has been approved you may proceed to step 2.

Step 2: Obtain a copy of the constitution for co-operatives from CIPRO (see page 12 of this User Guide for more information about a constitution). Obtain a copy of Form CR1.

Step 3: Hold a meeting with all the people who want to form this co-operative; they will become its founder members. At that meeting each founder member must sign the constitution of your co-operative.

At that meeting you must also elect the persons who will serve on the Board of Directors (these can be the same as the founder members). (See page 24 for more information about the Board of Directors.)

Get legal so that you can get help.

**CR5: Form to fill in
Money to pay: R150.00**

**CR1: Form to fill in
Money to pay: R215.00**

Before a co-operative can apply for registration, there must be at least one preliminary meeting of interested persons. The persons present at this meeting must adopt the constitution of the co-operative and elect the first directors of the co-operative. After the preliminary meeting, the group must submit an application for registration to the Registrar of Co-operatives. This application must be made on the official form CR1, which is available from the Registrar's office. A sample has been provided for you in Unit 6 (Co-op Documentation).

The minimum number of members who must support the application is different for different levels of co-operatives, i.e.:

- primary Co-op - at least five people
- secondary Co-op - at least two primary co-operatives
- tertiary Co-op - at least two secondary co-operatives

Registering the particulars of the directors



Rule 21:

The co-operative has to supply the Registrar of Co-operatives with the full particulars of the Board of Directors no more than 30 days after their election.

CR2: Form to fill in

You are required to complete form CR2 and record the directors' full names, their physical and postal addresses and their ID numbers.

This list must be sent to the Registrar of Co-operatives within 30 days of the election of a director. The co-operative must also notify the Registrar within 30 days if any director has had a change of address and if any director has withdrawn from his/her position.



The group must submit the following documents to the Registrar along with the application:

- the constitution of the Co-op, signed by the members who are applying to register the Co-op (the founder members). (See example in Unit 6.)
- a list of the names of the founder members
- a list of the names of the directors (see form CR2 in Unit 4). (We will deal with elected officials later.)
- the registration fee, or proof that the registration fee has been paid. The amount of the registration fee will be set by regulations made under the Co-operatives Act

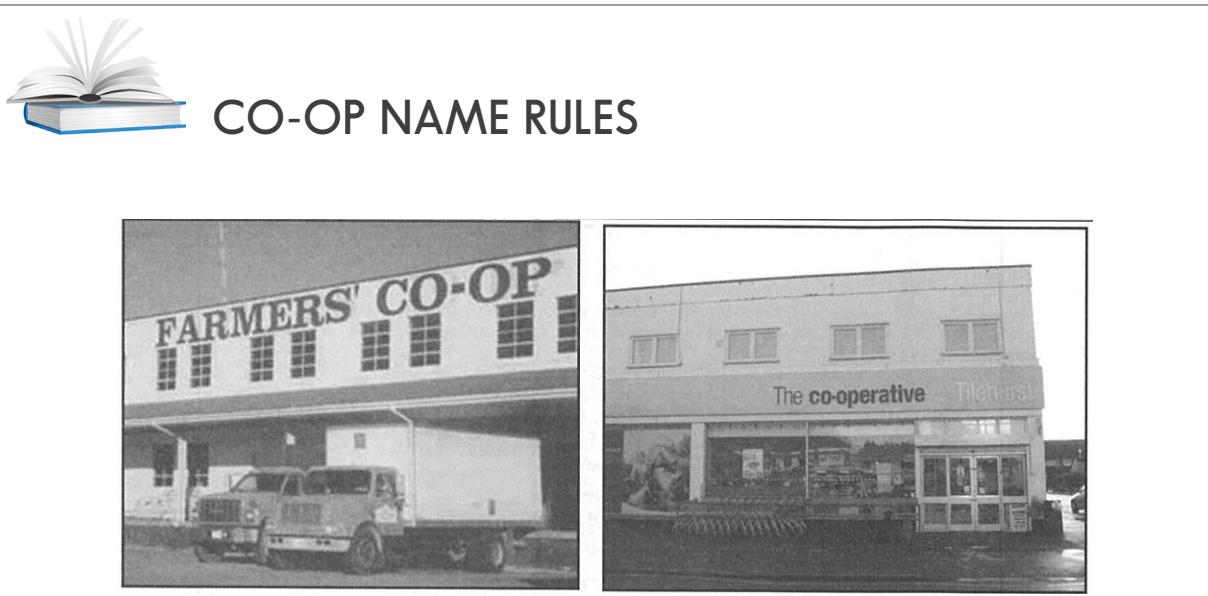
Pay the registration fee (which used to be R215-00, but please check what it is at the time you want to register), either as a bank deposit or cash payment at CIPC offices and use the customer number that you obtain when paying the application fee to:

CIPC
ABSA BANK
ACCOUNT NUMBER: 4055 68 1017
ACCOUNT HOLDER: CIPC Companies Division
BRANCH NAME: Van der Walt Street (Pretoria)

(Note: Payment by means of revenue stamps has been abolished. Payment is now done directly to CIPC or the above-mentioned details and can be made on the website (a credit card). Alternatively, visit Companies and Intellectual Property Registration Office (CIPC) .)

Submit registration forms together with proof of payment to CIPC or post to CIPC's office:
DTI Campus, Entfutfukweni Building (BLOCK F), 77 Meintjies Street, Sunnyside, Pretoria
or
CIPC, Private Bag X237, Pretoria, 0001

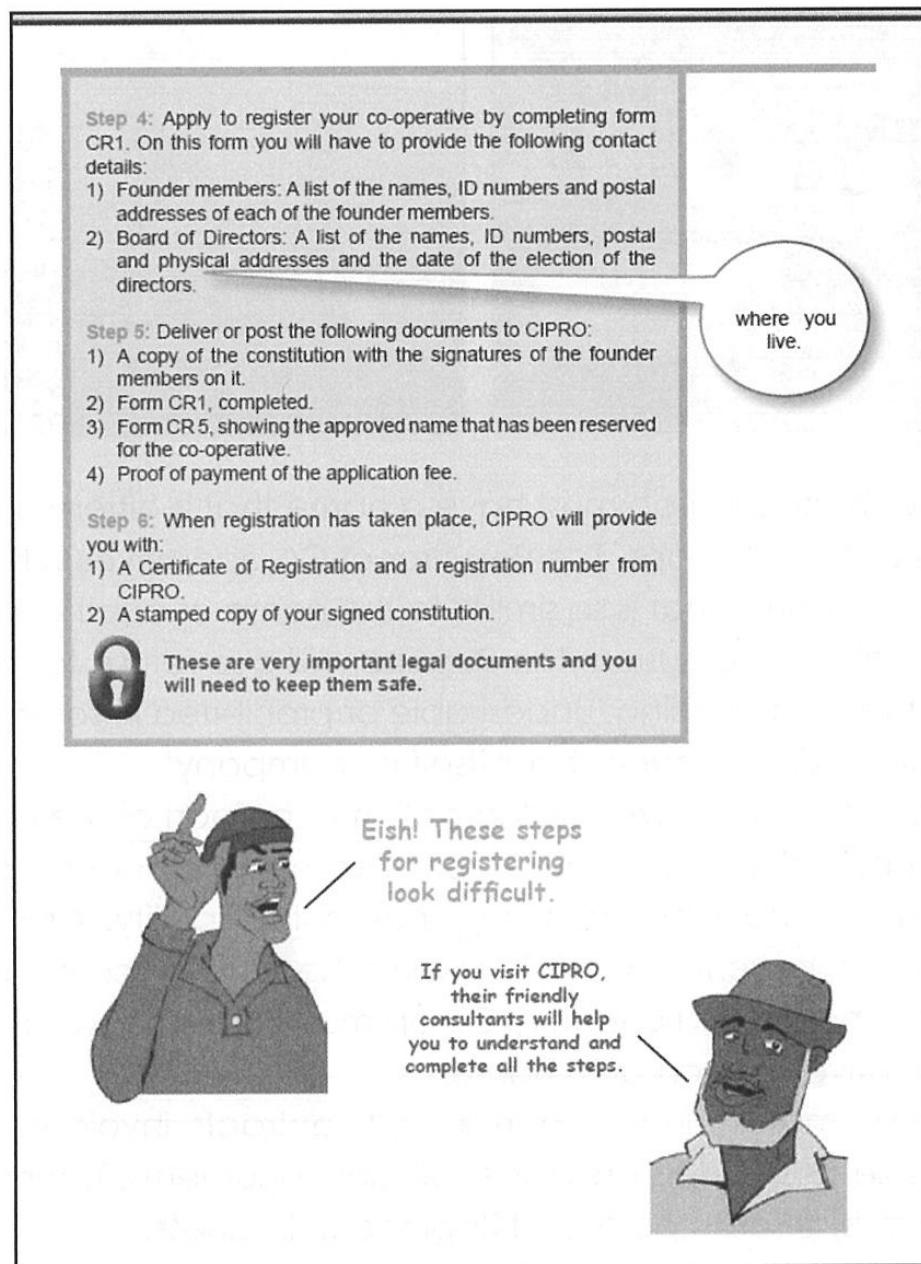
Before you do so, make sure you understand the detailed rules regarding a name for a Co-op, as indicated below.



- Every registered Co-op must have a name that is different from the names of other Co-ops. The Registrar of Co-operatives will not approve a name that is so similar to the name of another one that there might be confusion. The Registrar will also refuse to approve a name that is misleading, undesirable or prohibited in some way. For example, a Co-op cannot call itself a "company".
- The word "co-operative" or "co-op" must be part of the name. The word "Limited" or the abbreviation "Ltd" must appear at the end of the name to show that the Co-op has limited liability. A secondary Co-op must have the words the words "secondary co-operative" as part of its name and a tertiary Co-op must have the words "tertiary co-operative" as part of its name.

- The Co-op must include its name in all contracts, invoices, cheques, business letters, orders and other official documents. The name of the Co-op must also be posted at its place of business.
- The Registrar of Co-operatives can direct a co-operative to change its name if the name does not follow the rules in the Co-operatives Act. If the co-operative does not carry out such instructions within 60 days, the Registrar can issue a certificate of amendment that assigns a new name to the Co-op and amends its constitution to reflect this change. If this happens, the Registrar will also organise a public notice of the name change.
- No one other than a registered Co-op may use a name that includes the words "co-operative", "co-op", "co-operative limited", "co operative ltd.", or "co-op ltd".
- No person or group other than a Co-op indicate in any way that they are carrying on the business of a registered co-operative.

See form CR5 in Unit 6 as well as form CRI 1 and form CRI 2.





ACTIVITY : CO-OP REGISTRATION

Go to Unit 6 of the manual and complete the following forms i.r.o. your own Co-op (even if it is still an imaginary one at this stage): CR1, CR2, CR3, CR5.

And now let's look at the first requirement for registering a Co-op, i.e. preparing a Co-op constitution (see example document in Unit 6).

2.2 CONSTITUTION

The Constitution is an important document and there are required rules for all Co-ops in SA, as follows:

1. general:

- the name of the Co-op
- the level of the Co-op (primary, secondary or tertiary)
- the main objectives of the Co-op
- a description of the business of the Co-op, including any restrictions on the business of the Co-op
- for primary Co-ops, a provision stipulating that each member has one vote in all meetings
- the place where the registered office of the Co-op is located
- the structure for decision-making, which must allow members to participate in a democratic and participatory manner

A Co-op must have a registered office in SA at the place stated in its constitution. The Co-op must tell the Registrar of Co-operatives its physical address (street address) and all other contact details (such as telephone number, fax number and email address). The Co-op must notify the Registrar of any changes to its address or contact details within 15 days. (See form CR3 in unit 6.)

2. membership:

- the requirements for membership
- procedures for applying for membership
- an explanation of the rights and duties of members
- rules for the transfer of membership, member loans and membership
- the requirements for voluntarily withdrawing from membership in the Coop, including the notice period for withdrawal and repayment of shares, and any rules imposed about a member's liability on behalf of the Coop for a certain time period after the withdrawal
- rules and procedures for suspending membership and terminating membership

3. meeting rules, including:

- the minimum notice period for general meetings
- the conditions and procedures members must follow to request a general meeting
- quorums for general meetings, which must be large enough to ensure meaningful member control and decision making

- rules for annual general meetings and special general meetings, including: the procedures for convening these meetings; the minimum notice period for such meetings; the procedure for electing a chairperson for the meeting; procedures for proposing resolutions that will ensure democratic decision making; rules for tabling and adopting resolutions; rules about voting procedures; conditions for passing a resolution instead of holding a meeting

4) management:

- rules for the appointment of a chairperson, vice-chairperson and acting chairperson
- rules for the appointment of directors, including a rule that only members may be appointed as directors
- the minimum and maximum number of directors
- the term of office of directors, which must not be longer than four years
- whether a director may be re-appointed after the term of office expires
- rules saying when a director vacates his or her office, and procedures for filling vacancies in a way that ensures democratic accountability to the members
- the powers of the directors to manage the business of the Co-op and any restrictions on their powers
- rules saying when a board of directors may delegate their functions to a director, a committee or a manager

5) finances:

- the dates of the financial year of the Co-op
- rules on how surplus funds that have been placed in a reserve fund can be used
- rules on how surplus funds that have not been placed in a reserve fund can be used
- rules for the distribution of the assets of the Co-op if it is dissolved

Co-op must organize their financial accounts in one-year periods. This is the co-operative's "financial year". A financial year does not have to have the same dates as a calendar year. For example, the financial year could run from 1 March to 28 February of the following year.

2.2.1 Optional Rules

Provision has also been made for certain optional rules for Co-ops, if members wish, as follows:

1. General:

- additional objectives of the Co-op
- the amount of business the Co-op may do with non-members subject to the rules in the Co-operatives Act

2. membership:

- procedures for people who want to provide support to the co-operative without becoming members to be appointed as associate members

3. meetings:

- for co-operatives with members in more than one region, rules about regional general meetings and a conference of delegates
- rules allowing members to appoint proxies (substitutes) to attend and vote at a general meeting on their behalf, or rules for using postal votes

- any other rules consistent with the constitution and the Co-operatives Act about holding meetings and the procure used at meetings

No person may act as a proxy for more than 20% of the members entitled to vote at a meeting. The constitution can set a lower maximum percentage for proxies in the constitution if the members wish.

4. management

- rules for the appointment of a general manager or executive manager by the board of directors
- rules for setting up a supervisory committee
- rules and procedures for settling disputes between members of the Coop, or between a member of the Co-op and the Co-op itself

The constitution of a Co-op may include any other rule that agrees with the Co-operatives Act.

2.2.2 Rules when share are held/bought

There are required rules where members must hold/buy shares in the cooperative, i.e.:

- the minimum number of membership shares which will be issued to each member
- the nominal value of the shares
- whether the membership shares are to be issued fully paid up or not fully paid up, and the conditions under which shares must be fully paid for
- rules for issuing additional shares to members
- the maximum percentage of the share capital of a co-operative a member may hold, except in the case of a secondary or tertiary cooperative
- rules for redeeming shares issued to a member

A share is a stake in the Co-op. It represents ownership of a fixed amount of the Co-op assets. The money which the members pay for shares is the Co-op's share capital. The value of each share is decided by the Co-op. The value of the shares is always the value written on the share certificate.

This is called the nominal value. The value of a share in a Co-op never changes. Only members can hold shares in the Co-op. If a Co-op needs additional capital, the members can agree that they will all buy additional shares.

2.2.3 Invalid Provisions

Every member has to read the constitution of the co-operative carefully and understand all the regulations in it. Alternately, the Board of Directors can explain all the rules of the constitution to the members and ensure that they understand these.

What if you don't know how to write a constitution?

CIPRO can provide you with a model constitution especially designed for co-operatives. You may use this model for your own co-operative or amend it to suit the requirements of your co-operative.

Why is the constitution so important?

It contains all the rules for how we should manage our business.

It helps us to make sure that we run a legal, transparent business and that we respect the rights of our members.

It will help us to know exactly how to conduct meetings, make decisions or elect representatives.

If there is some part of a Co-op constitution that is inconsistent with the Cooperatives Act, those sections are not valid. But the rest of the constitution can still be valid. The constitution will not be invalid simply because it left out something on the list of matters which are supposed to be included in the constitution.

2.2.4 Changes to the Constitution

Changing your constitution

As long as any changes to your constitution follow the Co-operative Act and the principles of a co-operative (see page 5), you may change your constitution to suit your own requirements.

For instance, you may wish to change the length of time that a member may be a director. The Co-operatives Act states that directors may not hold office for more than four years, so you would not be allowed to increase the term of office to five years, but you may reduce it to three years.

Rule 5:
You may only change your constitution by taking a special resolution (decision), which is a decision taken by at least two-thirds of the members present at a general meeting.

The constitution of a co-operative can set a higher majority for a special resolution if the members wish.

Members need to be informed that they are required to vote on the proposed change, so you need to send them a notice in advance about the meeting and the proposed change that will be voted on.

The co-operative must then submit the special resolution to the Registrar of Co-operatives, so that their original constitution can be changed accordingly. You do this by completing Form CR6 and sending it to CIPRO.

The Registrar must register the change to your constitution, provided that it follows the Co-operatives Act and the co-operatives principles, and provided that your co-operative has followed the correct procedure for making changes.

I think 4 years is too long for one person to be a director.

We could change it to 3 years.

But it says 4 years in the constitution!

Yes, but we have the right to change our constitution if we follow the right procedures.

CR6: Form to fill in

A Co-op can change its constitution by way of a special resolution.

A special resolution is a decision taken by at least two-thirds of the members present at a general meeting and the constitution of a Co-op can set a higher majority for a special resolution if the members wish. The notice announcing this general meeting must include the proposed change, so that the members can be prepared to vote on it. The co-operative must then submit the special resolution to the Registrar of Co-operatives (see form CR7 in Unit 6).

The Registrar must register the change to the constitution if it follows the Cooperatives Act and the Co-op principles and if the Co-op followed the correct procedure for making changes. If any of these requirements have not been met, the Registrar can decide not to register the change. The Registrar must then provide the Co-op with the reasons for a decision not to register the change and this will be done in writing. The special resolution can state the date that the change will come into force. If no date is given in the resolution, then the change will come into force on the date that it is registered by the Registrar of Co-

operatives. Changes to the constitution of a Co-op cannot affect claims that have already arisen, offences that have already been committed, or court cases or other proceedings that are already under way.

It is now time for you to reflect and to put all your new learning into practise, after you read another case study on a successful Co-op in SA (taken from dtcc.org.za).



CASE STUDY: SIQOTHINDLALA CO-OP

Siqothindlala Agricultural Primary Coop is located at Swanieville within the Mogale City Local Municipality. Its core activity is vegetable gardening and the target market is the community of Swanieville. It has eight members, although it started with ten, and has the potential to employ ten more community members by April 2010.





ACTIVITY: CO-OP CONSTITUTION

Reflect on all the items detailed in the Constitution section above. In your group, start discussing your own Co-op (real or imagined) and detail all the following items as they will apply to your own Co-op. You will then share your group's ideas with the class.

- the place where the registered office of the Co-op is located
- the requirements for membership
- the dates of the financial year of the Co-op
- the amount of business the Co-op may do with non-members subject to the rules in the Co-operatives Act
- any special conditions that will apply to your Co-op

(Here is space for notes.)

The importance of your constitution

What is a constitution?

The constitution of a co-operative is the document which contains all the rules for how a co-operative should be structured and managed.

What goes into the constitution?

OFFICIAL DOCUMENT

PROCEDURES AND REGULATIONS IN THE CONSTITUTION

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graph LR
    A[Meetings] --> B[PROCEDURES AND REGULATIONS IN THE CONSTITUTION]
    B --> C[The AGM]
    A[Membership] --> B[PROCEDURES AND REGULATIONS IN THE CONSTITUTION]
    B --> D[The Board of Directors]
    A[General matters] --> B[PROCEDURES AND REGULATIONS IN THE CONSTITUTION]
    B --> E[Decision making]
    A[Any other rules that agree with the Co-operatives Act] --> B[PROCEDURES AND REGULATIONS IN THE CONSTITUTION]
    B --> F[Management]
    B --> G[Finances]
  
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Rule 4:

The constitution of a co-operative must include regulations about general matters, membership, meetings, management and finances. The Board of Directors of a co-operative is required to follow all the rules and procedures laid down in the constitution.

2.3 REGISTRATION OF THE CO-OP

If the Registrar is satisfied that the application meets all the specified conditions, then the Registrar will give the Co-op a registration certificate with a registration number. (See form CRI O in Unit 6.)

Once a Co-op is registered, it becomes a legal person. This means that it has legal powers similar to those of companies and other such groups. For example, it can continue to exist even if its membership changes over time. It can open bank accounts and own land and other property. It can enter into contracts and be a party to court cases. As a legal person, the Co-op will have many of the same rights and powers as individuals. (Before the group is registered as a Co-op, it does not have these powers as a group.)

If a person acting on behalf of a Co-op enters into a contract in the name of the cooperative before the Co-op is registered, the individual may be personally liable for the consequences. But the Co-op can adopt the contract within one month after the registration of the organisation by way of a resolution taken at an ordinary general meeting. If the Co-op adopts the contract in this way, then the Co-op becomes bound by it and the individual who signed it is no longer personally bound by it.

Once the Co-op is registered, the Department of Trade and Industry will be able to give it special support if it:

- follows the Co-op principles
- consists of black people, women, youth, people who live in rural areas, women or people with disabilities, and
- promotes equity and participation by its members

There are many other rules and regulations that Co-ops must comply with and we will look at these in the following units, i.e.: financial matters and other requirements.

UNIT 3
FINANCIAL MATTERS



Rules about money

Providing capital for the co-operative

What is capital?

The capital of the co-operative represents the full value of everything the co-operative owns and uses to carry out its business. This can be money, equipment and other property. Even human capital (knowledge) can be included because it has a value. By this we mean that the skills and expertise which individual members contribute to the co-operative can add to its total value.

Rule 25:

Anyone who wants to be a member of a co-operative has to contribute some capital to the co-operative as a condition of membership. If members do not have capital or equipment to contribute, they may also contribute their labour and skills to the co-operative.

The law states that at least some of the capital for a co-operative must be supplied by the members. Members can contribute to the capital of a co-operative in any of the following ways:

1. Membership fees, joining fees or subscription fees.
2. Buying shares in the co-operative.
3. Contribution of equipment.
4. Contribution of skills and/or labour.

Rule 26:

The amount that each member contributes will not affect the member's vote. No matter what or how much each member contributes, each member has an equal vote.

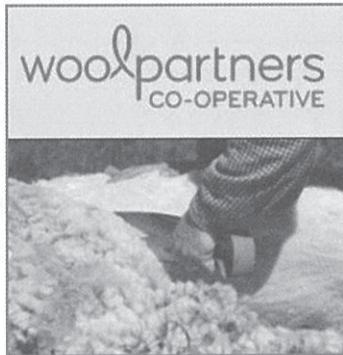
Co-operatives may also get money and equipment from fees, grants, donations, loans and surplus money left over from previous years of operation.



In Unit 1 you learnt what a Co-op is, as well as the different forms a Co-op can take and its purpose uses and functions in an economy. Next, you started learning about all the rules that a Co-op must comply with, specifically those relating to registering a Co-op and the Co-op constitution. Now we will look at financial matters relating to Co-ops and in the next unit we will deal with all the rules and regulations that have to be complied with by all Co-ops in SA that we have not yet dealt with. You will then have a complete understanding of all the requirements of registration and functioning required by the Act and which you must comply with.

There are a number of requirements i.t.o. financial matters, i.e.:

3.1 CAPITAL



As far as possible, the members of the Co-op must provide the capital required. Capital is the money and equipment that the Co-op uses to carry out its goals. Co-ops can obtain capital from money paid for shares issued to members, membership fees, grants, donations, loans and surplus money left over from previous years of operation. At least some of the capital should come from the contributions of the members.

Anyone who wants to be a member of a Co-op will be required to give a contribution to the Co-op's capital as a condition of membership. In Co-ops that issue shares, members will receive share certificates that reflect the amount contributed; but the contribution of a member will not affect that member's vote. (Remember, that in this aspect a Co-op is different to a company. In a company, shareholders who own more shares will have more votes. In a Co-op, even if some members hold shares of a higher value than other members, each member will have one vote.)

The Co-op's constitution should say how and when the money credited to a member in a member fund must be paid to that member and these rules must be followed. Members can earn interest on the funds credited to them, just as they would earn interest on money held in a savings account at a bank and the interest rate must also be documented in the constitution. The money in a member fund can be set off against a debt owed to the Co-op by that member, on the date that the debt comes due.

Member Funds

The Co-op's constitution may provide for member funds, which is a system of that works in much the same way as savings accounts at a bank. These are funds held by the Co-op, being money allocated to a particular member, but which does not have to be paid out to the member right away. The Co-op can use money in member funds for anything allowed by its constitution - except that it must not use this money to pay off losses to the Co-op.

The money in a member fund can include:

- contributions made by the member to the fund, which are actually loans to the Co-op
- amounts set aside for future payment to the member, such as: interest on that member's shares; amounts that will be paid out to that member because the Co-op has reduced its share capital (meaning the amount of its capital that corresponds to the value of the shares issued to its members); money that will be returned to that member on the basis of transactions
- with the Co-op
- any other money due to a member that can be paid at a later date

3.2 MEMBER SHARES

Holding shares in a co-operative

What is a share?

A share is literally like a slice of ownership. If you buy a share in a co-operative, you will then own a part of the capital value of the co-operative and the amount that you own is determined by the size of your share and the capital value of the co-operative.

Think of buying a slice of cake: The whole cake may be on sale for R20, but if it is cut into 10 slices and you buy one slice for R2, then you will own 10% of that cake, which you will probably eat straight away.

However, if you contribute R2 to buying the ingredients for the cake before it is baked, then you will own a 10% share of that cake in advance. Now your share has the potential to increase in value. For instance, once the cake is baked someone might be willing to pay R30 for the whole cake. The value of your share would therefore increase to R3, so you will make a 50% profit. Of course you also face the risk that your share could lose its value. If the cake doesn't taste good, you might not be able to sell it, and then your share will be worth nothing. So it is in your interest to get involved in baking that cake and making sure that it is delicious!

Ugh, this cake taste terrible!
I paid Maria for the ingredients, but she doesn't know how to bake. Now I can't sell this cake.

You should have helped her to bake the cake. You are a good baker and you could have helped her to do a better job.

The constitution may say that all members must be issued with membership shares in exchange for a contribution to the Co-op's capital. If this is the case, each member must hold the minimum number of shares required by the constitution at all times. The constitution may also allow members to pay for additional shares if members wish. All shares must be of equal status and rank. Members can earn interest only on shares that are paid up. Transfers of membership shares from one person to another must follow the rules in the constitution about transfers.

Issuing shares: how it works

If the capital value of a co-operative is worth R100,000 the members may decide to create 1,000 shares for sale at a value of R100 each in order to raise more money for developing the business. If you buy 10 of these shares, you will pay R1,000. You will then own 1% of the capital value of the co-operative. When the capital value of the co-operative increases, the value of your shares will increase as well. You may sell your shares back to the co-operative when you resign from the co-operative and you will be paid out the value of your shares at the time of sale.



Rule 27:

A co-operative must give share certificates to all members who hold shares in the co-operative. It must also give certificates to members who have made loans to the co-operative.

Each certificate should have the following information on it:

- The name of the co-operative.
- A statement that the co-operative operates in terms of the Co-operatives Act.
- The name of the person to whom the certificate was issued.
- A statement that the certificate represents a certain number of membership shares or a member loan of a certain amount.



Our co-op needs to raise money to buy a bakkie. Would you like to buy a few shares?

Yes, I have a few hundred rands I can invest in some shares. But first you have to convince me that the value of the shares is likely to go up.



3.3 LOANS TO MEMBERS

Co-ops may give loans to anyone if this is part of the ordinary business of the Co-op. But other Co-ops may give loans only in the following situations:

- A Co-op can advance money to someone who will spend money on behalf of the Co-op. For example, advancing travel expenses to someone who is representing the Co-op at an international conference.
- A Co-op can give a loan to a member or an employee for the purpose of buying or building a house that they will live in themselves. For example, the Co-op could not fund housing developments intended for the profit of individual members.
- A Co-op can give loans to any of its members as long as the loans are available to all members on equal terms. For example, offering loans for start-up tools and materials might be one service offered to members by a wood-carving Co-op.

Lending money to members:

Co-operatives may lend money to members or advance money to them for certain expenses. However, the Registrar of Co-operatives has clear rules and conditions about this. The main condition is that a co-operative should not lend money or give security for loans if this will endanger its own financial health.



Rule 30:

Co-operatives may lend money to a member or an employee if they want to buy or build a house to live in themselves, but they may not lend them money to invest in a housing development for their own profit.



Rule 31:

Co-operatives may give loans to members as long as the loans are available to all members on equal terms. For instance, a co-operative may lend money to its members so that they can buy start-up tools and equipment.



Rule 32:

A co-operative may also give security for a loan that is made to a member by a third party such as a bank. In other words, the co-operative can promise to repay the loan on the member's behalf if that member fails to pay the bank. If this happens the member's obligation is then transferred from the bank to the co-operative.



Rule 33:

A co-operative may give (advance) money to someone who will spend the money on behalf of the co-operative. For instance, a person who will attend a conference on behalf of the co-operative may be given money to pay for the travel expenses.

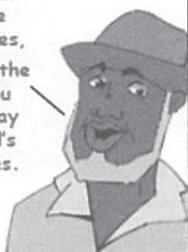
I need to borrow money to pay for my child's school fees. Will the co-op help me?

No, but they can lend you money to buy more material.



How will that help?

Then you could work harder and make more clothes, and earn the money you need to pay your child's school fees.



In any of these situations, the Co-op can also give security for loans from other sources. Giving security for a loan means pledging money or property to back-up the loan. If the person who received the loan fails to pay it back, the amount still owing will be taken from the security.

A Co-op must not give loans or security for loans if this would endanger its own financial health, i.e.:

- It may not give loans or security if this might mean that it would not be able to pay its own debts on time.
- It may not give loans or provide security if this would make its remaining assets (aside from the loan or the security in question) less than the sum of its liabilities plus its share capital plus the money in its reserve fund.

3.4 SHARE AND LOAN CERTIFICATES

A Co-op must give share certificates to all members who hold shares in it. It must also give certificates to members who have made loans to the Co-op. Each certificate should have the following information on the front:

- the name of the Co-op
- a statement that the Co-op operates in terms of the Co-operatives Act
- the name of the person to whom the certificate was issued
- a statement that the certificate represents a certain number of membership shares or a member loan of a certain amount

If the constitution says that the co-operative is not required to issue certificates, then the Co-op must give members statements about the number of their shares or the amount of their loans, if they request it.

3.5 RETURNS AND PROFITS

If the Co-op has money left over after it has paid all its debts and taxes and provided the planned benefits to its members, this is called a surplus. The surplus is normally used to develop the Co-op. For example, a Co-op usually plans to have some surplus that it can use to expand and develop the Coop's business or the services it offers to its members. But if there is an extra unplanned surplus, this means that (in a worker co-operative) the wages could have been higher or (in a service Co-op) the prices or fees or commissions charged for the service were too high. In this case, the surplus can be returned to the members, or used to support other activities approved by the membership - but only after the reserve fund has been attended to. The reserve fund belongs to the Co-op as a whole and it cannot be divided up among the members. No member has a claim to any specific share of it. The co-operative's annual audit will include information about the reserve fund and the Registrar of Co-operatives will check the audit each year to make sure that the Co-op is following the rules about reserve funds.

When a Co-op has surplus funds at the end of a financial year, some of the surplus must be placed in a reserve fund to be used in developing the Co-op. At least 5% of the co-operative's annual surplus must be set aside in a reserve fund instead of being distributed to members. The reserve fund is used for unexpected expenses, and to develop the cooperative. A "reserve fund" is an account in which money is set aside for future needs (such as unexpected expenses) or expenditure that will benefit the Co-op (such as training for the members or maintenance of equipment) and they must keep a reserve fund to hold some of their surplus (the money left over at the end of the financial year after all the debts are paid). The constitution will say how the reserve fund must be used, but it must put at least 5% of its surplus at the end of each financial year into the reserve fund.

So members do not usually receive a big return on the amount they contribute to the capital of the co-operative as a condition of membership. Unlike a shareholder in a company, who buys shares in the hope of making a profit, a member of a Co-op joins the Co-op and contributes to its capital because the Co-op will provide a benefit to its members. The payment of dividends is a common practice in companies where people buy shares in order to make profits. But the members of a Co-op do not invest their money in the Co-op for personal profit, but to help the Co-op meet the members' need for a certain service or for employment. Since the primary aim of a Coop is to serve the needs of its members, a Co-op should use surplus money to improve the benefits to its members, not to pay large dividends on each share.

What happens to the profits of the co-operative

When a co-operative has surplus funds (i.e. it shows a profit) at the end of a financial year, some of the surplus must be placed in a reserve fund to use in developing the co-operative. The rest may be distributed amongst the members.

Surplus funds is the name used for the money that is left over at the end of the financial year after all the debts of the co-operative have been paid.



Rule 28:

At least 5% of annual profit must be set aside in a reserve fund that belongs to the co-operative and is used for unexpected expenses or to develop the co-operative. This figure may be changed to more than 5%, if the members agree to set it in their constitution.

What is a reserve fund?

A reserve fund is an account which belongs to the co-operative where money is set aside for future needs (such as unexpected expenses) or expenditures which will benefit the co-operative (such as training for the members or maintenance of equipment).

Co-operatives must keep a reserve fund to hold some of their surplus. The co-operative's constitution will say how the reserve fund may be used. The reserve fund belongs to the co-operative as a whole. It cannot be divided up among the members and no member has a claim to any specific share of it. The co-operative's annual audit will include information about its reserve fund. The Registrar of Co-operatives will check the audit each year to make sure that the co-operative is following the rules about reserve funds.



Surely we should get a share of all the profits every year?

No, the Registrar has ruled that we must put at least 5% of our surplus into the reserve fund.



That's what we'll use next year to pay for buying a new sewing machine and sending us all on a new dress design course.

However, some of the additional surplus can be returned to the members in proportion to the value of transactions each member has done with the Coop. For example: a grocery Co-op might return some of its surplus to its members in proportion to the total value of the purchases made by each of them during the year; a basket marketing Co-op might return some of its surplus to its members on the basis of the total value of each member's baskets sold by the Co-op during the year; a savings and loan Co-op might return some of its surplus to its members as interest on the amount each member holds in his or her savings account.

The return that can be paid out to members from the Co-op's surplus in respect of their investment in the Co-op must be limited to a maximum percentage detailed in the constitution. A portion of the net surplus can be divided among the members in proportion to the share capital which they hold.

Any surplus that is returned to the members must be shared in proportion to the contribution each member made to the surplus i.t.o. patronage, i.e. the amount of business a member does with the Co-op or how much each individual member's business compares with the total business of the Co-op in a particular financial year. For example, it might be that one member's transactions amounted to 5% of the co-op's total business, while a second member's transactions amounted to 8% and a third member's transactions amounted to 10%. These figures would be the members' patronage proportions.

The board of directors must make sure that the patronage proportion is calculated in a fair way and they must take into account the quantity, quality, kind and value of the goods involved in the transactions. They must also take into account the services provided to the member, as well as the services provided by the member. For example, it would be fairer for a cattle marketing Co-op to calculate each member's transactions on the value of cattle marketed through the Co-op, than on the number or weight of the cattle sold. If the Co-op also sells cattle feed to its members, the value of the feed purchased by each member should also be taken into consideration.

The Co-op can even require in its constitution that some or all the patronage proportion due to each member must be given to the member in the form of shares instead of cash, which helps the Co-op to increase its capital. If the co-operative uses this option, the constitution must also include rules for:

- giving members proper notice of the number of additional shares issued to them
- the procedure for issuing or transferring shares to the members
- the provision of share certificates for these (if the Co-op uses them)

The sale of my dresses last year brought in R25 000 to our Rainbow shop.

Hey, that's excellent. How much did the shop sell in total?

We sold R250,000 worth of garments. That means that she contributed 10% of Rainbow's business.

How are the rest of the surplus funds distributed amongst the members?

Rule 29:

The portion of surplus funds that may be paid to each member must be calculated according to the value of that member's transactions with the co-operative during the past year.

The calculation of each member's portion is called patronage proportion. Patronage is the total value of your business with the co-operative and proportion is the percentage contribution of your business to the total business of the co-operative.

For instance, if your products made up 5% of the co-operative's total sales for the year, you are entitled to be paid 5% of the surplus funds that are paid out to members.

The board of directors must make sure that the patronage proportion is calculated in a fair way. To achieve this, it is essential that accurate accounting and financial systems are used by the co-operative.

3.6 LIABILITY OF MEMBERS

Do you remember that the name of a Co-op must include the word "limited"? Liability means financial responsibility for the debts of the Co-op. "Unlimited liability" means that there is no limit to the financial responsibility of each member. If the Co-op is in debt for more than the value of all its property, then the individual members would have to pay off the debts out of their own pockets and a court could order the members to sell their personal assets to pay off the Co-op's debts.

The Annual Audit

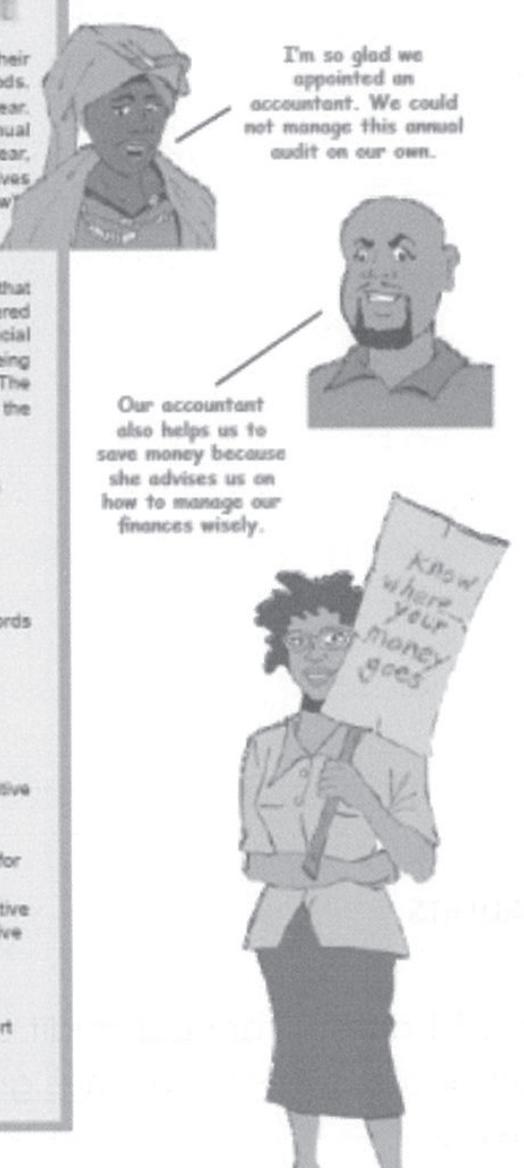
Co-operatives must organise their financial accounts in one-year periods. This is the co-operative's financial year. Every co-operative must have an annual audit at the end of each financial year, unless the Registrar of Co-operatives has given it an exemption (see below).

What is an audit?

An audit is a financial evaluation that is done by a qualified and registered accountant to check that the financial affairs of the co-operative are being correctly and honestly managed. The person or company that carries out the audit is called an auditor.

The duty of the auditor is to:

1. Make sure that the co-operative keeps accurate financial statements.
2. Make sure that the financial records of the co-operative follow the requirements of the constitution and the Co-operatives Act.
3. Make sure that the assets and property of the co-operative are properly managed.
4. Attend meetings of the co-operative where financial matters are discussed.
5. Collect any information needed for the audit.
6. Report on whether the co-operative is following the seven co-operative principles (see page 5).
7. Report on any other financial matters.
8. Submit an annual auditor's report and annual financial statements (AFS) for the co-operative.



"Limited liability" means that the liability of individual members is limited in some way. If the Co-op is in debt for more than the value of all its property, then the liability of individual members will be limited to the unpaid portion of the nominal value of their shares. Remember that the nominal value of shares in a Co-op is the value written on the share certificate. The nominal value of a share in a Co-op doesn't change. All registered Co-operatives in South Africa have limited liability. But members will always be liable for losses caused by their own fraud or negligent (irresponsible actions).

Suppose that your Co-op has debts of R 10 000-00, but the value of all its money and property added together is only R5 000-00. You hold shares with a nominal value of R 100-00 and have already contributed R50 to the capital of the Co-op, but you still owe R50-00 for your shares. If the company or Coop had unlimited liability, then you could be personally liable for the R5000-00 debt of the Co-op and you could be asked to sell your car or your house to help pay off the debt. But the liability of registered Co-ops is limited, so the most you could possibly lose is R50-00, i.e. the amount you have not yet paid for your shares.

It is now time for you to reflect and to put all your new learning about financial matters into practise.



ACTIVITY: FINANCIAL MATTERS

Reflect on all the items detailed in the finance section above. In your group, continue discussing your own Co-op (real or imagined) and decide on all the following items as they will apply to your own Co-op. You will then share your group's ideas with the class.

- the capital required
- member contribution and shares
- how surplus funds that have been placed in a reserve fund can be used
- how surplus funds that have not been placed in a reserve fund can be used
- the nominal value of the shares
- whether the membership shares are to be issued fully paid up or not fully paid up, and the conditions under which shares must be fully paid for
- loans to members

(Here is space for notes.)

3.7 ANNUAL AUDITS

Every Co-op must have an annual audit at the end of each financial year, unless the Registrar of Co-operatives has given it an exemption. The audit has several purposes, i.e.:

- to make sure that the Co-op keeps proper financial statements
- to make sure that the financial records of the Co-op adhere to the Coop's constitution and the Co-operatives Act
- to make sure that the assets and property of the Co-op are managed properly
- to report on whether the Co-op is adhering to all Co-op principles
- to report on any other financial matters specified in the constitution

Limited liability

All registered co-operatives in South Africa have limited liability.

What is limited liability?

This means that individual members are not responsible for the debts of the co-operative. The debt of the co-operative may not be settled by claiming from the personal assets of members.

However, if a member is found to have committed fraud or to be guilty of negligence which may have cost the co-operative money, then that member will have to pay compensation for the losses caused by these irresponsible actions.

Withdrawal of membership

Rule 13:

When a member leaves the co-operative, he/she is entitled to claim all the money that may be owed to him/her by the co-operative. But the co-operative can postpone this repayment for up to two years if immediate repayment may cause financial problems.

When a member resigns (withdraws) from the co-operative or if a member dies, the co-operative must repay the amount of that member's shares and pay any other outstanding money owed to that member within two years.

However, a member who withdraws from the co-operative still has to pay any debts owed to the co-operative and must still honour any contract made with the co-operative. You cannot avoid your duties to your co-operative by resigning from it. For instance, if you borrowed money from your co-operative to buy equipment for your business, you have to repay that loan even if you withdraw from the co-operative.

I am so worried because our co-op is debt. What if I lose my house?

That cannot happen. Our co-op does not own your home, so we may not use it to settle our debt.

But why did Josiah lose his car last year?

That was because he stole money from the co-op account! When we found out, he had to sell his car in order to pay us back.

3.7.1 Exemptions

A Co-op that cannot afford the costs of an annual audit can apply to the Registrar of Co-operatives for an exemption from this requirement. (See form CR8 in Unit 6.) The Registrar has the power to grant an exemption if the following factors apply:

- The costs of the audit would affect the financial sustainability of the Co-op
- The Co-op has adequate financial records and can prepare an annual financial statement
- In light of the size and kind of Co-op involved, the interests of the members can be protected sufficiently without requiring an audit

If the Registrar grants an exemption to the annual audit requirement, the following financial safeguards must be applied to the Co-op:

- The Co-op must be audited at least every three years (instead of every year), or the Co-op must be audited annually by someone other than an auditor, such as a bookkeeper, who is not formally registered as an auditor
- The board of directors must prepare annual financial statements to present to the annual general meeting for approval, and give copies of the approved statements to the Registrar within 15 days of the annual general meeting. If the annual general meeting fails to approve the annual financial statement, the board must proceed in the same way as if it were an audited financial statement. The Registrar of Co-operatives may also set other conditions if he grants an exemption.

3.8 AUDITORS

A Co-op must appoint an auditor at each annual general meeting and that auditor will hold office until the next annual general meeting. The auditor must be a person who is registered in terms of the Public Accountants and Auditors Act. There must be no conflict of interest and a person is disqualified from being the auditor if he/she has an interest in the Co-op, its affiliates or subsidiaries, or in the businesses of any of its directors or senior employees. A person is also disqualified from being the auditor if there are any other circumstances which could create a conflict of interest.

An auditor stops holding office if he or she

- dies
- resigns
- is removed by a resolution of the members
- is struck off the national register of auditors

If the members remove an auditor, they must appoint a new auditor at that same meeting. If they fail to do this, then the board of directors must nominate a new auditor for the Registrar's approval within 30 days. An auditor appointed in this way serves out the rest of the term of office of the auditor who was removed.

The Registrar of Co-operatives must approve the fees to be paid to the auditor, which helps to prevent corruption.

What are the annual financial statements?

The annual financial statements (AFS) provide an analysis of the financial records for the year. The annual financial statements give a clear picture of the financial health of the co-operative. They will indicate matters such as income and expenditure for the year, show monthly cash flow, explain where money has come from and what it has been spent on, and show the profits or losses incurred.

The members of the co-operative have the right to ask the auditor to attend certain meetings to answer their questions. The auditor must be informed of meetings in writing, 10 days in advance of the meeting, and a copy of this notice must be kept by the co-operative.

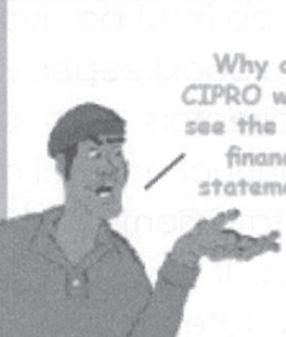
Submitting the annual financial statements

The auditor's report and the AFS must be approved at the AGM and signed by the chairperson of that meeting. Only once this has been done may the AFS and auditor's report be published, if required.

Rule 34:
The Board of Directors must send a copy of the annual financial statements to the Registrar of Co-operatives within 15 days after they have been approved and signed. They must be sent in together with a completed copy of Form CR7.

Rule 35:
The co-operative must make the signed annual financial statements available for inspection at its registered office for at least 21 days after they have been signed.

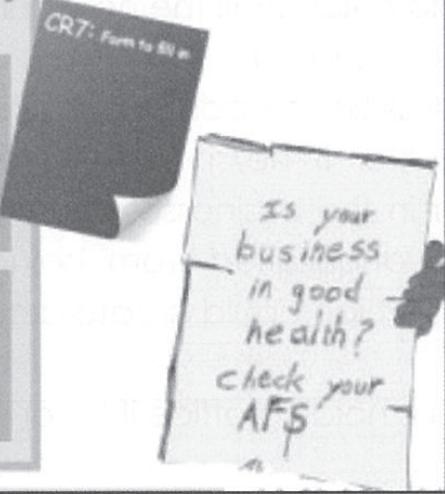
Why does CIPRO want to see the annual financial statements?



CIPRO is like our financial doctor. It gives us an annual check-up to make sure that we are running a healthy business.



CR7: Form to fill in



3.8.1 Auditor's Duties

The auditor's main task is to audit the financial accounts of the Co-op for the purposes described above and the auditor also has some special rights and duties designed to make this job easier, i.e.:

- Attending meetings: The Co-op must give the auditor notice of any general meeting at which reports done by the auditor will be discussed. The auditor has a right to attend such meetings at the expense of the Coop, and to address the meeting on matters related to his duties. Any director or member of the Co-op also has the right to insist that an auditor (or a former auditor) attend such a general meeting, at the Co-op's expense, to answer questions about his or her duties. But the director or member must give the auditor 10 day's notice of the meeting (in writing) and must also send a copy of this notice to the Co-op.
- Collecting information: The auditor has a right to request information on anything related to the audit from members, directors, employees, agents or anyone else acting on behalf of the Co-op. The auditors can also ask the directors of the Co-op to obtain information from people who formerly acted in any of these capacities.

3.9 FINANCIAL STATEMENTS

The annual general meeting of the Co-op must approve the auditor's report and the audited financial statements. The Co-op may circulate draft financial statements to the members before the meeting, to help them prepare for the discussion. After the annual general meeting approves the auditor's report and the audited financial statements, the person who chaired that meeting must sign them to confirm the approval. The board of directors must submit a copy of the approved documents to the Registrar of Co-operatives within 15 days of approval. The Co-op must make the approved documents available for inspection at its registered office for at least 21 days after they have been approved. (See form CR 7 in Unit 4.)

If the members do not approve the auditor's report and the audited financial statements, the board of directors must notify the Registrar of Co-operatives within 15 days, giving reasons for the meeting's decision and outlining the steps they will take to deal with the problem.

3.9.1 Mistakes in Financial Statements

Any director or employee of the Co-operative who notices a mistake in a financial statement must notify the auditor who dealt with that statement right away. If the auditor who dealt with a financial statement notices a mistake, the auditor must notify the board of directors right away. The directors must either prepare revised financial statement which correct the error OR inform the members of the Co-operative and the Registrar of Co-operatives about the mistake.

3.9.2 Restrictions on Publishing Financial Statements

In order to prevent confusion about the real financial situation of the Co-op, a Co-op may not publish or give out copies of its financial statements unless they are:

- approved by the annual general meeting
- signed by the person who chaired that meeting
- accompanied by the auditor's report

It is now time for you to reflect on your new learning about audits.

What happens if members do not approve the annual financial statements?

If the AGM does NOT approve the auditor's report and the AFS the Board of Directors must inform the Registrar of Co-operatives within 15 days, give the reason(s) for this decision and the steps that will be taken to deal with the problem. This also requires the completion of Form CR7.

The auditor must be told immediately if a mistake is found in the AFS, and if the auditor finds the mistake, the Board of Directors must be told. The directors must either revise the AFS and correct the error, or inform the members of the co-operative and the Registrar of Co-operatives about the mistake.

What if we can't afford the services of an auditor?

The services of a registered auditor can be too expensive for a small co-operative. A co-operative that cannot afford to hire a registered auditor may apply for exemption from this requirement. To do so you need to complete and send in Form CR8.

Rule 36:

A co-operative may apply to the Registrar of Co-operatives for exemption from the requirement to submit audited financial statements every year.

The Registrar of Co-operatives may then give the co-operative permission to be audited once every three years instead of every year, or the co-operative may be given permission to be audited every year by a bookkeeper (who is not registered as an auditor) whose services are not as expensive.



ACTIVITY : AUDITS

What was the most important thing you learnt in this section of the course?

Why do you say this?

What else do you know now that you did not know before we started the section on Audits?



GROUP DISCUSSION: FINANCIAL FAILURE

Now rejoin your group. After learning all about the financial aspects of a Co-op, why do you think some Co-ops that you heard about failed? What did they do wrong? What did they not do? Discuss specific examples and then share the best example from your group with the class.

(Here is space to make notes.)

UNIT 4
OTHER MATTERS

UNIT 4 OTHER MATTERS

What the law wants from a co-operative

Rule 1:

A co-operative must comply with the rules for co-operatives as laid down in the regulations under the Co-operatives Act, 2005 (Act No.14 of 2005).

These regulations have been designed by government to:

- Ensure that co-operatives have a legal status the same as that of a registered company;
- Ensure that co-operatives are governed according to the accepted standards of good governance; and
- Protect the members of the co-operative by ensuring transparency and equality in the operations of the enterprise.

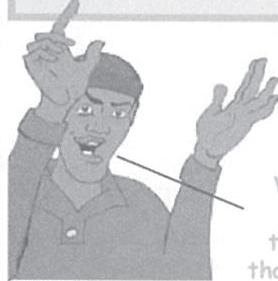
What are the responsibilities of a member?



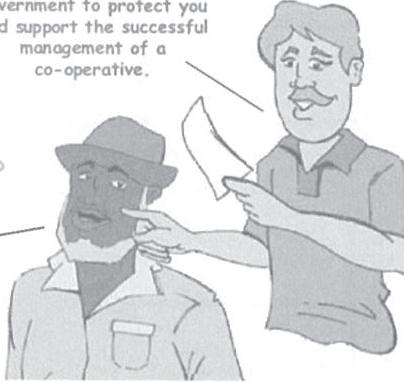
You must follow certain rules when running a co-operative.



Why do I need to follow those rules?



These rules have been especially designed by government to protect you and support the successful management of a co-operative.



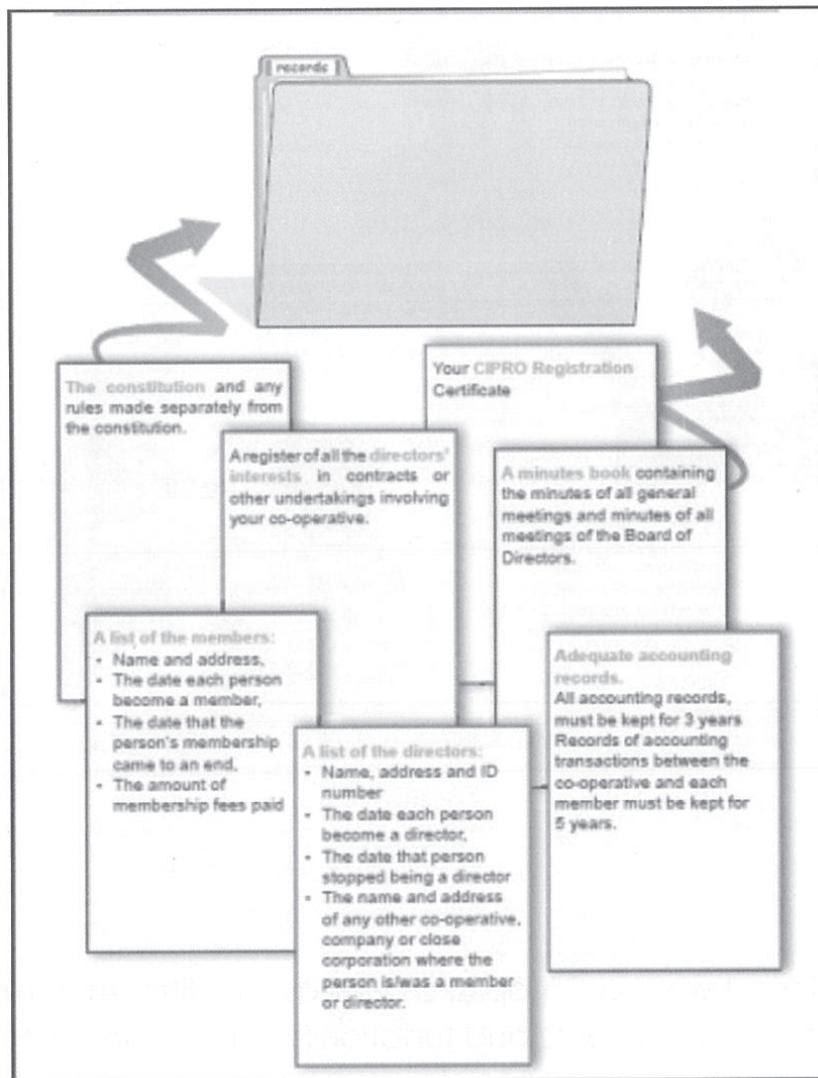
You see, a co-operative is a legal business that is registered with CIPRO, and the regulations for co-operatives are laid down by government under the Co-operatives Act of 2005.



In Unit 1 you learnt what a Co-op is, as well as the different forms a Co-op can take and its purpose uses and functions in an economy. Next, you started learning about all the rules that a Co-op must comply with, specifically those relating to registering a Co-op, the Co-op constitution and financial matters. Now we will deal with all the rules and regulations that have to be complied with by all Co-ops in SA that we have not yet dealt with. You will then have a complete understanding of all the requirements of registration and functioning required by the Act and which you must comply with.

In addition to the rules for setting up and registering a Co-op and the rules regarding financial matters, the following rules and requirement for Co-ops must be complied with. (There are also certain additional rules for certain types of Co-ops, e.g. housing Co-ops, Worker Co-ops, financial services Coops and agricultural Co-ops. You can obtain the necessary information from the Registrar of Co-operatives.)

4.1 RECORD-KEEPING



A Co-op must keep the following documents at its registered office:

- its constitution and any rules made separately from the constitution
- a minute book containing the minutes of all general meetings
- a minute book containing the minutes of all meetings of the Board of Directors
- a list of its members with the following information for each member:
 - name and address
 - the date the person became a member
 - the date that the person's membership came to an end
 - the amount of membership fees paid
 - the number of membership shares held by the member
 - the number and amount of loans made to the member

Keeping records

What are the records?

The records of a co-operative are all the important documents that relate to the registration and working of the co-operative.

The co-operative must include its name in all contracts, invoices, cheques, business letters, orders and other official documents. The name of the co-operative must also be put up at its place of business.

Rule 9:

A co-operative must keep these documents at its registered office: the constitution, its registration certificate, a register of the directors' interests, a list of the members, a list of the directors, the minutes book and adequate accounting records.

Rule 10:

Every member has a right to examine the records kept in the co-operative's registered office during normal business hours.

The Board of Directors can withhold information about business transactions of the co-operative for a reasonable time period if disclosing this information could disadvantage the co-operative. An example of this could be information that might benefit your competitors.

- a register of directors, with the following information for each director, including both present and former directors:
 - . name, address and ID number
 - . the date the person became a director
 - . the date the person stopped being a director
 - . the name and address of any other Co-operative, company or close corporation in which a director acted as a director or a member, now or in the past
- a register of all directors' interests in contracts or other undertakings involving the Co-op
- adequate accounting records, including a record of the transactions between the Co-op and each member of the Co-op



Rules for record keeping

The registered office

Rule 6:
A co-operative must have a registered office in South Africa and this must be recorded in the constitution.

What does it mean to have your office registered?
It means that the address and contact details of the office where your co-operative is based are recorded in your constitution and that the Registrar of Co-operatives also has a record of these details.
The constitution must record the physical address (street address) and all the contact details such as telephone, fax and e-mail of the registered office.

Rule 7:
If the contact details of the registered office of a co-operative are changed, the co-operative must notify the Registrar of Co-operatives within 15 days. You do this by completing Form CR3 and sending it to CIPRO.

CR3: Form to fill in

Rule 8:
The official documents of the co-operative must be kept in safe place at the registered office.

Every member has a right to examine the records listed above during normal business hours and to make copies of any of these records after payment of a small fee. There is one exception: the board of directors can withhold information about business transactions of the Co-op for a reasonable time period if disclosing this information could disadvantage the Co-op. If the Co-op has a supervisory committee, then this committee will decide if the board of directors is allowed to withhold information on these grounds.

Note: If the main purpose of a Co-op is to conduct transactions with its member, then accounting records must be stored for 5 years after the financial year is over. All other Co-ops must store accounting records for 3 years.

4.2 MEMBERSHIP RULES

4.2.1 Membership Basics

In Unit 1 you learnt that membership of a Co-op must be open to anyone who can use the services offered and are able to accept the responsibilities of membership.

Rules for membership

Rule 11: Membership in a co-operative must be open to anyone who wants to use the services of the co-operative and is willing to accept the responsibilities of membership.

What do I need to do to become a member?

1. You have to prove that you can use the services of the co-operative. For example, if it is a craft co-operative, you should show that you can produce the craft work that the co-operative will sell for you at its craft market.
2. You may have to pay a joining fee or an annual membership fee.
3. You have to contribute in some way to the capital (money) value of the co-operative. If you are not able to contribute money, then you may contribute equipment or your own services or skills (see rule 25 on page 28).

Rule 12: Members must have democratic control of their co-operative. Each member must have one vote.

4. Once you are a member you may share in all the services and activities of your co-operative and you should participate in all the decision making. If you are unable to attend a meeting, you may choose a friend to be your substitute and vote on your behalf (this is called voting by proxy).

May I ask my friend, Mpho, to join your co-op?

Can she use our services?

Yes, she also makes clothes and needs help to sell them.

Then she is very welcome.

4.2.2 Withdrawal of Membership

When a member withdraws, the Co-op must re-pay the nominal amount of that member's shares -but the Co-op can postpone this repayment for up to two years, if immediate repayment might cause financial problems.

Please note that a member who withdraws from a Co-op is still liable for any debts to the Co-op and must still honour any contract made with the Co-op. So withdrawal cannot be used to try to avoid duties to the Co-op.

Suppose that your Co-op has debts of R 10 000, but the value of all its money and property added together is only R5000. You hold shares with a nominal value of R 100. You have already contributed R50 to the capital of the co-operative, but you still owe R50 for your shares. If the company or co-operative had unlimited liability, then you could be personally liable for the R5000 debt of the Co-op. You could be asked to sell your car or your house to help pay off the debt. But the liability of registered Co-ops is limited, so the most you could possibly lose is R50 -the amount you have not yet paid up for your shares.

4.2.3 Death of Member

Exactly the same rule applies if a member dies, i.e. the Co-op must repay the nominal amount of that member's shares into the deceased's estate, as well as any loans made by the deceased member to the Co-op (plus interest). Again, these repayments can be deferred for up to two years if immediate repayment might cause financial problems.

4.2.4 If Membership Falls Below the Minimum

If the number of members falls below the minimum required for registration and remains too low for more than six months, then the Co-op is automatically de-registered. In such an instance, it must change itself into some other kind of legal body, such as a company, or it must be wound up. If the Co-op converts itself into another type of legal body, the Registrar must publish a notice of this change of status. If the Co-op continues to carry out activities after this, then the members will be personally liable for the losses and damages of the Co-op and limited liability no longer applies.

4.3 DECISION-MAKING AND MANAGEMENT

4.3.1 General Meetings

The highest decision-making body of a Co-op must be a general meeting of its members. The board of directors is accountable to the general meeting. If the Co-op has a supervisory committee, then the board of directors is accountable to this committee during the periods between general meetings.

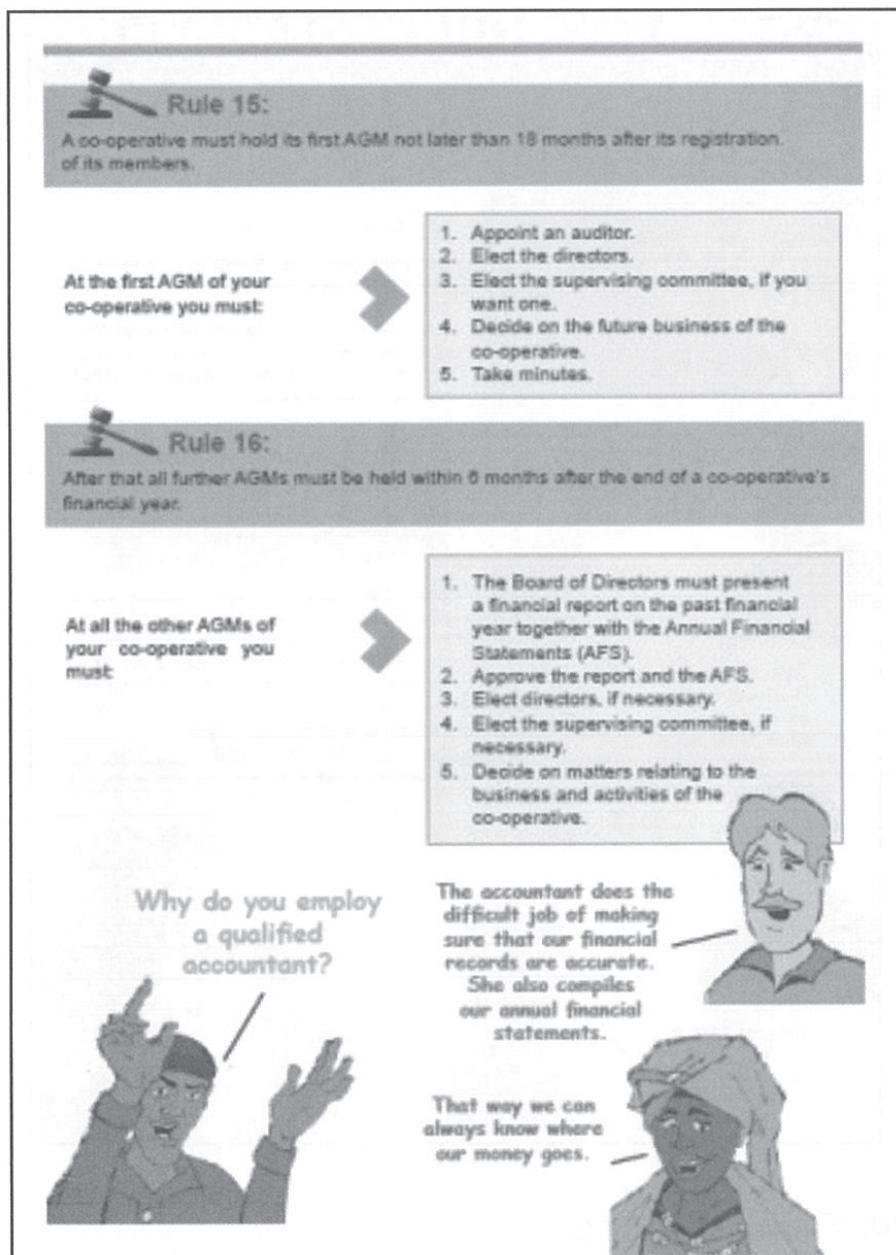


4.3.2 Annual General Meeting

A Co-op must hold its first annual general meeting not later than 18 months after its registration. After that, annual general meetings must be held within 6 months after the end of each financial year. The annual general meeting must deal with the following items of business:

- It must appoint an auditor
- It must approve a report from the board of directors on the affairs of the Co-op during the financial year which has just ended

- It must approve the financial statements and auditor's report for the financial year which has just ended
- It must elect directors
- It must elect the supervisory committee, if the Co-op has one
- It must decide on the future business of the Co-op



4.3.3 Representation at Meetings

If a member of the Co-op is a "legal person" (such as another Co-op), that legal person can be represented at the meeting by any individual who is properly authorized to be its representative. If the constitution allows, members can use postal votes or appoint proxies (substitutes) to attend and vote at a general meeting on their behalf. But no one person may act as a proxy for more than 20% of the members entitled to vote at a meeting. (The constitution can set a lower maximum percentage for proxies in the constitution if the members wish.)

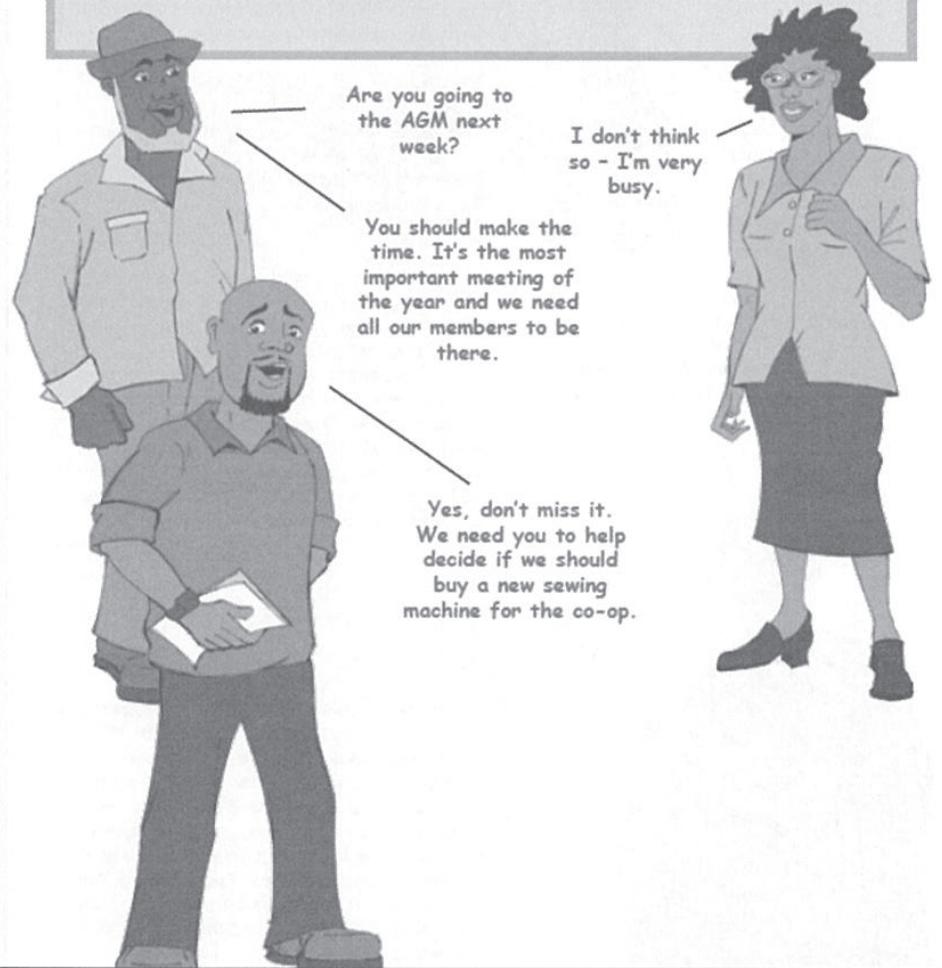
A member can even "attend" a general meeting by means of telephone, computer or any other technology that allows for adequate communication between the members during the meeting. The constitution can make rules about this type of attendance if the members wish.

The Annual General Meeting

The most important meeting of the year is the annual general meeting (the AGM).

What is an AGM?

The AGM is the annual general meeting which takes place once a year. This is the most important meeting of the year and the one at which certain decisions have to be taken.



4.3.4 Minutes

The chairperson of a general meeting must make sure that minutes of the meeting are kept in one of SA's official languages. These minutes must be kept in a minute book at the Co-op registered office and must be provided to members on request. The minutes of a meeting must be presented for approval at the next general meeting and the chairperson should then sign them.

If there is some question about decisions made, the minutes signed by the chairperson will be proof of the outcome of any vote taken (unless there is some evidence that the minutes are not correct). Similarly, a copy of a resolution adopted at a general meeting will be proof of what the Co-op decided, unless it is shown that the record of the resolution is not accurate or that it was not decided in terms of the constitution.

Taking Minutes



What are minutes?

Minutes are the record of everything that is said during a meeting and everything that is decided. The decisions that are taken at a meeting are called resolutions. Once the resolutions are recorded in the minutes, the Board of Directors has to ensure that these decisions are carried out.



Rule 17:

The minutes of a meeting must be kept in a minute book at the co-operative's registered office and they must be provided to members on request.

The minutes that are recorded at a meeting must be presented at the next meeting for approval. Once the members have agreed that these minutes are a true reflection of what happened, the chairperson of the meeting then has to sign the minutes and make sure that they are kept safely at the registered office. If there is a question about decisions made at any meeting, the minutes and resolutions signed by the chairperson will be proof of what was decided.

What happens if you can't attend a meeting?

A member can also attend a general meeting by means of telephone, computer or other technology which allows for communication between the members during the meeting. Members may also vote by a postal vote or faxed vote. A member may also appoint someone else to vote on his or her behalf at a meeting. This is called voting by proxy. But no one person may act as a proxy for more than 20% of the members entitled to vote at a meeting.

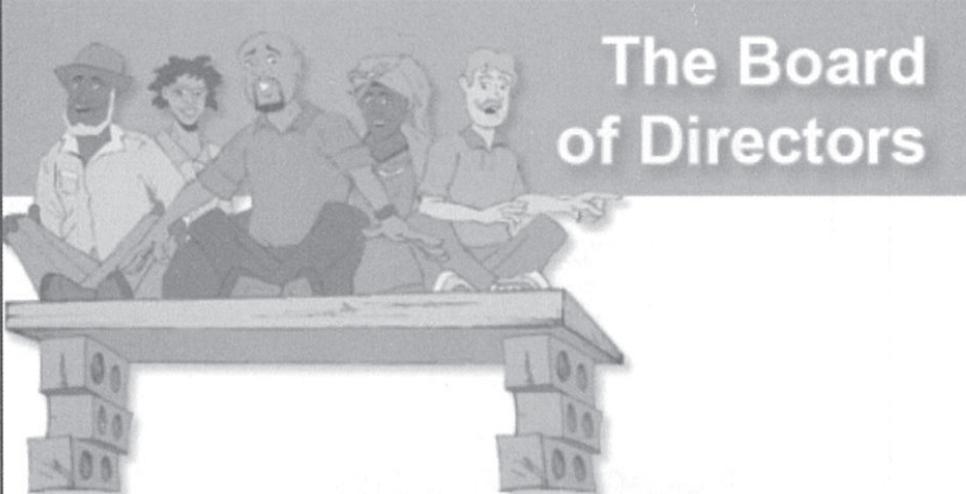
I can't attend the meeting next week, so I won't be able to vote about buying the sewing machine.

Don't worry, you can get someone to stand in for you and be your proxy.

That means to vote on your behalf.

4.4. BOARD OF DIRECTORS

A Board of Directors is a group of individuals elected from the general membership of the Co-op during the Annual General Meeting and should give direction and guidance on the affairs of the Co-op. They are responsible for managing the affairs of the Co-op as per the decisions taken at the general meeting and the board must comply with the constitution as well as with the Co-operatives Act.



The Board of Directors

What is a Board of Directors?

The directors of a co-operative are those members who are elected to manage the business of the co-operative. The members choose their directors by voting at a general meeting. Once the group of directors has been chosen, this group is referred to as the Board. The Board of Directors generally is headed by a chairperson.

The constitution of the co-operative will say how many persons should be on the board of directors.

The constitution will also set the term of office for directors, which may not be longer than four years.

Rule 18:
The Board of Directors of a co-operative must be elected by a majority vote by the members of the co-operative.

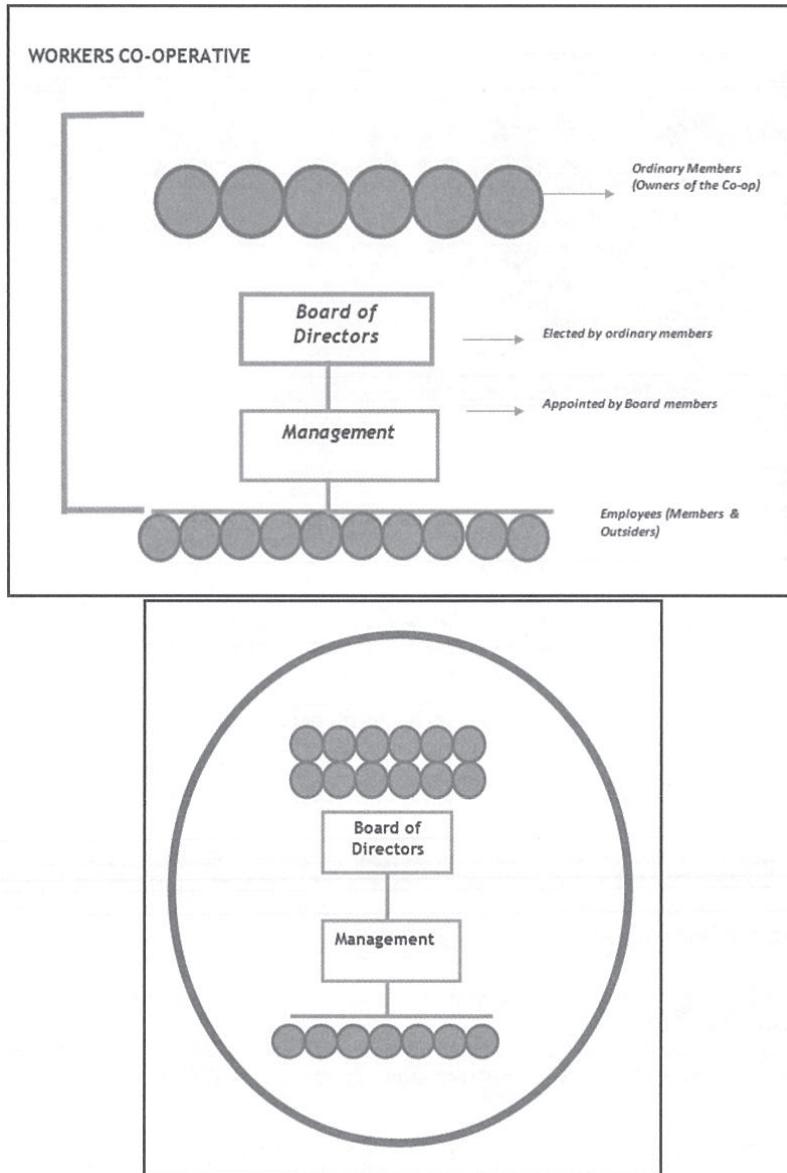
Rule 19:
A director may not serve for more than four years, and the members of the co-operative may take a special resolution to reduce the term of office to three or less years.

Rule 20:
The following persons are NOT qualified to serve as directors:

- Persons with mental illnesses or mental disabilities.
- Persons who have declared bankruptcy and are still bankrupt.
- Persons who have been convicted in any country of theft, fraud, forgery, perjury or any other crime involving dishonesty in connection with a co-operative or any other legal body.

The constitution will dictate how many people should be on the board of directors and will indicate the term of office for directors - this cannot be longer than 4 years. The constitution will also explain how the board of directors should be elected, but the following people are not allowed to serve as directors:

- those with mental illnesses or mental disabilities
- those who have been declared bankrupt and are still bankrupt
- those who have been convicted in any country for theft, fraud, forgery, perjury or any other crime involving dishonesty in connection with a coop or any other legal body.



If you are still struggling to understand how a Co-op is run, these graphics will assist and it should then be clear that the general members must elect from amongst themselves people who will form the Board of Directors. This Board of Directors will have delegated authority from the general members and should develop policies, rules and regulations, including by-laws to ensure that the mandate of the general members is carried out. The Board should carry responsibility for this mandate by ensuring that they appoint competent managers and employees, who themselves can be members of the Co-op.

Note that, without being prescriptive, an ideal Board of Directors should have a minimum of three members comprising:

- Chairperson
- Secretary
- Treasurer

Some Co-ops will have more than the minimum and can include, amongst others:

- Deputy Chairperson
- Deputy Secretary
- Additional members
- Co-opted members

Co-opted members are normally people who are not members of the Coop, but people from outside who are co-opted in order to provide the Board with the necessary knowledge and skills not available amongst Co-op members. Co-opted members should only serve during the term of the current Board and they do not have voting rights.

A well balanced Board should have the following characteristics:

- Board members should have special knowledge and skills of governance.
- They must be able to take business decisions.
- They must be able to interpret financial statements.
- They must be able to control activities of managers.
- The skills should be spread amongst all Board members, rather than residing with the Chairperson alone.
- The Board should never hesitate to seek outside help in case of complex issues.

Specific functions and duties of different board members are as follows:

Secretary:

- Record all proceedings of the meetings
- Keep records of all Co-op activities
- Can call meetings on instructions from the Chairperson

Treasurer:

- Maintain all financial activities of the Co-op
- Deposit and withdraw finances of the Co-op together with other delegated Board members
- Present financial records and statements to the Board
- Present financial records and statements to the general membership of the Co-op during the AGM or any properly constituted special meeting
- Interact with the appointed auditors in order to present proper financial statements to the AGM

Sub- committee members:

- Responsible to the delegated authority by the main Board
- Act in line with the by-laws and agreements of the Co-op
- Report to the Board on their activities on a regular basis

Co-opted members:

- Assist the Board with the knowledge and skills that are not available within the Co-op Board and its members.

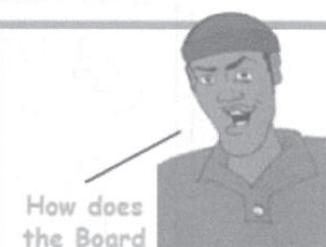
You should now understand the main differences between the positions and ways of electing a board and a chairperson, i.e.:

- A Board is elected through a ballot or any acceptable manner in line with the constitution
- Once members are elected by the general membership, they will proceed to elect office bearers from their elected members

- Regular elections should take place in line with the constitution
- Board members can be removed from office during any legally constituted general meeting of members in line with the constitution
- The Chairperson is elected by fellow Board members, who have been elected by the general membership
- The Chairperson (or Deputy Chairperson in the absence of the Chairperson) chairs all meetings of the Board
- The Chairperson is responsible for calling the Board meetings, the AGM or any special general meeting
- The Chairperson acts as the spokesperson for the Board, as well as the Co-op
- The Chairperson loses his position as soon as he stops being a member of the Board of Directors

Duties of the Board of Directors

1. The Board of Directors must follow the constitution of the co-operative and the Co-operatives Act.
2. The Board of Directors is responsible for managing the affairs of the co-operative according to the decisions of the general meeting. The Board of Directors has to provide a management service to the co-operative's members and has to accept the authority of the collective decisions taken by the members at general meetings.
3. The Board of Directors may choose to attend board meetings which are separate from general meetings. At these meetings they will discuss the day-to-day running of the co-operative's affairs.
4. Where decisions are taken at board meetings, there has to be a quorum of directors present – this means that more than half of the directors of the board have to be present. A director can attend a board meeting by means of telephone, computer or other technology which allows for communication between the directors during the meeting.
5. Decisions taken at board meetings have to be made by majority vote. If there is a tie, the chairperson may have an extra deciding vote. In the case where too few directors are able to attend a meeting to vote on a decision, a member of the board may also visit each director individually and get them to sign on whether they are against or in favour of a decision.
6. Minutes and resolutions must be taken at board meetings and recorded, approved, signed and kept safe, just as at general meetings (see Minutes on page 23).



How does the Board of Directors know what their duties are?



Their duties are all listed in our co-op constitution.

So for instance, if there are 10 members on the board, at least 6 members have to attend before decisions can be taken.

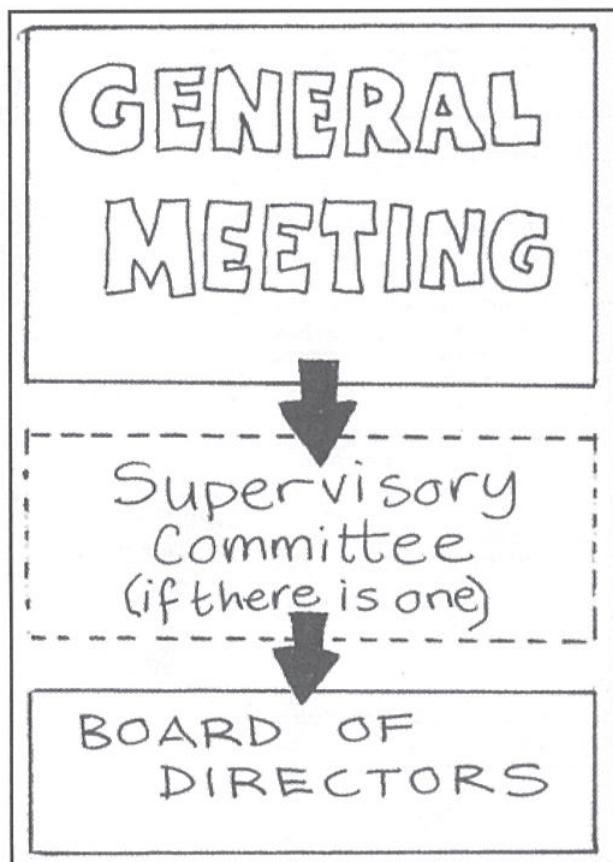
For instance, with 6 directors attending, if 3 directors vote against a decision and 3 directors vote in favour of it, then this is a tie. The chairperson may then vote again, and this additional vote will determine the result.

4.4.1 Register of Directors

The Co-operative has a duty to give the Registrar of Co-operatives a register of directors with the following information:

- their full names
- their addresses
- their ID numbers

This list must be sent to the Registrar within 30 days of the election of a director. The Co-op must also notify the Registrar within 30 days if any director has had a change of address, and if any director has left office for any reason. The director similarly has a duty to notify the Co-op within 30 days of any change of address. It is a crime for a director or a Co-op to fail to follow these rules.



4.4.2 Meetings of Board of Directors

The date, time and place for meetings can be set by the chairperson of the board, by any two directors, or by the board as a whole. A majority of the directors will be a quorum for a board meeting. Decisions will be made by majority vote. If there is a tie vote, the person chairing the meeting will have an extra deciding vote to break the tie.

A quorum is the minimum number of members who must be present in order for the meeting to take place. Directors who are "attending" the meeting by means of telephone, computer or other technology can be counted as part of the quorum.

If a resolution is signed by all the directors who would have been entitled to vote on it at a meeting, then it is valid in the same way as if it had been passed at a meeting. All the directors must sign the resolution to show that they are informed about it - but not all of the directors have to agree with the resolution. It is accepted as long as a majority signs in support of it. Similarly, if a decision is taken by the board while someone is absent, or while someone on the board is not properly qualified to be a director, the decision is still valid if it was agreed to by a majority of the people who are rightfully sitting as directors at that time. (Note that the constitution can dictate different rules about procedures for meetings of the board of directors.)

4.5 MINUTES OF MEETINGS OF BOARD OF DIRECTORS

The Board of Directors must ensure that minutes of meetings are kept in one of SA's official languages and these minutes must be kept in a minute book at the Co-op's registered office. The minutes must detail which directors were present at the meeting and must be circulated to all the directors as soon as possible after the meeting. They must be presented for approval at the next meeting of the board of directors and the chairperson should sign them.

A resolution signed by all the directors is a decision of the board in the same way as a decision taken at a meeting. Such resolutions must also be kept in the minute book at the registered office. If there is any question about decisions made by the board, minutes signed by the chairperson will serve as proof of what took place at the meeting.

4.6 DELEGATION OF FUNCTION

The constitution can include rules that allow the directors to delegate certain functions to a director, a manager or a committee. If functions have been delegated to a committee, the meetings of that committee must follow the same rules that apply to meetings of the board of directors.

There must be clear separation of functions and duties between the Board and management, including:

- clear lines of command
- job descriptions for all personnel
- performance of managers and employees should be evaluated against job descriptions
- board members should avoid meddling in routine tasks of managers and employees
- complaints and observations should be brought to the attention of relevant managers
- board members should, where possible refrain from appointing family members in managerial positions, to avoid accusations of nepotism
- board members should inform ordinary members of their decisions board members should remember that, by law, they are accountable for their deeds
- board members should declare any interest or activities that are in conflict with the interests of the Co-op
- long term decisions should be approved by ordinary members of the Coop
- board members should be ethical in all their activities and accept the moral obligations that go with directorship
- board members must always remember that they are accountable to ordinary members of the Co-op and serve on the orders of these members

- Managers are either appointed from the Co-op members or from outside as ordinary employees of the Co-op
- Their main functions and duties are to manage the day-to-day activities of the co-operative
- They are paid for the service rendered

So a Co-op manager is a person appointed by the Board of Directors, with delegated authority and powers to manage the day-to-day activities of the Co-op. It is the duty of the Board of Directors to ensure that they appoint the managers who have the relevant knowledge and skills in order to manage the Co-op business profitably. Managers are the engine of the Coop and their job description must be well written so that there is no doubt of what is expected from them. Good, professional managers will ensure a successful Co-op and it is important to employ competent managers, even outsiders, if necessary.

The Manager receives orders, authority and responsibilities from the Board of Directors and is burdened with the tactical or executive decisions of the Co-op. The Manager makes short term and medium decisions on the use, organization and management of resources, including: finances, people, equipment and materials. The Manager is responsible for appointing and allocating work to ordinary members or employees and training of employees. In addition, the manager is in charge of the budget, buying, production, marketing and personal relations.

The Co-op manager is therefore a role model, who must be able to communicate effectively with all stakeholders of the Co-op. He is the link between the Co-op and suppliers and the Co-op and customers. Because the manager is the face of the Co-op, so it is important that he has a neat appearance and portrays an image of a leader who is in charge and confident about his leadership role. This role includes giving credit where it is due, conducting all the activities of the Co-op in an honest fashion and ensuring that the premises are tidy and that everything is in its place and there is a place for everything.

Some of the skills that are required of a manager therefore include:

- Strategic planning and goal setting
- Leadership and control of people and systems
- Marketing
- Price control and distribution
- Financial management
- Stock management
- Operational management
- Human Resources
- Public Relations and Community Development
- Productivity

4.7 DISCLOSURE OF INTEREST

The directors and manager of a Co-op must disclose any involvement - such as interest in a contract or transaction with the Co-op - that could create a conflict of interest. The potential conflict of interest must be disclosed at the first meeting after the conflict arises and there are no loopholes, i.e.:

- the potential conflict of interest must be disclosed even if it did not exist at the time that a decision was taken by the Co-op and it must be disclosed even if it arose before the person in question became a director or manager
- it must be disclosed even if the contract or transaction has already been concluded
- it must be disclosed even if the contract or transaction in question did not require a decision by the director or manager

The disclosure must be recorded in the minutes of the meeting of the board of directors. If it involves a person who is not a member of the board of directors, then it must be submitted in writing to the board and included in the minutes of the board meeting. The board of directors must keep a register of all disclosures and full details of the situation. This register must be kept at the registered office and it must be open to all members for inspection. Failure to disclose a potential conflict of interest will be grounds for disqualification as a director or manager.

Rule 22:
The minutes of a meeting of the Board of Directors must be kept in a minute book at the co-operative's registered office and they must be provided to members on request.

Disclosure of interests

Rule 23:
The directors and manager of a co-operative must disclose any involvement, such as in a contract or transaction with the co-operative, which could create a conflict of interest. If they fail to do so they may be disqualified as a manager or director.

What is a conflict of interest?
A conflict of interest happens at a co-operative when a director or employee uses the influence of the co-operative for his or her own benefit (often, but not only, for financial gain) at the expense of benefits to the members.

Preventing corruption

Rule 24:
The directors and managers of a co-operative may not accept any personal payments in connection with activities or transactions involving the co-operative. To accept such a payment is a crime.

My wife has just been hired as an accountant at the firm that has been appointed to do our audit this year.

That might be a conflict of interest. You should disclose that information at the next meeting of the board.

There is one obvious exception to the rules on disclosures: It is not necessary for directors or managers who are members of the Co-op to disclose interests in a contract or transaction which is available on equal terms to all members.

For example, if all members who do business with the Co-op will receive a refund on their transactions at the end of the year (from the Co-op surplus) - including the members who are directors or managers, this does not create a conflict of interest as all members are in exactly the same position and have exactly the same benefit.

4.8 PREVENTING CORRUPTION

The directors and manager of a Co-op may not accept any personal payment in connection with transactions involving the Co-op. To accept a payment of this nature is a crime. The exception is that payments are permissible if they take place in the normal business or profession of the director or manager and the potential conflict of interest has been fully disclosed by the person in question. For example, perhaps a director or manager has a special skill that the co-op cannot obtain elsewhere.



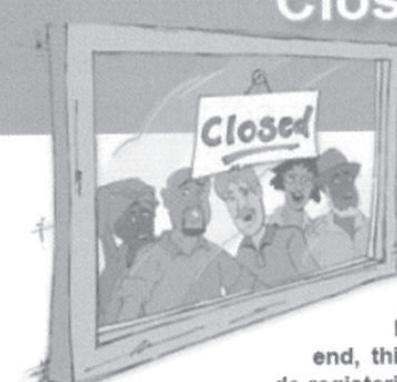
ACTIVITY : ROLE PLAY

- a) In your groups, you are now going to hold the first general meeting of your Co-op. You must attend to all the necessary matters that we dealt with in section 2.3, including: forming a board, allocating duties, disclosing interest, quorum, delegation of function and any other appropriate matters.
- b) Reflect on what you learnt during the role play, e.g.: is it easy to run a meeting effectively; what went wrong; what went right; how/why are people chosen as board members; etc.

(Here is space for notes.)

4.9 CLOSING THE CO-OP

The Co-op may be closed in a number of ways and we will look at this issue here. But first we will look at a related matter: Judicial Management.



Closing down your co-operative

If members decide to close down their co-operative and bring the business of the co-operative to an end, this is referred to as "winding up" or de-registering the co-operative.

There are three reasons why you might have to wind up your co-operative.

1. The members may decide to do this at a general meeting. In that case you will need to pass a special resolution and 75% of the members will have to vote in favour of the resolution. If you do this, then you will need to complete form CR9 to inform the Registrar of Co-operatives that the members have voluntarily decided to de-register their co-operative.
2. A co-operative may be ordered by a court to wind up its business if it has debts that it is unlikely to be able to pay.
3. The Minister of Trade and Industry may order a co-operative to de-register if the Registrar of Co-operatives finds that the co-operative has committed fraud to get registered, or has not fulfilled its obligations (such as not doing the business for which it was formed) or has not followed the rules of its constitution or the Co-operatives Act. The Minister must listen to the co-operative's side of the story before deciding.

 Rule 37:
For voluntary de-registration of a co-operative, 75% of members have to vote in favour of a special resolution to wind up the co-operative.

CR9: Form to fill in

4.9.1 Judicial Management

Judicial management is when a court (or someone appointed by the court) directs the affairs of a Co-op. This procedure can help a Co-op that is in trouble. It can, in some cases, be an alternative to winding up the Co-op. A court can place a Co-op under judicial management in the following circumstances:

- the Co-op cannot pay its debts or carry out its duties, because of mismanagement or any other reason; and
- the Co-op's business is not workable, because of mismanagement or any other reason; and
- there is a good chance that placing the Co-op under judicial management will put it back on its feet; and
- it seems just and fair to use judicial management to help the Co-op.

The Co-op itself can apply to the court for judicial management, if at least two-thirds of the members at a general meeting have passed a special resolution agreeing to this. Any interested person, such as a creditor, can also apply to the court for judicial management. The Minister of Trade and industry may apply to the court for judicial management, if this is recommended by the Registrar of Co-operatives.

4. 9.2 Winding Up



Winding up a Co-op means bringing the business of the Co-op to an end. This could happen in several ways:

- The members of a Co-op might decide to wind up the Co-op. This requires a special resolution passed by 75% of all the members
- A court may order winding-up on the application of any interested party, if the Co-op cannot pay its debts at the time and is not likely to be able to become more successful in the future
- The Minister of Trade and Industry may order winding-up (or deregistration) if this is recommended by the Registrar of Co-operatives for any of the following reasons:
 - . The Co-op obtained registration fraudulently
 - . The Co-op was formed for a particular time period, which has passed, or for a particular purpose,

which has now passed

- . The Co-op has not done any business for at least two years
- . The Co-op is not following its own constitution or the Act

(But the Minister must listen to any explanations provided by the Co-op before making a decision on winding-up.)

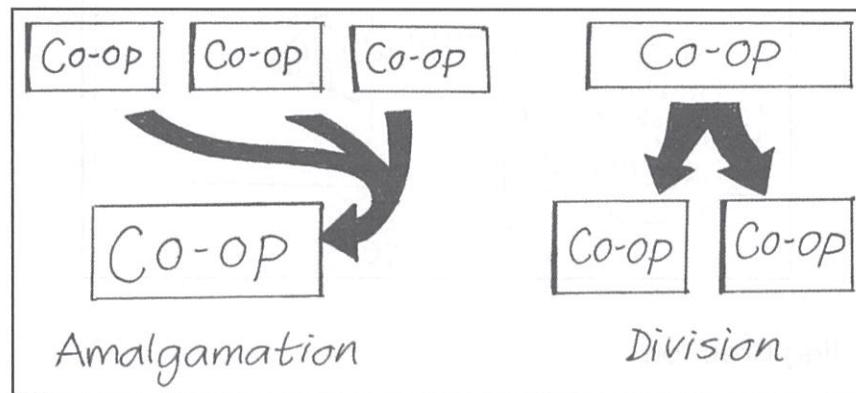
The Registrar will then appoint liquidators to supervise the process of dissolving the Co-op and the liquidator will deal with: claims against the Co-op; payment of the Co-op's debts; collection of any money still owed to the Coop; distribution of the Co-op's remaining assets and property. The amount of each member's paid-up share capital will be returned if there are enough assets and any assets left over after all creditors are paid and all share capital refunded will be divide up amongst the members in accordance with: the portion of transactions that each of them did with the Co-op in recent years; or in terms of the constitution. (Please see form CR9 in Unit 4.)

4. 9 .3 Amalgamations and Divisions

It is possible for two or more Co-ops to amalgamate (unite) into one; it is also possible for one Co-op to divide up into two or more. In each case, the Coop must prepare a written agreement that provides give all the details about the change. This proposed agreement must be presented to a general meeting of the members and the notice of this meeting must include a copy of the proposed agreement, so that the members can prepare themselves for the discussion.

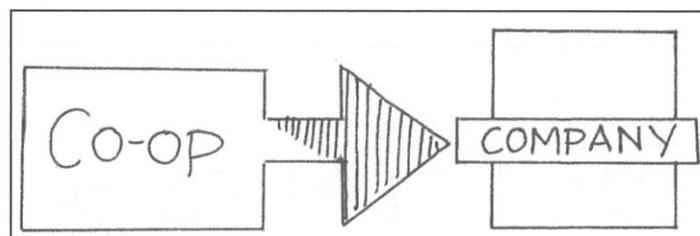
The proposal must be passed by a special resolution supported by at least two-thirds of the members present at the meeting. In the case of an amalgamation, the members of all of the Co-ops that want to join together must approve the proposed agreement in this way.

The constitution of the new Co-op must be given to the Registrar of Cooperatives for approval, along with a list of the directors of the new Co-op together with a notice detailing the location of any new registered offices. The directors of the old Co-op must also submit a notice to the Registrar, indicating that the process followed the constitution of the old Co-op. The notice must also state that the new Co-op will be able to pay liabilities on time and that their assets will not be less than the sum of their liabilities plus their share capital plus their reserves. The notice must also show that the interests of all creditors have been protected, in the required way.



If the Registrar is satisfied that everything is in order, he will issue a certificate of registration to the new Co-op and cancel the registrations of the Co-ops that no longer exist. The members of the old Co-op will become members of the new amalgamated Co-op or one of the new divided co-operatives. The assets and liabilities of the old Co-op will be transferred to the new Co-op and the rights and duties of the old Co-op will be transferred.

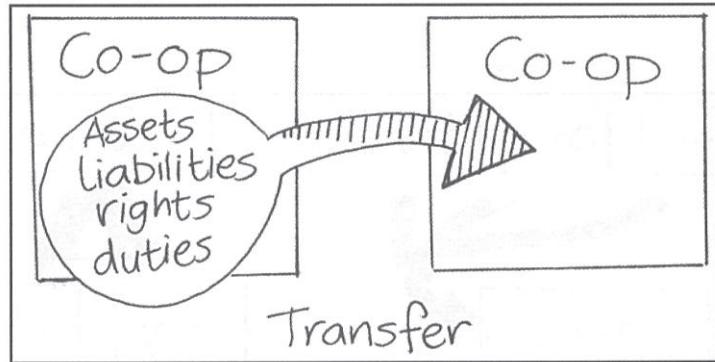
4. 9 .4 Conversions



It is also possible for a Co-op to convert itself into another kind of legal body, such as a company. The procedure for this is similar to the procedure for amalgamation or division and if the Registrar is satisfied that the process is in order, he will cancel the registration of the old Co-op. If the co-operative has converted into a company, then all of its members will become shareholders of the new company.

4. 9 .5 Transfers

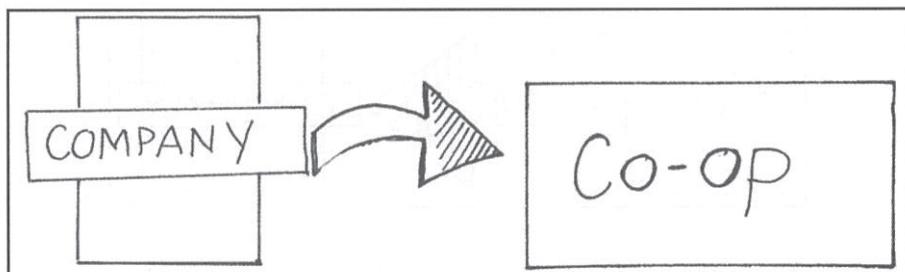
A Co-op may also make an agreement to transfer its assets, liabilities, rights and duties to another Co-op. The procedure for this is similar to the procedure for amalgamation, division or conversion.



4.9.6 Protecting Creditors

Amalgamation, division, conversion or transfer could affect the interests of creditors. In any of these cases, the Co-op must give at least three months written notice to all known creditors with claims of over R 1 000. These creditors have the right to demand payment in full before the proposed change takes place. The Registrar will not approve any change which might prejudice the interests of creditors. No Co-op will be allowed to use amalgamation, division, conversion and transfer to avoid its financial responsibilities.

4.9.7 Conversion of Company into Co-op



It is also possible for a company to convert itself into a Co-op and the procedure is explained in detail in the Co-operatives Act.

4.9.8 Transitional Provisions

Co-ops which registered under the old law can continue to operate under the new law, but they must take steps to make sure that their constitution follows the new law. They were given 3 years to submit their constitutions to the Registrar of Co-operatives. The Registrar may issue a certificate saying that the constitution does follow the Cooperatives Act. The Registrar may issue a directive explaining how it fails to follow the law and giving the Co-op a certain time period to bring its constitution in line. If the Co-op does not follow the directive, the Registrar may convert it into another kind of legal body, or order that it be wound up.

4.10 CRIMES

It is a crime for anyone to disclose information received while performing duties under the Co-operatives Act, other than as necessary to administer the act properly or to comply with some other law. It is also

crime for anyone to include false information in any report, notice or other document required by the Co-operatives Act and to leave out relevant information on any such documents. The penalty for these crimes is a fine or up to 24 months in prison, or both.

We have now dealt with all 37 rules that apply to Co-ops and with forms that must be used for certain business of the Co-op we will now make sure that we know what each deals with. But let's have some fun while we do so.



ACTIVITY: CO-OP RULES

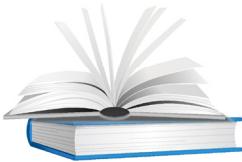
- a. Let's have a little class competition and see who is first to correctly detail what aspect of a Co-op each of the rules deal with.

Rule No	Form No	Deals with
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2		
3		
	1	
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	12	
37		

b. Reflect for a moment. Which rules could you not remember whilst doing item (a)? What forms could you not remember whilst doing item (a)?

Now let's look at one last Co-op case study to complete this unit. This one has been taken from <https://sites.google.com/site/reincorpfish/news-and-announcements/southafricanfishermen-cast-their-hopes-on-co-op-system> with graphics taken from <http://www.southafrica.org.za/tour-sa-early-explorers-footsteps.html> and http://www.south-north.co.za/cray_rt_ebenhaeser.html.



CASE STUDY : FISHING ON THE WEST COAST

A Co-op established with a R3 million government grant given to a group of 120 fishermen in Doringbaai and Ebenhaezer on the West Coast of South Africa, could act as a model for the rest of the country's smallscale fishermen who have been struggling to sustain their livelihood in the face of fishing quota restrictions.

Goliath said the 2005 government policy on the Allocation and Management of Long Term Commercial Fishing Rights largely excluded the small-scale fishermen, leading to increased poverty and family breakdowns. He said that large commercial fisheries "took more than half the cake" when it came to quota allocation and that the quotas allocated to small fishermen were hardly enough for them to survive on. "If fishermen are not successful (in getting quotas), they can't fish. There are teachers and lawyers with allocations but people near the sea have no income and can't put bread on the table. You then have children dropping out of school, and the drugs and teenage pregnancies are high. The individual quota system does not empower the people," he said.

Doringbaai fisherman, Hahn Goliath, said the divisions and grief the fishing quota system has caused within the community, led the fishermen to approach the DTI for funding. The grant, which was handed over is intended for the establishment of ten Co-ops, the purchase of much needed equipment and boats and courses in health and safety. "We are struggling with resources now, but by pulling our resources together (through the Co-ops), we can achieve more," said Goliath.

By establishing Co-ops, the fishermen hope to re-unite the community and protect their tradition of living off the sea. "We want to bring back the tradition of small scale fishing, to protect it. We need to ... stand together as a collective. We also cannot wait for government. We hope that other fishing communities can take this lesson from us and be inspired (to help themselves)," said Goliath.

Although the fishermen will be involved in running the Co-ops, the group has assigned a respected and knowledgeable community member to guide them in the management thereof. The groups will also receive six months training in budgeting and management from government. Senior lecturer at the Institute for Poverty, Land and Agrarian Studies, Moenieba Isaacs, said the Co-op system would work if the money was used wisely and if the fishermen as a collective could engage with the market. Benefits needed to return to them as a collective rather than one individual managing the co-operative and benefiting exclusively from it.

With the support of DTI and the Department of Agriculture, Forestry and Fisheries (DAFF), fishers could be trained to manage the Coops, said Isaacs. She added that the funding given to the Doringbaai fishermen could act as pilot case study for other fishing communities. "The money allocated to these communities could implement some of the proposals made in the small-scale policy and act as pilot case studies for many other coastal communities along the coast," she said.

The small scale policy Isaacs refers to is the draft policy for the SmallScale Fisheries Sector which was made available for public comment in August last year. Director of Masifundise (an NGO working with small fishing communities), Naseegh Jaffer, who was on the task team to develop the new policy, said it had "sweeping new proposals" designed to accommodate small fishermen, creating equity rather than competition. The proposals include a removal of the quota system, that small fishermen be allowed to catch multiple species of fish rather than just one, and that instead of sharing waters with commercial fishers, small fishermen be given an exclusive zone from which to fish. Isaacs said the fisheries Co-op could address some of the issues not included in the draft policy. "A key issue that the small-scale policy is neglecting is what species would be allocated to the fishers," she said. Other issues were seeing what value could be added to existing species, the role of aquaculture, the activities of women in the post-harvest sector and linking the co-operatives to tourism in the area.

Provided appropriate skills were given the fishers and extension support from DAFF, the fisheries cooperative could successfully deal with all these issues.



UNIT 5
CO-OPS IN SA
AND THE WORLD

UNIT 5 CO-OPS IN SA AND THE WORLD



As stated, merely forming a Co-op does not guarantee success and many Co-ops fail. There are a number of reasons for this and we will try to understand this better in this Unit. First we will understand the history of Co-ops in the world and specifically in SA and this will lead us into understanding the Government's stance and the support it provides to Co-ops. We can then look more critically at success and failure.

By the end of this unit, you should then have a very good understanding of the place of Co-ops in society - and specifically in SA society - and also of how to ensure the one that you form is successful.

5.1 CO-OPS IN THE WORLD



"The United Nations recognizes the contribution cooperatives can make to achieving the Millennium goals of full and productive employment, eradicating poverty, enhancing social integration and promoting the advancement of women. For the co-operative movement to fulfil this potential, Governments need to develop and sustain a supportive environment that allows autonomous co-operatives to grow. The values of co-operation - equity, solidarity, self-help and mutual responsibility - are cornerstones of our shared endeavour to build a fairer world." - Kofi Annan, 29/06/2001

People all over the world have found different ways to co-operate in the production and distribution of goods and services, across different types of economic systems. But particular forms of such co-operation were formalized in nineteenth century Europe, against the backdrop of the Industrial Revolution and significant social change. These co-ops were seen as social and economic alternatives to the impacts of emergent industrial capitalism.

According to the International Co-operative Alliance (ICA), co-operatives grew within five distinct traditions: "The consumer co-operatives, whose beginnings have long been popularly associated with the Rochdale pioneers; the worker co-operatives, which had their greatest early strength in France; the credit co-operatives, which largely began in Germany; the agricultural co-operatives, which had their early roots in Denmark and Germany; and service co-operatives, such as housing and health co-operatives, which emerged in many parts of industrial Europe as the century drew to an end."

Yet while Co-ops have often been seen as an 'embryo of socialism' within a capitalist economy, communist countries such as the Soviet Union and China were unsympathetic to the Co-op model, seeing it instead as the last vestiges of capitalism within socialism - because ownership of the enterprise by its members is a form of private ownership, which was seen to be at odds with the social or state ownership of other forms of enterprise in those societies.

Co-ops have no necessary political home, and have been appropriated across the full spectrum. In fascist Spain, Franco's party declared that 'Our regime will make the class struggle downright impossible, since all those cooperating in production will constitute one organic whole.' Yet, despite this, Co-ops have remained predominantly associated with support for wider democratic ideals, with broadened forms of worker and community ownership, and with popular participation and community solidarity.

Despite challenges of many kinds, and diverse trajectories of development, the co-op model has continued to inspire people, and Co-op movements have endured and thrived in many countries of the world. According to the European Union Statistical Report on Co-operatives of 1994, there were then over 53.7 million co-op members in the EU: with 34.7 million concentrated in banking, credit and insurance co-ops (as member/account holders); and 9.5 million in consumer and retail co-ops.³ In Russia and China, forms of worker ownership, including a continuum co-ops to Employee Share Ownership Schemes (ESOPS), have emerged in response to the privatization of state owned enterprises.

The Grameen Bank in Bangladesh is a form of financial services co-op; and in India, 6 million dairy farmers belong to 60,000 dairy co-ops, with more than \$1 billion in annual earnings for their members. In India also, labour-contracting co-ops are the mandatory delivery agents for public works programmes under a certain contract level. In South America, utility co-ops have emerged in many places to extend service delivery, with Argentina having about 500 utility co-operatives distributing 19% of the country's electricity in 900 communities; another 130 co-operatives providing telephone services, and 320 which provide drinking water.

5.1.1 International Statistics



It is estimated that the Co-op Movement brings together over 1 billion people around the world and the United Nations estimated in 1994 that the livelihood of nearly 3 billion people, or half of the world's population, was made secure by Co-op enterprise. These enterprises continue to play significant economic and social roles in their communities and some interesting statistics about the Movement are provided below, which demonstrates the relevance and contribution to economic and social development (taken from <http://www.ica.coop/coop/statistics.html>).

- In Asia 45.3 million people are members of a credit union
- In Argentina, there are 12,670 Co-op societies with over 9.3 million members - approximately 23.5% of the population
- In Belgium, there were 29,933 Co-op societies in 2000
- In Bolivia, 2,940,211 people or one-third of the population is a member of the 1590 Co-ops
- In Brazil, 7.6 million people are members of 7,600 Co-ops
- In Canada, four of every ten Canadians are members of at least one Coop. In Quebec, approximately 70% of the population are Co-op members, while in Saskatchewan 56% are members.
- In Colombia over 4.8 million people or 10.6% of the population are members of the 8,124 Co-ops in the country. The movement reports an annual growth rate of 7.78% with 348,249 new members joining Co-ops in 2009
- Costa Rica counts over 10% of its population as members of Co-ops
- Finland's, S-Group has a membership of 1,468,572 individuals which represents 62% of Finnish households
- In France, 23 million people are members of one or more Co-ops or approximately 38% of the population. 75% of all agricultural producers are members of at least one Co-op and 1 in every 3 persons is a member of Coop bank
- In Germany, there are 20 million people who are members of Co-ops; 1 out of 4 people
- In Iran, there are over 130,000 Co-op societies with 23 million members or approximately 33% of the population

- In Indonesia, 27.5% families representing approximately 80 million individuals are members of Co-ops
- In Japan, 1 out of every 3 families is a member of a Co-op in Kenya 1 in 5 is a member of a Co-op or 5.9 million and 20 million Kenyans directly or indirectly derive their livelihood from the Co-operative Movement.
- In India, over 239 million people are members of a Co-op
- In Malaysia, 6.78 million people or 27% of the total population are members of Co-ops
- In New Zealand, 40% of the adult population are members of cooperatives and mutuals
- In Norway of 4.8 million people, 2 million are members of co-operatives. Many people are members of several Co-ops, therefore, the total number of memberships are much higher
- In Belgium, Co-op pharmacies have a market share of 19.5%
- In Benin, FECECAM, a savings and credit Co-op federation provided USO 16 million in rural loans in 2002
- In Brazil, Co-ops are responsible for 37.2% of the agricultural GDP in 200 and total GDP of 5.39% in 2009. Brazilian agricultural Co-ops exported their products for a total of USO 3.6 billion. Health Co-ops provided medical and dental services to 17.7 million people
- In Bolivia, Cooperativa de Ahorro y Credito "Jesus Nazareno" Ltda. (CJN) handled 25% of the savings in Bolivia in 2002
- Canadian maple sugar Co-ops produce 35% of the world's maple sugar production
- In Cote d'Ivoire Co-ops invested USD 26 million for setting up schools, building rural roads and establishing maternal clinics
- In Colombia, the 8,124 Co-ops were responsible for 4.96% of the GDP in 2009. They employ over 137,888 people - 46% of which are men and 54% women and some sectors are providing a significant proportion of the jobs - 22.27% of all health sector jobs are provided by co-operatives, 14.7% of the jobs in the transport sector, 7.7 % in agriculture and 6.44% of the jobs in the financial sector. Co-ops provide 91 % of all microcredit in the country.
- In Cyprus, the Co-operative Movement held 30% of the market in banking services, and handled 35% of all marketing of agricultural produce
- In Denmark, consumer Co-ops in 2007 held 36.4% of consumer retail market

5.1.2 International Case Studies

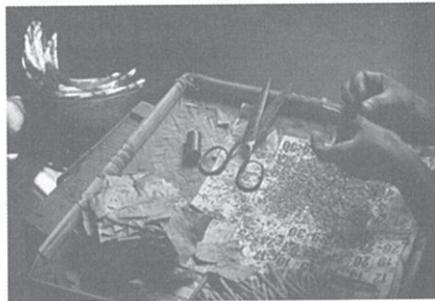
Let's take a close look at two international case studies before we turn to Coops in SA. You will read this and discuss them in your groups. What can you learn from these case studies that you can apply in your own situation? What would not be applicable to your situation and why not? What will you change about the Co-op you belong to/are forming?

(Case studies taken from <http://www.ica.coop/coop/statistics.html>, <http://www.keraladinesh.com/dinesh-garments/products/home-textiles> and <http://venezuelanalysis.com/analysis/2393>.)



CASE STUDY : INDIA

Co-op Mobilisation in Kerala, India



Kerala is a state in India, with over 31 million people, making it one of the highest density populations in the world (and home to the probably more famous author, Arundhati Roy). It is mainly rural, with limited industrial development; but a history of high levels of social mobilization. In 1957, the Communist Party won the elections in Kerala, and has governed it for most of the period since then, initiating a series of programmes that try to maximize local participation in social and economic development. These have included:

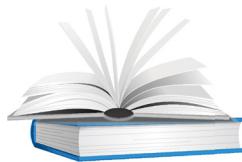
- the 'Total Literacy Campaign', which led to Kerala having a 90% literacy rate by 1991, compared to India's average of 51 %
- a land reform programme
- the 'People's Resource Mapping' programme, to involve communities in identifying economic development opportunities
- and, since 1996, a radical programme of decentralization, that devolves 35-40% of the state budget to local village committees.

Kerala also has probably the largest worker co-op in the world, the Kerala Dinesh Beedi Co-operative, producing traditional 'beedi' cigarettes, with 32,000 worker-members in 1995, and 326 work-centres. Kerala Dinesh Beedi started 30 years ago in response to a lock-out of workers during a strike. Kerala also has a range of co-operative business associations, such as dairy co-ops.

Kerala can claim an excellent track-record in the achievement of key social indicators, but the challenge has increasingly shifted to addressing the problem of slow economic growth. Kerala has been able to sustain its extensive social infrastructure and welfare at least in part because of high levels of migrant remittance income to the state economy, but needs to develop its own economic base to address local poverty.

In recent years, Kerala has attracted renewed development interest for its attempts to apply the experiences of social mobilization in the economic sphere. In 2000, local 'neighbourhood groups' (NHG's) started to put in place a localized version of the Grameen Bank approach, and to save for the purpose of building up local capital at village level. A survey of 798 NHG's in 2001 found that 17,000 women had saved \$6.94 each, or \$117,980, for use as capital in productive activities. In 'the Mararikulam Experiment', such NHG's in eight villages in the district of Mararikulam are participating in local soap-producing co-operatives, with the assistance of the Integrated Rural Technology Centre in Kerala, and by 2002, were all producing soap.

In 2003, an ambitious agenda of promoting local production activity was initiated, that envisages rural industrial parks and common facilities centres in each village, run as co-ops, and involved in a wide range of production activities.



CASE STUDY: VENEZUELA



When Estrella Ramirez's 14-year-old son signed her up to participate in the government's free literacy program, Mission Robinson, she reluctantly agreed. Ramirez, who lives in the poor western Caracas neighbourhood of Catia, lost her right arm in 1991 from an arterial thrombosis. Six years later, her husband left her, leaving her to raise her young children alone. She looked for work but couldn't find a job. "I lived locked in my house with my children, and I maintained my children sometimes selling coffee at the hospital, making lunches," she says.

Three months after Ramirez started the literacy program, her teacher enrolled her in the government's new cooperative job-training program, *Vuelvan Caras* (About Face). "I thought they wouldn't accept me or put up with me," Ramirez says. "There's discrimination. You're treated as if you are useless, a cripple."

Ramirez began the year-long *Vuelvan Caras* industrial sewing course in spring 2004 with a group of other unemployed women from her community. Some, like Ramirez, were also offered scholarships so they could study and still care for their children. Three years later, Ramirez is a co-founder and associate of the textile cooperative, *Manos Amigos* (Friendly Hands). She is also, according to former cooperative president, Maria Ortiz, "one of the hardest workers" of the 15-person outfit.

Ramirez formed *Manos Amigos* with her fellow *Vuelvan Caras* graduates shortly after finishing the program. They received an \$80,000 zero-interest loan from the Venezuelan National Institute for Small and Medium Industry to buy 20 sewing machines and purchase their first materials. The government provided a prime location-free of charge-from which to run their cooperative, in a rundown building in downtown Caracas. They invested part of their loan in fixing up their space on the fourth floor.

At *Manos Amigos*, members voted to work eight hours a day, five days a week, and to pay themselves minimum wage, or around \$200 a month. They also receive a bonus at the end of the year, depending on the cooperative's yearly profits. As is the norm under the 2001 Venezuelan Cooperative Law, a president, secretary, and treasurer are elected yearly. The co-op holds a general assembly once a month, and decisions are made by consensus or by majority. "No one is boss, everyone is part of the team," said one member.

5.2 CO-OPS IN SA

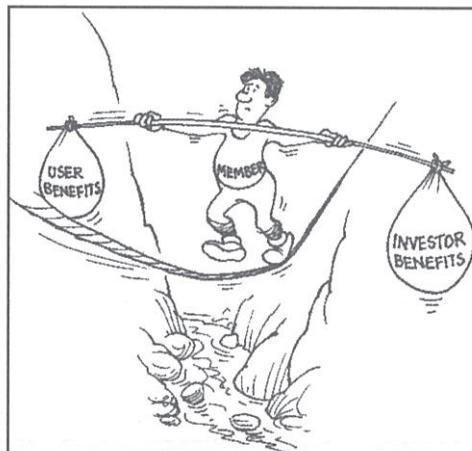
"The Government will place more emphasis on the development of a cooperative movement to combine the financial, labour and other resources among the masses of the people, rebuild our communities and engage the people in their own development through sustainable economic activity." - Thabo Mbeki, 25/06/1999



We have already learnt about the success of Co-ops worldwide and the statement made by the then-President of SA about Co-ops in 1999. And SA has many successes to boast of. But, SA has also experienced many failures. Let's see what we can learn from failure by tackling the case study activity below.



GROUP DISCUSSION : CO-OPS GONE WRONG



Read the case studies about problems or potential problems in Co-ops in SA. In your groups, discuss what will go wrong or what went wrong and why. How can/could the problems have been prevented?

1. A bakery Co-op in Sekhukhune was not growing and the members were demotivated. Assistance was required and members were given flip chart paper and asked to record production and sales records on the paper and to put the papers up in the office, where everyone could see the figures. Within a month the Chairperson and Treasurer resigned, as the figures recorded were far greater than those previously reported by the two officials.
2. A sugar cane Co-op in Mpumalanga received financial grant from an overseas organization. A local farmer volunteered to mentor this Co-op and he then had access to signed blank cheques in order to assist in the buying process. Very soon R1 50 000-00 disappeared from the bank account.
3. A Co-op in Limpopo wanted to produce pigs near Moria, an area where pigs are taboo due to religious practices.
4. A Co-op at Kwaggafontein in Mpumalanga wanted to produce roses, in an area where people were struggling to afford tomatoes and onions.

(Here is space to make notes.)

5.2.1 History



Co-ops are a well established economic vehicle in South Africa, dating back to the early 1900s. Broadly, one can define five experiences of Co-ops in South Africa's history, i.e.:

- the first existed in organised white agriculture where Co-ops were used to develop and build the farming community
- the second emerged in the 1980s when trade unions attempted to develop Co-ops as a vehicle to address retrenched and redundant workers' economic needs
- the third was in the former homelands where Co-ops were used as a vehicle for supporting economic activity in these areas
- the fourth experience is in the informal sector where several associations, most of which are not formally registered, have operated as Co-ops
- the fifth and final experience is the recent government and donor support for Co-ops as a vehicle for enterprise development.

In 2002, the National Co-op Association of South Africa, NCASA, published a base-line study on Co-ops in SA, which provides the following overview of Coops:

Registration Status of Co-ops by Region						
Region	Total Co-ops	Primary	Secondary	Pre-Primary	Pre-Secondary	
KZN	254	105	3	121	4	
Gauteng	54	32	3	11	1	
Eastern Cape	198	47	5	92	4	
Western Cape	62	37	1	19	1	
Mpumalanga	86	30	3	37	0	
Total	654	251	15	280	10	
NCASA Baseline Study: March 2002						

Those identified as Co-ops are registered as such with the Registrar of Co-ops. Pre-co-ops are Co-ops that are not formally registered. The survey included five provinces, and pre-co-ops were identified on the basis of referrals and word of mouth. Ninety percent of these Co-ops were identified as worker Coops, rather than user Co-ops. Total membership was 56,501, with the bulk of membership being in financial services Co-ops, and agricultural Co-ops.

5.2.2 Government Action

Co-ops have proved to be a successful vehicle for empowering people and this has been recognised by the South African Government and Co-ops have been identified as a priority instrument for facilitating empowerment and for bridging the divide between the first and second economies. Originally, the Department of Agriculture was the lead government department for providing support to Co-ops, but following the work of a Co-operative Policy Task Team, this responsibility shifted to the DTI.

This shift recognised the potential of Co-ops as a vehicle for transforming the economy across sectors. The Department then continued the consultative process initiated by the task team, culminating in the release of the A Co-operative Development Policy for South Africa in 2004 and the Act in 2005.

The policy states that one of the great challenges facing the South African economy is to increase the number and variety of viable and sustainable economic enterprises. We have a particular history that has brought about many interruptions in the development of enterprises. Accordingly, it is central to government's economic policy that it promotes the development of emerging economic enterprises and diversifies the ownership, size and geographic location of those enterprises.

The Government believes that a clear, comprehensive, and widely agreed Co-op development policy, implemented successfully, will:

- Create an enabling environment for Co-op enterprises that reduces the disparities between urban and rural businesses, and is conducive to entrepreneurship
- Promote the development of economically sustainable Co-ops that will significantly contribute to the country's economic growth
- Increase the number and variety of economic enterprises operating in the formal economy
- Increase the competitiveness of the Co-op sector so that it is better able to take advantage of opportunities emerging in national, African and international markets
- Encourage persons and groups who subscribe to values of self-reliance and self-help, and who choose to work together in democratically controlled enterprises, to register cooperatives in terms of the Act
- Enable such Co-op enterprises to register and acquire a legal status separate from their members
- Promote greater participation by black persons, especially those in rural areas, women, and persons with disability and youth in the formation of and management of Co-ops
- Establish a legislative framework that will preserve the Co-op as a distinct legal entity
- Facilitate the provision of support programmes that target Co-ops, specifically Co-ops that create employment or benefit disadvantaged groups
- Improve communication between government and the co-operative movement

The Government's approach to Co-op development is one of creating a favourable legal, economic, administrative and institutional environment. So, whilst Co-ops are not Government organizations, the government will intervene through designing supply and demand sides support measures to grow this sector and utilizing the existing institutions and programmes available. These include efforts in ensuring that cooperatives access markets, government and private sector contracts and a number of instruments support this, e.g. policy, legislation, special incentives, alignment to other government programmes, establishing specialized units, etc. The six specific functions identified in the policy for the dti were: legislation, policy and strategy; coordination; education and training; promotion; registration and de-registration through CIPC and a regulatory function. Importantly, Coops will be assisted to access expanded public works

programmes, Public Investment Initiative contracts, forestry and construction projects, preferential procurement, state and private procurements, business rescues of failing enterprises through worker buy-outs, export markets, other government related programmes opportunities and clear support programmes in key sector charters to benefit Co-op enterprises.

The Co-operative Act, No 14 of 2005 gave effect to the legislation role of dti. It governs the work of co-operatives in South Africa and it is worth documenting the purpose of the Act here, i.e.:

- Promote the development of sustainable Co-ops that comply with cooperative principles, thereby increasing the number and a variety of economic enterprises operating in the formal economy
- Encourage persons and groups who subscribe to values of self-reliance and self-help, and who choose to work together in democratically controlled enterprises, to register Co-ops
- Enable such enterprises to acquire legal status separate from their members
- Promote equity and greater participation by black persons in the formation and management of Co-ops
- Establish a legislative framework that preserves a Co-op as a distinct legal entity
- Facilitate the provision of support programmes that target emerging Coops
- Ensure the design and implementation of Co-op development support programmes by all agencies of national departments
- Ensure the design and implementation of Co-op support measures across all spheres of government
- Facilitate the effective co-ordination and reporting mechanisms across all spheres of government

5.2.3 Additional Support

At a lower level, the commitment towards Co-ops is reflected in an array of policies and strategies of different spheres of government and different departments and a few of these are highlighted below.

- Promoting Co-ops enterprises is a key programme component of the Government's Broad Based Black Economic Empowerment (BBBEE) strategy that seeks to address the imbalance of the past and equitably transfer ownership and control of economic resources to the majority of citizens
- The small and medium enterprise strategy at national level and various provincial and local SMME policies provide a framework through which Co-ops can be supported as another business form in the existing suite of options
- In the Integrated Manufacturing Strategy opportunities for worker and consumer Co-ops are highlighted that could be supported.
- In the Department of Provincial and Local Government's local economic development policy documents Co-ops are recognised as an important vehicle for growing the local economy and broadening participation
- In the Accelerated and Shared Growth Strategy of South Africa SMMEs and Co-ops are identified as an important vehicle for bridging the divide between the first and second economies and for broadening participation in the economy. The strategy makes explicit reference to intensifying the youth Co-op programme.

- In line with these policy shifts between 2000 and 2004 there was increased donor activity in the Co-op sector. However, expectations of increasing government interventions resulted in a tailing off of this support in 2005 and 2006.
- In addition to the largely economic policies some of the sectoral policies, for example the housing policy, also enable the establishment of Co-ops
- At a programmatic level there is a host of support instruments for Co-ops driven by national government. Within the Presidency, following out of the Asgisa strategy is the Jobs for Growth Programme which has Co-op development as one of its targets.
- The dti, as the lead department, offers an incentive scheme. This targets registered Co-ops in the emerging economy and offers a 90% matching grant of up to R300 000 per Co-op for an expenditure incurred or to be incurred. It also provides the South African Micro-Finance Apex Fund, a wholesale financial institution that provides funds for micro, small and survivalist businesses to grow their income and asset base. In order to qualify for the micro-finance credit loan, one of the products offered by the fund, institutions must be registered as a Co-op. Also, in partnership with the National Co-operative Association of South Africa dti will provide pre-incorporation education to prospective Co-ops and training to existing Co-ops. And this is what SEDA is doing through this training programme.
- There is a suite of SMME programmes that provide finance and other support to emerging businesses, including Co-ops. This includes the Small enterprise development agency (SEDA) and the Local Enterprise Development Fund, Khula, all under dti, the Tourism Enterprise Programme under the Department of Environmental Affairs and Tourism, the social housing subsidy and top up grant under the Department of Housing, the Land Redistribution for Agricultural Development (LRAD) and Comprehensive Agricultural Support Programme (CASP both with the Department of Agriculture and the poverty relief programmes under the Department of Social Development which has supported service cooperatives and worker co-operatives.
- In addition, NYDA has a targeted youth co-operative funding and support programme promoting young people to set up co-operatives.

THE COOPERATIVES AND COMMUNITY PUBLIC PRIVATE PARTNERSHIP PROGRAMME

BACKGROUND

The Cooperatives and Community Public Private Partnership (Coops & CPPP) Programme in Seda was formed at the end of 2008 and combines the previous Sector Development and Cooperatives Programme and the revived CPPP Programme. The Programme supports non-traditional enterprise organisational forms with a special focus on rural areas and use of local resources. By creating the Programme, Seda's ability to satisfy the needs of rural clients is enhanced.

COOPS AND CPPP PROGRAMME VISION

To provide leadership in the establishment and growth of viable, sustainable cooperatives and collectively owned enterprises in various sectors and to facilitate their successful participation in the economy.

PURPOSE OF THE COOPS AND CPPP UNIT

Promote the establishment of cooperatives and collectively owned enterprises in partnership with other stakeholders

- Establish linkages with other government initiatives that support cooperatives and collectively owned enterprises
- Increase access by coops and collectively owned enterprises to information, business skills training and markets
- Foster a culture of cooperation among cooperative beneficiaries

THE PROGRAMME'S KEY SECTORS

- Agribusiness
- Cultural Tourism
- Mining and Mineral Beneficiation
- Trading and Auxiliary Services



Here is a full list of government agencies that have set up support programmes for the development of Co-ops and you may want to contact them for further information:

- Khula Enterprise Financing
- National Empowerment Fund (NEF)
- National Productivity Institute (NPI)
- Small Enterprise Development Agency (SEDA)
- Industrial Development Corporation (IDC)
- South African Quality Institute (SAQI)
- South Africa Bureau of Standards (SABS)
- Council for Scientific and Industrial Research (CSIR)
- Public Investment Commission (PIC)
- Development Bank of Southern Africa (DBSA)
- South African Local Government Association (SALGA)
- Sector Education and Training Authorities (SETAs)
- Social Housing Foundation (SHF)
- National Development Agency (NDA)
- National Youth Development Agency (NYDA)

Now let's look at one example of how a Co-op has been assisted to success.



CASE STUDY: MALETSWAI WASRE AND RECYCLING CO-OP

INTRODUCTION

The Maletsuai area near Aliwal North in the Eastern Cape is a poor region with few job prospects. Seventeen unemployed residents of Maletsuai decided that recycling waste was their best option - and the Maletsuai Waste and Recycling Co-operative was born.

CHALLENGE

The company had the following challenge: With no business skills and no capital, their prospects might have seemed as bleak as ever. But that was before they asked Seda for help.

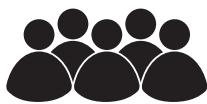
SOLUTION BY SEDA

We developed a business plan for the co-op, referred them to funding institutions - and financial assistance started pouring in: R500 000 from the Department of Social Development, more than R1,7 million from the National Development Agency, and R 1,8 million from Buyisa e Bag. A final injection of R4.8 million has been approved by the Department of Economic Development and Environmental Affairs (DEDEA). These funds were used to secure land and equipment for the recycling operation, with the support of both the Local and District Municipalities. Buyisa e Bag also wishes to create a Buy Back Centre at Maletsuai, along with four smaller centres in surrounding townships.

RESULTS

With the infrastructure largely in place, Seda turned its attention to providing business skills, training the Maletsuai Co-op members in Financial Management, Co-Operative Governance, Co-Operative Principles, Conflict Management, and Health and Safety. As a result of these interventions, all 17 co-op members are employed. The project is fully operational and is separating out metal cans, cardboard, plastic, paper and glass for sale to customers. When the Buy Back Centres become operational, another eight jobs will be created.



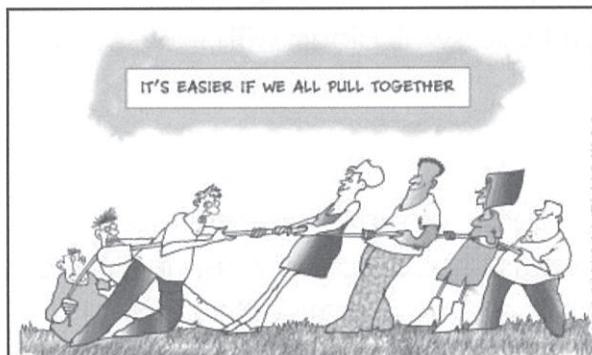


GROUP ACTIVITY: CO-OP SUPPORT

In your groups, discuss the type of support you have already obtained for your Co-op. Then discuss what additional support you want to obtain. How will you go about this? What benefit do you hope to gain?

(Here is space for notes.)

5.3 CO-OP FAILURE



You now have some understanding of the success of Co-ops in the world and an apparently fertile context for Co-op development in South Africa. You have also read about some of our home-grown successes and may know that some agricultural Co-ops have demonstrated the commercial potential of the model. But there are still many failures as hundreds of Co-ops are registered every year in South Africa, yet hundreds of them do not survive for more than a year as sustainable and growing businesses or end up being deregistered by the Registrar of Co-operatives. Some Co-ops are formed because people believe that all Co-ops automatically create and give people jobs and alleviate poverty or just because there are grants available from the Government and other sources. These Co-ops are formed, receive grants and as soon as the grants are exhausted they cannot function.

All South Africans are losers in this process, i.e.:

- The grant money comes from the South African taxpayer. So all failures when taxpayer's money is spent affect all taxpayers - there money has been wasted, there is no benefit to South Africans, except for the few Co-op members who obtained a pile of money for nothing

- The grant money is allocated by government employees and NGO employees. These employees implement policy. When the Co-ops fail, the policy fails and eventually the policy will be retracted or revised. The government and the NGOs have to report their failures and their employees have to deal with i.t.o. their decision-making failures.
- The taxpayer's money is meant to be spent to improve the lives of all South Africans. When Co-ops waste taxpayer's money, they have wasted money that could have been spent on improved housing, education, security or health.

NCASA STUDY

According to NCASA's baseline study:

'Faced with massive economic restructuring and unemployment or underemployment, millions of South Africans are discovering the potential of the workers co-operative, a collective entrepreneur model (rather than that of an individual entrepreneur) that provides decent and sustainable employment and a democratic workplace. This is certainly the goal of coop development. But it is far from the current reality of worker co-ops in South Africa. In the same study:

- 40% of co-op respondents reported
- that they generate no income for members at all
- only 36% of the total co-ops surveyed were willing or able to give monthly income figures for their co-ops, but from this sample, NCASA reports that 'the typical co-operative' generated R2000-00 a month, or R24,000 a year: from which NCASA estimates that the typical coop member earned R 1600-00 a year or R 133-00 a month about 45% of NCASA's sample are Co-ops that are registered under the Co-operatives Act.

The survey covered about 75% of such registered Co-ops, the sample therefore includes the formal and developed end of a vast spectrum of collective group enterprises, who form part of an extended continuum from registered Co-ops through to the most informal of community-based income generating groups. Yet these figures place even the most developed of Co-ops amongst the most marginal and survivalist of all businesses. In reality, it has proved extremely difficult for worker Co-ops to succeed and become sustainable in the South African context. Although there are some notable stalwarts, like the Phalaborwa T-Shirt Printing Coop, set up by retrenched NUM workers in 1987 and still going, there is also a litany of failed projects, and despite remarkable commitment and sacrifice from Co-op members, those that survive can still rarely claim to offer 'decent and sustainable employment,' much as they aspire to do so.

While at one level, this needs to be seen in the context of the wider failure rate of small business start-ups, it also needs to be recognized that Co-ops face additional sets of challenges specific to the Co-op form that can make it even harder for them to survive than other types of business entity.



In this section we will take a closer look at some of the reasons why a high number of Co-ops fail. These reasons, if properly understood, should assist potential and existing members of Co-ops to avoid the same pitfalls. We will look at the topic of failure first and then focus on Co-op success, remembering that in SA the focus in building a Co-op movement has been on worker Co-ops, which is from where the job creation impact is expected to come. It is on the experience with these Co-ops that this section will therefore focus.

Failure is sometimes obviously because of wrong formations, wrong reasons for formations or not understanding the business side of Co-ops, i.e. how to grow and run a viable and profitable business. Some specific issues are:

5.3.1 Self-reliance vs External Support

Many Co-ops fail because members are not self-reliant: they rely on outside people, such as Governmental officials, extension officers, consultants, etc., to run their Co-op or to ensure its success. Members should understand that the Co-op is their business, so they will be required to take business decisions and to actively build and manage the business. Outside people are there to offer assistance or mentorship, but members should graduate to a point at which where they can take all decisions on their own and run the business themselves.

Many co-ops struggle on survivalist margins with no or limited access to services, support, finance, credit, suppliers, markets, skills and information. Whilst most co-ops require multi- dimensional support that changes over time as they develop, the danger is to create perverse incentives through, for example, offering higher levels of start-up financial subsidy to other forms of productive enterprises. Whilst Co-op principles of self-reliance and autonomy must be encouraged, incentives could be linked to firm performance both in terms of profit and turnover, and in terms of practising co-operative values. However, different types of co-ops require different subsidy levels at different stages of their development. For example, a social housing Co-op may have high subsidy requirements during construction. However, post-construction the aim should be self-sufficiency. A consumer Co-op may require capital subsidisation to assist in acquiring assets, but should then be self-sufficient. A primary productive Co-op should be encouraged to be as self-sufficient as possible from its start up.

Sadly the way in which start up funding has been managed has resulted in a number of people viewing Co-ops as a quick source of money, with no real commitment to self-sufficiency. Being realistic about how many people a primary Co-op can support is therefore also important for its success. A common problem in primary Co-ops, especially agricultural or worker Co-ops, is that they start with an over-supply of labour relative to their productive base and relative to the absorption capacity of the markets they are targeting. This arises partly as a result of the social goals of the group and also from the conditionalities imposed by donors and external agencies.

5.3.2 Exploitation and Member Participation

Co-operatives members should participate fully in all activities. If they do not participate, and depend too much on outsiders, chances are greater that they will open themselves to exploitation. We live in an unethical society in SA, where crime, violence, corruption and fraud is endemic, so there are many chancers of all races, gender and ages waiting to pounce on unsuspecting Co-op members. The Government focus on Co-ops has opened a window for charlatans and opportunists to exploit the situation where communities have received grants or assistance from the Government and such people will exploit Co-op

members where they see an opportunity. In addition, Co-op members may themselves exploit their fellow Co-op members and we have already seen an example of this.

It needs to be understood that Co-ops rely on high levels of trust between members. In the absence of a shared vision, approach, financial trust and strong social ties the relationships binding members together often unravel. Trust is particularly important in primary productive and service Co-ops, where members often have to deal with difficult business decisions and management challenges. Social entrepreneurs and champions who are committed to the principles of the Co-op movement are essential in ensuring that the co-op is not hijacked by personal ambitions and greed. These people can ensure that the Co-op accomplishes its vision and that democratic practices are developed in the process.

Linked to these issues is the value of diversity and networks. Co-ops that have a mix of members with diverse backgrounds, incomes and skills tend to be more successful, as there is greater sharing of knowledge and resources. Likewise, as with any business, Co-ops that have a broad network of support, including technical, managerial, legal, administrative and financial, appear to be more successful.

A sugar cane Co-operative in Mpumalanga received a financial grant from an overseas organization. A local farmer volunteered to mentor this Co-op. During this mentoring process he had access to signed blank cheques in order to assist with the buying process. By the time the service provider started interacting with them, and warned them about signing blank cheques, R 150 000.00 had already disappeared from their bank account. The so-called volunteer mentor has seen to it to pay himself handsomely for his services.

5.3.3 Business Opportunities not Viable

Some Co-ops are started because members themselves like the product, forgetting that they are not going to be the customers - other people are going to buy the product or the services. (See examples provided previously in this regard.)

A sound strategy and business plan is critical to ensure the viability of the Co-op. The business plan should clearly spell out what products or services are to be generated, the required inputs, which markets are being targeted and what technical or other support is needed to achieve the goals of the business. Good business planning will ensure that Co-ops that are not economically viable are not launched or supported, and in this manner help to manage unrealistic expectations. So it is obvious that for a Co-op to survive, the business must be viable. This means there must be a clear social and economic rationale underpinning the Co-op. Achieving business viability is a complex challenge in any business - and is that much more complex in the context of a group enterprise or Co-op where one needs to bring all the members on board through a shared understanding.

It is at present a norm for many development programmes, including poverty alleviation programmes, Corporate Social Investment programmes, and Local Economic Development initiatives to make 'group formation' a condition of funding or other support for income generating or enterprise activities. Yet scant attention is often paid to the impact of this on the viability of the business, in its context. In addition, most starter businesses target their local market, because they have local knowledge and because this limits the logistical costs and complexities of marketing. But for many Co-ops, such local markets are poor. In rural areas, they are highly dispersed; and they buy a limited range of products, which are mostly mass-

produced in the core economy, with low unit mark-ups. While the target market may be poor, it is highly brand and price sensitive and it is hard for local producers to compete with such products. And while urban markets may seem to hold out the promise of greater volumes, competition levels for price and quality are that much higher in urban centres.

SEWING PROJECTS

A Typical Group Sewing Project

There are twenty people in the project;

They want to earn R\$00 a month;

This means the project must pay R10,000 a month in wages;

Let's say wages are 25% of the cost of the dresses they make - making this a comparatively labour-intensive enterprise - with materials and other costs making up the rest.

This means they must sell R40,000 of dresses per month - every month - just to break even and pay themselves R\$00 each. At R100 per dress, this is 400 dresses a month.

In many of the economically marginal areas that are the typical market in which co-ops operate, this is a hard target to meet.²⁹

Sewing projects are seen as rather marginal and probably don't fit the industrialist profile of Co-ops to which many may aspire. But regardless of what the group is producing, similar ratios will apply, and if it is targeting a local market, there often remains an essential constraint on the volumes that can be absorbed, and hence the scale of production that can be sustained.

While access to capital may certainly be a problem for many Co-ops, it is in fact access to markets that is often the more critical constraint, with the Coop unable to sell all that it produces. So, the key challenge seems to be to break into wider markets, with greater volume opportunities than the local market; or into higher-value, external markets. This can certainly be achieved: but it introduces a different set of problems. The first problem is that such markets are generally unfamiliar terrain for Co-op members. The more upmarket the product, the more unfamiliar members may be with the 'value proposition'. Marketing strategy can no longer rely on local knowledge or support, but has to compete for market share within a competitive supply chain. External and higher-value markets demand higher levels of product quality, packaging and design; introduce greater costs and complexity at the level of procurement and distribution logistics; a need for more business formality, and more complex financial management.

For many Co-ops, their internal skills constraint limits the viability of this alternative. If technical assistance is available to them, then this can be overcome: but in many contexts, such support is neither available nor sustainable: and the Co-op remains locked into the constraints of local markets. It's a vicious cycle: but its impacts are real and affect the business viability of Co-ops.

5.3.4 Lack of Business Skills

Lack of business skills will lead to the failure of a Co-op business. It is advisable that before a Co-op starts operating, a skills audit is done amongst the members in order to determine if they have the necessary

business skills. If there is a skills gap, a decision should be taken whether or not there are members within the Co-op that have the potential to be trained in order to gain this skill or if outside people should be brought in as employees or potential members. Business skills that are needed include: Marketing, Costing, Buying, Stock Control, Record Keeping and Financial Management.

Not functioning according to business principles leads to failure - and this could include:

- If a Board has an over-dominant chairperson or even a manager, it is likely to fail
- If Board members do not have information regarding functions and duties of the Board
- If there are insufficient internal financial controls
- Absence of an adequate business plan
- Inadequate controls over stock levels
- Poor credit controls
- Over-reliance on borrowed money and grants
- Too rapid expansion of the business

5.3.5 Lack of Technical Skills

Lack of Technical Skills will lead to failure of the Co-op as a lack of technical skills will cause problems such as poor quality, not meeting targets, wastage of material and not supplying consistently to customers. If there is a technical skills gap, a decision should be taken to acquire these skills.

In SA, many co-operatives are initiated with unemployed people, often with low skills levels, and no prior business experience, in economically marginal areas. Certain Co-ops, such as agricultural, housing and productive, require specialist technical knowledge, which is not always available within the cooperative itself. A lack of both management and technical skills by individual members will undermine the chances of success. Therefore it is critical that in the business planning process, the required skills are identified and a strategy to source these skills planned into the programme. This may include buying in short-term technical skills while members are being trained, or employing people with the required skills.

5.3.6 Lack of Management

A Co-op needs to be well-balanced i.t.o. members having management skills. A Co-op that only has members who are technically-minded people with no management skills will fail. Some of the Co-op members need to acquire management skills, such as problem solving, strategizing and planning, time management, organizing and control.

It needs to be understood, that management of an enterprise involves a complex range of skills. As soon as an enterprise involves the collective management of resources, the complexity of management escalates exponentially, along with the need for transparency. This is particularly challenging when you are working with unemployed people with little or no prior work experience, let alone management experience. In addition the participatory nature of decision-making means that all members need some understanding and capacity in financial management. Failure to recognise this need is often the start of tensions in a co-operative.

It cannot be emphasised enough that management of an enterprise involves a complex range of skills. As soon as an enterprise involves the collective management of resources, the complexity of management escalates exponentially, along with the need for transparency. There are groups of workers who are

able to master these complexities, and succeed as a collective group enterprise, but many unemployed people facing the challenge of self-employment have little or no prior work experience, let alone business management experience and financial literacy and even basic numeracy skills are often low.

While in many co-ops, there may be members who have a greater level of management and financial skill, the participatory decision-making structures mean that all members need some understanding of financial management issues. Unless there are very high levels of trust (and these are honoured), tension can develop around the use and allocation of money. The turnover a group enterprise needs to generate to be viable represents a significant amount of money, particularly relative to what members actually get to take home. In many Co-ops, members have only a rather hazy understanding of the distinction between total revenue, net monthly income, profit, or the net funds available for distribution as wages (or 'allowances', as this highly variable amount is often called), and the situation is ripe for conflict. Many a Co-op has found itself having to choose between paying wages, or setting the money aside to pay for inputs for the next production cycle. And in the context of recurrent cashflow crises, many Co-op members sacrifice their own incomes to keep the enterprise alive: but there are only so many times this can happen without it eroding cohesion and fuelling dissatisfaction and conflict.

To optimize productivity, in order to compete with other producers on price, collective production also generally requires some degree of division of labour and some differentiation of skills - and hence of wages. But many Coops start with an assumption that equal pay for equal work means equal pay. NCASA's baseline survey notes that '79% of surveyed co-operatives divided all revenue equally. Yet over time, this idealism often starts to fray at the edges. Those co-op members who have more skills, who work more efficiently or whose work is of a higher quality may start to feel that it is unfair that they are paid the same as people who don't. If those who are seen to contribute less are paid the same, it causes tension. In addition, the Co-op depends strongly on members with skills, yet the value of such skills is rarely reflected in differentiated pay rates, let alone market-related rates. While an activist commitment can fuel participation by such members for a while, the Co-op is at risk of losing their skills if these issues are not addressed. These factors combine to make a division of labour and differential pay rates a likely condition for a successful long-term business strategy in Co-ops, but this is rarely an uncontested outcome in the Co-op context.

Bridging the gap between the current reality of most Co-ops, and the kind of productive and sustainable enterprise in which these issues have been resolved, and in which efficient and democratic ways of working have been institutionalized, takes high levels of facilitation. Raising the platform of financial and business skills in the Co-op as a whole, as a necessary condition for participatory decision-making, takes significant skills input. If the management skills do not exist within the Co-op, then ensuring the design and operationalisation of effective systems for procurement, production, record-keeping, invoicing, sales, distribution and all the other functions of management requires extensive technical assistance. These are not once-off inputs: they require sustained support over time, and they can rarely be paid for by the Co-op itself. It can be done; but it is expensive; and it is a 'longhaul' strategy.

In the 1980's and 1990's, there was a network of support NGO's for Co-ops. But few such NGO's could justify the sustained dependence of a relatively small and consistent group of Co-ops on their services, particularly given the context of mass unemployment. Yet after many such NGO's either closed or re-focused their energies, the majority of Co-ops they had assisted - many of which had received substantial technical input over many years - were not able to stand alone. Although this also calls into question the quality of the technical support provided, this is also a function of cost and availability, in a market in

which even the private sector is hampered by the scarcity of the business skills required. Any co-op support strategy has to take these realities into account and make a sober cost/benefit analysis of the realistic scope of its reach and impact, and target accordingly.

5.3.7 Lack of Leadership Skills

A Co-op needs to be well-balanced i.t.o. some members having leadership skills. A Co-operative that does not have members with leader skills will fail. Some of the Co-op members need to acquire leadership skills, such as: conflict resolution, assertiveness, team building, motivation, communication, etc.

As leaders, the Board and Co-op managers are required to ensure that the Co-op maintains high ethical standards and remains accountable to its members. If the leaders act in self-interest or corrupt interests, the Co-op will not succeed.

In addition, democracy requires skills in decision making processes. In SA, the commitment to democracy is often accompanied by a lack of clarity or consensus on the scope of decision-making authority. As a result, this has been an area of high contestation and tension within Co-ops. When Boards overstep their mandate and do not keep members informed trust is eroded. This is not surprising, given the management complexity of even the simplest democratic process and Boards of directors may lack corporate governance skills.

Add to this that in SA there is an expectation of a high level of direct democracy and worker control in Co-ops and often a lack of clarity or consensus on the scope of managerial decision-making authority, even where a business plan may have been collectively agreed. As a result, this has been an area of high levels of contestation and tension within Co-ops, where managers have been elected and have a mandate to manage - but with the scope of their decision-making authority under constant challenge.

There are Co-ops that have been able to manage these processes and find their own institutional consensus that is empowering, democratic and efficient. But this tends to require a high level of facilitation and many Co-ops have failed to achieve it. At the very least, the complexities of the management decisions required, the contestation over forms of decisionmaking and over the extent of managerial authority that may be exercised by elected officials has tended to impact negatively on productivity and hence place further downward pressure on the viability of the Co-op.

5.3.8 Poor Governance

Many Co-ops have closed down due to lack of good governance. A Co-op is premised on always placing the collective interest before individual interests. 'Free riders', opportunism, greed and self-interest have been at the heart of many promising Co-ops' demise. This requires that clear systems and policies be designed to protect the Co-op from being hijacked by individual interests.

Because a Co-op is owned by its members, it must be transparent to its members and have proper governance structures are part of this process and you have already learnt about some of these structures. Some of the governance structures that need to be in place are:

- Proper election of board members
- A constitution that is drawn up and understood by its members
- A constitution that is a 'living' document, i.e. it is amended to address challenges and be used to govern the affairs of the Co-op

- By-laws can be put in place to augment the constitution
- There must be effective sub-committees that report to the board
- There must be open and transparent communication
- There must be separation of duties between the board and management
- Regular meetings should be held and minutes produced and recorded
- Ordinary members should have the ultimate right to remove errant board members
- Regular elections should be held as per constitution

BY-LAWS AND AGREEMENTS

By-laws and agreements are additional laws and agreements that are developed by members of a Co-op in order to enhance the original constitution of a Co-op. These by-laws and agreements should not be in conflict with the Co-operative Act.

POSSIBLE BY-LAWS AND AGREEMENTS

It is up to the Co-op to decide which by-laws and agreements are applicable to their situation, e.g.:

- Recruitment and Selection
- Conflict Resolution mechanism
- Procedures in case of resignation
- The marketing process
- The Procurement procedures
- Disciplinary procedures
- Community involvement
- Interaction with other Co-operatives
- Affiliation
- Financial by-laws
- Use of transport facilities
- Use of other Co-operatives assets
- Profit sharing
- Others

DEVELOPING BY-LAWS AND AGREEMENTS

Once a challenge or opportunity arises that requires a need to develop a by-laws or agreements, the Board of Directors can appoint a subcommittee to investigate and report on the matter. This sub-committee will gather information, using any means at their disposal, including, brainstorming and seeking outside advice. Once they have gathered this information they will develop a draft by-law and present it to the board, who will deliberate on the draft and make changes, where necessary. A special resolution approved at the AGM or a special meeting should be submitted to the Registrar of Co-operatives for endorsement as a special resolution to be added to the original constitution of the Co-op.

5.3. 9 Wrong Co-op Format

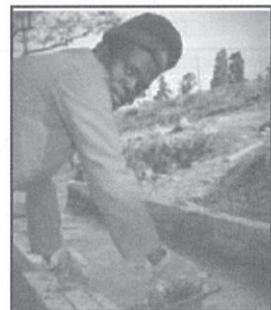
The right Co-operative format should be chosen. In the next session, we will deal with the difference between a Workers' Co-operative and a Services' Co-operative.



ACTIVITY: PREVENTING CO-OP FAILURE

Now that you understand some of the specific reasons for Co-op failure, reflect on your own Co-op and detail all the steps you need to take and all the skills that need to be acquired by members in order to prevent failure.

5.4 CO-OP SUCCESS



And now we hope to assist you with understanding how you can start a Co-op that has the potential to be sustainable and profitable. It is important to state that only Co-ops that are well structured can be sustainable and profitable, create jobs and alleviate poverty, which requires that they are started on business principles with the aim to be profitable will survive and be sustainable. Only Co-ops that show growth will be able to create the necessary jobs that we all wish for and alleviate the poverty that is found everywhere in our country, especially in our rural areas. To start with, let's look at four general matters.

What is an ideal Co-operative?

An ideal Co-op is a legally registered Co-op that operates as a business with the aim to earn profits that will increase the wealth of its owners and grow itself as a business and be able to remain sustainable and profitable in the long term. An ideal Co-operative must:

- Be operated as a business, removed as such from individuals, as per registration requirements.
- Follow all the requirements of business, such as having a business plan, which will cover issues such as governance, marketing, costing, buying, stock control, record keeping and financial management.
- Be profitable in that income must always exceed expenditure.
- Continue to build an asset base, thus increasing the wealth of itself as a Co-op and the wealth of its members.
- Show growth.
- Stand on its feet without relying on grants. Grants should be seen as "Starter Packs" or bonuses only.
- A Co-op that can survive without a grant can be sustainable.
- It is imperative that a Co-op should receive part of its start-up capital from its members.
- There must be a commitment fee in any business, so the same applies to Co-operatives.
- If members do not commit their capital within their business - who do they expect to commit their money? Whose business is it anyway?

Does it matter if the business fails if you have no commitment? Do you have anything to lose?

Co-operatives and Job Creation

A lot has been written and talked about Co-ops and job creation, as well as Co-ops and poverty alleviation. A lot have been myths and lead to false hopes. The truth of the matter is that Co-ops can only create jobs if they are sustainable, show profit and show growth. Like any business, a Co-op needs to make money in order to grow. Only when a business is growing, does it stand a chance of employing more people or sustaining existing jobs. In any business situation, a business that is losing money retrenches people and ends up closing down; a business that is making money, retains existing workers and has the potential to employ more workers.

So before you start a Co-op, you must ask yourself these questions:

- Will this Co-op make money?
- Does it have what it takes to fly?
- Have we done a feasibility study?
- Are we starting a Co-op based on sentiments or false information?
- Will there be life after the grant?
- What salary are we going to get on a monthly basis?
- Will the Co-op be able to afford the salaries and remain viable?

Answers to these questions need to be sought before claims can be made that a Co-op will be able to create jobs and alleviate poverty.

What is a Self-help Group?

A self-help group is a group formed by individuals in order to help themselves in a particular community. It does not have a business motive but the motive is that of assisting the community.

A group of women in Majaneng, in the North West decides to access 2 hectares of land in the local creche, with the aim of producing vegetables. These vegetables are to supply their children who attend this creche, thus making the feeding of these children more affordable. In some months, but not always, they produce more than the creche needs and they decide to share the vegetables within the group; but there is still a surplus. They decide to sell the surplus to the local hawkers. They never exploit the possibility of increasing their production and supplying the hawkers consistently.

This is a typical self-help group. There is no profit motive in this group. There is no long term plan to form a business and this cannot be a Co-op. Some of these types of self-help groups do receive grants from Government and other funders. Without grants they normally cannot survive. These groups cannot be converted into Co-ops, unless they take a decision to refocus as a business. This decision must be theirs and theirs alone, and should not be imposed.

What the Government officials and other stakeholders should do is to plant a seed in this Group about the possibility to develop from a self-help group into a business, thus a Co-op, i.e. sell the benefits and let them decide. Where people have taken the decision on their own, they are likely not to disappoint themselves. These people must be able to buy into the idea and say 'yes! This is what we want - we are committed - we will put our money where our mouths are - we will go to the Government for assistance - even if we do not get the assistance, we will move and we will succeed.'

Co-op Business Principles

For a Co-operative to be successful, sustainable and profitable, the following principles must be in place:

- Governance: A proper Governance structure, including a constitution, by-laws, Agreements, separation of duties, reporting structures and transparency must be in place before a Co-op can start operating.
- Compliance to statutory regulations: The Co-op should comply with all statutory regulations as defined by the Co-operative Act.
- Feasibility and viability studies: A proper feasibility and viability study must be carried out before a Co-op can be registered. Unfortunately, many Co-ops register their Co-op before this is done and then "flash" their registration certificate. They do not realise that a piece of paper such as a registration certificate is not a business. A business is an idea, the idea that has identified a gap in the market, a market that is waiting to be supplied or serviced and all of this thinking evidences in success.
- Market driven Co-op business: Many Co-operatives are production driven, rather than market driven. What we are saying here is that they access grants, get production equipment and capital and then start production. After production they wake up and say: where is the market?
- A good business with a good business plan identifies the market, does proper market research and clinches contracts before it goes into production. Co-op members can make use of SEDA offices in order to obtain this assistance.
- Administration: Proper administration, such as record keeping, stock control and financial management should be in place before operations of any Co-op begin. Help can be sought from SEDA offices in order to access the relevant training and mentorship.

It is worth repeating that only Co-ops that are well governed, with clear lines of responsibilities and accountability, have the potential to be sustainable, to grow and to create jobs and alleviate poverty. And all over the world, in everything that people do, many strive to be successful. Who wishes to be associated with failure or to be labeled as a failure? The same principles applies to Co-ops: everyone wants to be associated with a Co-op that is successful, sustainable and profitable - not with one that has failed. So let's look at some more specific aspects of ensuring a successful Co-op, which, if followed, will ensure the Co-op shows growth and can create sustainable jobs, thus alleviating poverty.

Here's an activity to help you practice thinking in a business-like manner.



ACTIVITY: CO-OP NEEDS ANALYSIS

Think about your own Co-op and:

- Identify the objectives (exactly what the Co-op aims to do)
- Identify equipment, buildings and other materials needed in the enterprise
- Detail financial requirements and how you are going to obtain this
- Premises needed and where
- Human capital required
- Identify interested members and invite them to the meeting
- Present the concept (the other groups in the class will be the additional members)

5.4.1 Satisfy the Customer

This is not difficult. It means:

- Make sure you have the right quantities as per demand from your customer
- Produce and deliver the right quality products consistently
- Make sure that your prices are competitive in line with your competitors
- If possible diversify your products, but in line with customers' demand
- Do not over-diversify in such a way that you lose focus of your core business
- Make sure all members and staff are customer focused

5.4.2 Well-trained Staff

Have members and staff that are well trained and have the necessary balance and compatibility (as explained earlier). Doing so will ensure that many problems are dealt with, e.g.:

- It is important to ensure proper buying and avoid over stocking that can result in stock shrinkages and well-trained staff will help with this. Also consider using the JIT system, i.e. Just in Time buying.
- In addition, a simple and effective Administrative System should be put in place to ensure: a simple and effective record keeping system; a simple and effective bookkeeping system; all records are kept properly, transparent and available to all members.
- Well-trained staff can also ensure a well-balanced balanced pricing structure, which means that the Co-op: does not lose money by selling too cheaply; does not lose customers by being too expensive; your prices are in line with those of your competitors.

- Well-trained staff can also help ensure the appropriate controls are put in place in the business, e.g.: effective cash control systems; effective stock control systems; effective expense control systems.

5.4.3 Communication

Good, effective communication is vital, so you need:

- effective communication with your customers
- effective communication with your suppliers
- effective internal communication
- effective communication with all stakeholders and the public at large

5.4.4 Compatible Membership

We have already mentioned this matter, but we need to look at it in more detail now as it is common practice in SA to have members of communities told to group themselves together to form a Co-op as there is grant money being allocated to Co-ops for job creation and poverty alleviation. After formation of these Co-op we do not see sustainable job creation and poverty alleviation because, in many cases, people with no compatible skills are grouped together in the hope of achieving success by forming a Co-op.

Some Co-operatives are formed where members have the technical skills, but no business, entrepreneurial, management and leadership skills. These members often know how to produce their products, but they do not know what to do with the product, nor how to manage their business. So it is important to have compatible and complementary skills in a Co-op.

The process to ensure the balance of knowledge and skills should start during the recruitment stage. When you recruit members to join the Co-op, you should ask the question: why do we want the applicant to join our Cooperative? What are they bringing to the Co-op? What skills do they have to offer the Co-op? We should avoid a situation where people are recruited to add numbers, as these people will become passengers and increase the cost of salaries to the Co-op and there is increased possibility of a conflict at a later stage. A good Co-op will always have a by-law on recruitment in order to ensure that new members bring relevant knowledge and skills to the Co-op.

Sometimes there will be challenges to attract people with all the relevant knowledge and skills. Here we should look at the potential of the applicants - the potential to acquire the relevant knowledge and skills. This brings us to the issue of succession planning: a good recruitment policy will guide Co-ops in ensuring a balanced mix of age as well as youth. History has shown that the youth aren't that keen to join the Co-op movement, as many are not sustainable and profitable. If we can establish basic business principles and ensure Co-ops are sustainable and profitable, the youth will want join, as they want to be associated with success. Therefore it is of vital importance to have an effective recruitment policy in place before accepting members into a Co-op.

5.4.5 Continuous Assessment

Things change in a business. We encounter challenges and opportunities and we all need to adapt on regular basis and measure our performance so that people need to know on a regular basis why things are not going as planned, according to the business plan or going well. In order to do this, Co-ops need to do regular assessments of their business to assess their performance.

To measure is to know. If you do not measure you will never know if you are winning or not. So you need a method by which you can evaluate your Coop in order to ascertain if things are going according to plan or not.

First things first: you will not be able to evaluate your performance if you do not have a business plan.

Business Plan

A business plan is a 'living' document that gives direction of where your Coop is going. It should include the following:

- Main areas of activities
- Governance
- Marketing plan
- Costing
- Buying
- Stock control
- Record keeping
- Human Resources
- Production plans
- Risk management
- Financial management

We recommend measurement at least once per month by management and at least once every three months by the board. This will help you to determine the answers to the following questions:

- Are we still on track in line with our Business plan?
- Where the gaps and what are the causes of these gaps?
- Where challenges and what are causes these challenges?
- If we are successful and growing, what are the things that we are doing right?

Using a Comprehensive Assessment document you should assess:

Business Details	Do we have the necessary equipment and infrastructure? Are we still focusing on our core business? Are we compliant with regulations?
Governance	Is our Co-operative still being governed according to our constitution and by-laws?
Marketing	Are we still following our marketing plan Is our business market driven or production driven
Costing	Are we costing our products the right way in order to avoid losing money by selling our products at a loss?
Buying	Are we buying at the right price, the right quantity and quality of inputs in order to reduce costs?
Stock control	Are we having the right stock control mechanism in place in order to avoid stock shrinkages?
Record keeping	Do we have the right record keeping systems in place to ensure accountability?
Human Resources Plan	Do we have the right people with the right skills, having proper job descriptions and doing their tasks that they remain productive at all times?

Production Plan	Do we have the right production plans in order to produce as per customers' requirements, utilizing material, machinery and manpower in such a way to avoid wastage, produce quality, quantity consistently in line with customers' requirements?
Risk Management	Do we have risk management strategies in place?
Financial	Do we have proper financial management systems in place at all times?
Procedure	Using the attached Comprehensive Assessment document, make sure you have regular assessments as explained. The aim is to avoid gaps and challenges and address these gaps and challenges and see if you cannot improve your business

You will practice doing this now.

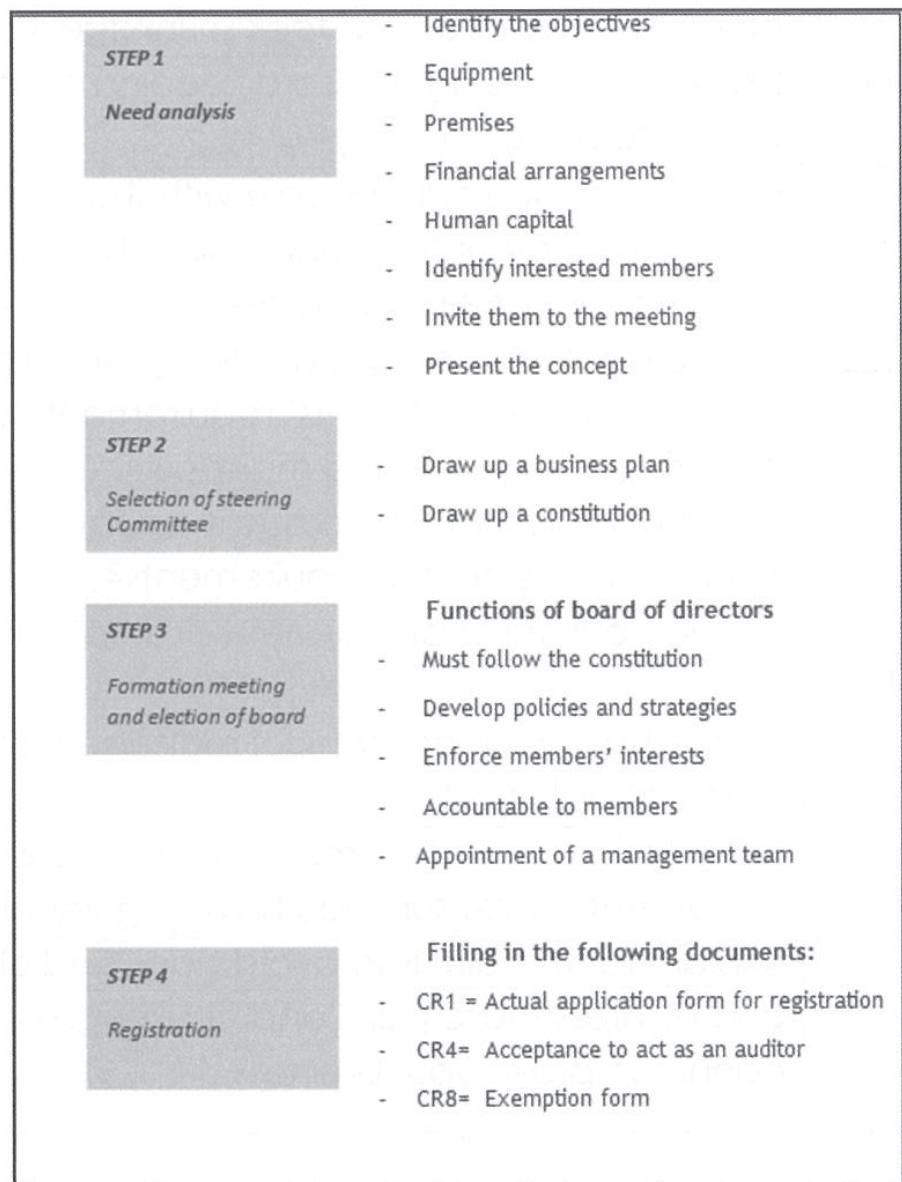


ACTIVITY : CO-OP ASSESSMENT

Now that you understand what assessment is, you will do one on your own Co-op. Go to the Co-op assessment document attached and complete the document.

5.5 STEPS IN ESTABLISHING A CO-OP

Here is an easy guide to establish a Co-op:

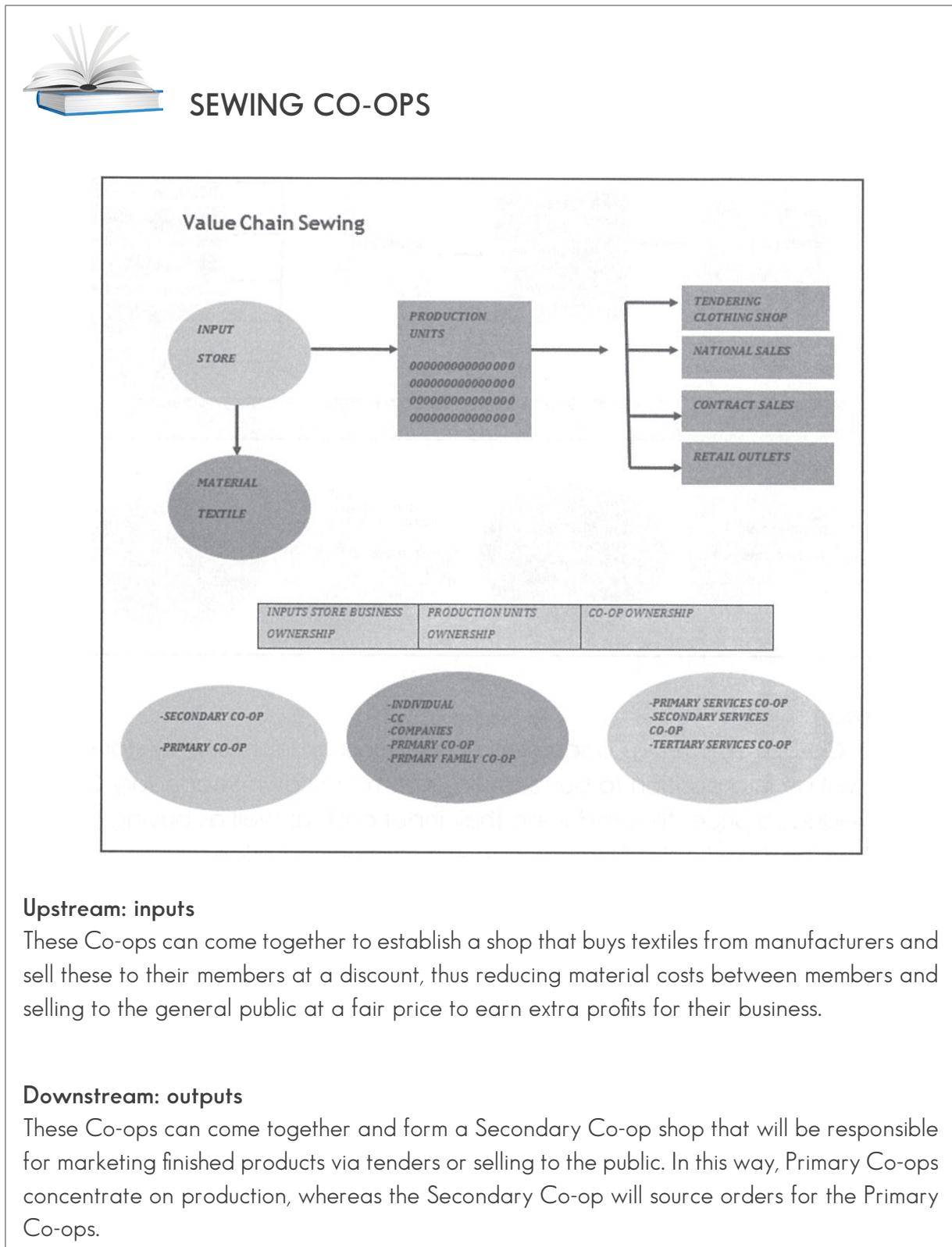


5.6 VALUE ADDING

We understand that Co-ops start in communities. Yes, that is true, but they do not have to remain there or die there. Co-ops can grow into a small, medium or even a large business if there is a broad vision of business and you already know that Primary Co-ops of a particular commodity or sector can come together and form Secondary Service's Co-ops or even Tertiary Co-ops that can serve them upstream, as well as downstream.

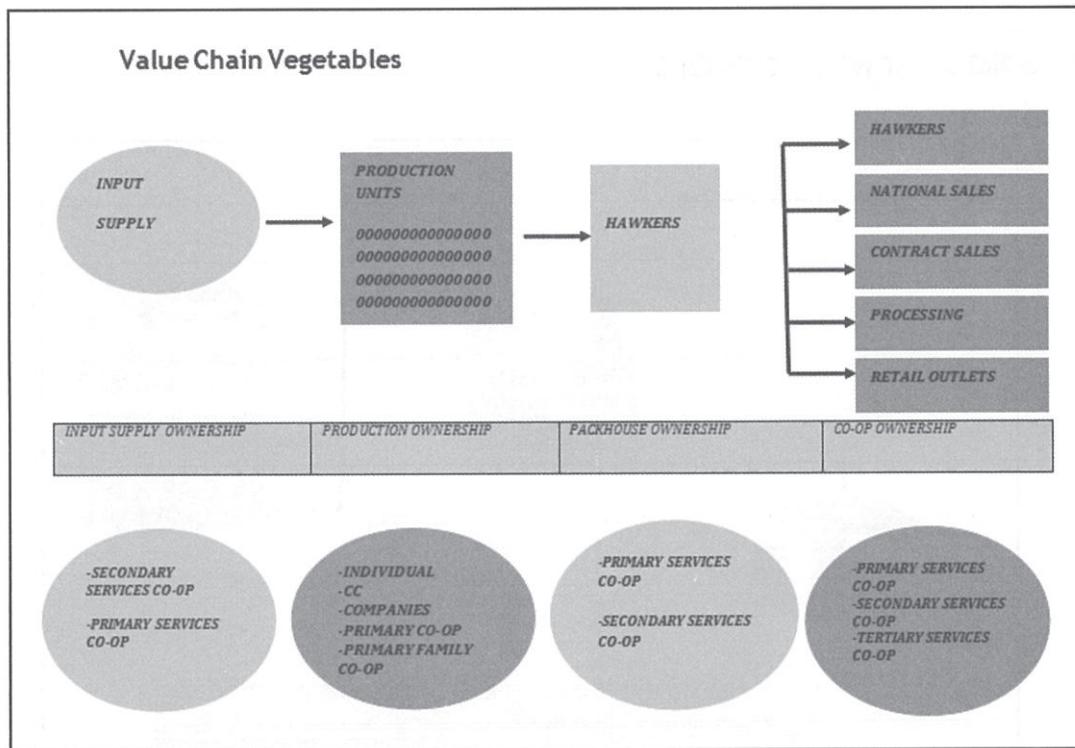
Primary Co-ops can come together to form: upstream Secondary Services Co-ops, which can supply them with inputs, thus lowering their production costs: downstream Secondary Services Co-ops that add value to their primary products, ensure transport and logistics to customers as well as selling the produce jointly, thus increasing their product price. A lesson in this can be learnt from the previous agricultural Co-ops formed by white farmers that today operate as big businesses, e.g. NTK, AFGRI, NWK, etc.

Let's look at two examples.





VEGETABLE CO-OPS



Upstream: inputs

These Co-ops can set up a seedling nursery and an input supply store. They will be in a position to buy seedlings from their own Secondary Co-op at a reduced price, thus reducing their input cost, as well as buying fertilizers and pesticides from their store at a reduced price.

Downstream: outputs

These Primary Co-ops can establish a Secondary Co-op that can have the following businesses:

- Common selling point
- Processing plant
- Packaging warehouse
- Transport vehicles

These businesses can cut out the middleman and increase profits, as they will be in control of the total value chain.



ACTIVITY: ENSURING CO-OP SUCCESS

Now that you understand some of the specific ways to ensure Co-op success, you will look at a number of specific case studies. These are provided below. Read them, answer the questions and then discuss them in your groups. Ensure you learn something from each case study that will help you in your own future Co-op endeavour.

- a. Read each of the following case studies and decide why each failed.

(Here is space for notes.)

The Atlantic Shoemakers' Society

Atlantic has a long tradition of leather craft, and its people were well known for their independent spirit. A number of them had in recent years turned to the manufacture of shoes. They had some difficulties in obtaining raw materials and in marketing their products in competition with larger recognised producers. Some were more successful than others, and although none of them was totally satisfied with their business, nobody had to go hungry.

A Co-op Officer talked to a number of the shoemakers and concluded that a workers' Co-op would help them solve many of their problems. He introduced them to the idea and helped them select a committee and appoint a manager. The Co-op seemed to start well; the co-operative officer arranged a loan for raw material purchase and introduced the shoemakers to some new customers. After some time, however, the members seemed to lose interest. Some of them reverted to their old sources of material, while others preferred to sell direct to traders, as they had before. Very few members turned up at meetings, in spite of the Co-op Officer's best efforts, and after a few months the society had become non-functioning.

The Bamboo Workers' Society

Canaan was famous for its bamboo and for the high quality baskets, hats and other products that had been woven there for many generations. There were a number of companies producing these goods; most were owned by foreign traders, brought bamboo from neighbouring hills and issued it to individual craftsmen, who made what the traders requested and were paid for their work, less the cost of the bamboo.

Over the years, however, the numbers employed in this way declined steadily and their earnings decreased. The traders complained about competition from more modern items made of metal and plastic and said they could only sell the bamboo goods at very low prices.

The Government was keen to encourage indigenous people to take over business activities from foreigners and the bamboo workers had been so frustrated with their conditions that they had already formed an informal association to press their claims. Its leader eagerly grasped the idea of starting a workers' Co-op.

They started with high hopes and purchased some bamboo with a Government loan. They offered "a fair day's pay for a fair day's work" to their members, instead of the low pay they had received previously. A Government department assisted with export sales and some initial orders were received through them and other sources. Their prices were still low, however, and the society soon found itself in difficulty: in time they were no longer able to pay the same wages and they had to delay repayment of their loan as unsold stock accumulated in the warehouse. Finally, many of the members drifted away and stopped manufacturing altogether; some of them returned to the foreign traders, who paid them even less than before.

The Component Workers' Machine Shop

The demand for machine components was rising as more industries entered the field and a group of skilled machinists decided they would start a workers' Co-op to take advantage of this. They could not see why only the managers and capitalists should reap all the benefits. They heard of a small, but reasonably well-equipped machine shop that was being sold by a large company that wished to specialise in other items. Since they were all skilled machinists and they had a certain amount of money in savings, they were able to raise a loan from the bank and buy the equipment.

They were determined to stick to the principles of a genuine workers' society, and to avoid draining away their earnings on highly paid managers. They knew how to do the work, they had contacts who would give them orders and supply raw material, and they knew that their customers would give them some idea of what prices to charge. The society started well: the standard of work was high and many companies welcomed this new source of supply. After some time, however, problems began to occur. One customer complained that the society's invoice arrived far too late and did not include the price that had been agreed on when the order was placed. Urgent orders were forgotten, while less urgent ones were completed, and some suppliers were not paid on time. The society began to run short of capital. Then they found a number of unpaid cheques in a drawer and took them to the bank, but this offered only a temporary respite.

Eventually customers became tired of dealing with the society and orders stopped coming in. Members' earnings reduced and some left to take jobs that would provide a steadier income. Quality also declined and when the society fell behind on its loan repayments, they found they had not enough money to keep going. The machines were sold to repay the loan and the society went out of business.

The Daring Weavers Society

The Government had introduced several schemes to encourage smallscale weaving and 25 weavers decided to form a society. A number of them were particularly interested in the generous Government loan programmes and other subsidised assistance offered. They thought that this would be a way of renewing their equipment at no expense to themselves. The idea had occurred to a number of them more or less at the same time and they decided that they would be genuinely democratic: the chairmanship changed at each meeting and every decision was fully discussed by a management committee of five members. Again, the membership of this committee rotated, so that every member had a chance to participate.

Other groups of weavers and individuals, soon established themselves and competition intensified. Customers insisted on rapid delivery and on immediate quotations for price and delivery when asked. It proved very difficult for the Daring Society to satisfy these customers because every decision had to be discussed by the management committee and important decisions such as prices, had to be debated at the weekly meetings of all the members. Some members suggested that they should streamline their procedures and appoint one of their members to manage the society for a trial period at least. The others did not agree. In any case, nobody was clear as to who should do the job and nobody volunteered since they felt that they should all remain equal.

While this debate was continuing, they were getting fewer and fewer orders and their competitors were buying cheaper yarn from itinerant traders who visited their premises. The Daring Society had been offered this yarn, but had not been able to negotiate with the sellers because the whole group had to be involved in buying decisions and it was impossible to bring them together quickly enough to buy the yarn when it was offered. The debate continued as members still disagreed about what they should do. Some proposed that they disband the society, while others suggested asking the Government for further support. They failed to come to any agreement, however, and in the end ran out of raw material since their original suppliers had been forced out of business by the itinerant workers. The weavers returned home and the society was disbanded.

The Eager Society

A group of young graduates had two reasons to be unhappy: they could not find employment and they could see that the country's traditional dramas, which they had learnt to understand and enjoy at university, were rapidly losing popularity. The commercial theatres were turning to modern plays and the cinemas were dominated by foreign films. One student suggested they might solve both problems at once: start a theatre cooperative to rescue the local dramas. They would allow them to earn a living and preserve their nation's heritage. His friends responded with great enthusiasm.

Their university professor arranged for them to borrow a local Government hall that was out of use and they pooled the little money they had and managed to obtain a Government loan to pay for costumes and scenery. This was partly done through the influence of a local politician, who also promised to publicise the plays through his contacts. In return, the members canvassed for his party and the hall was used for political meetings as well as rehearsals.

The graduates rehearsed their first play with great care, and succeeded in persuading local newspapers and other organisations to publicise it widely. Tickets were reasonably priced, and on the first evening there was a good attendance of university staff, some students and friends and family of the actors. The cultural newspaper reviewed the play favourably, but audience numbers declined night after night. After a week only about half the seats were sold and the group decided to stop doing the play and try another. They rehearsed a second drama for several weeks and during this period a number of the members had to go hungry or take part-time labouring jobs in order to earn a living. Nevertheless, they persevered, but this time only about half the number of tickets sold for the first performance were sold and the hall was virtually empty after two days. The politician had in the meantime been re-elected and showed no further interest in the group.

At a meeting, some of the members wanted to change to more modern plays, but the majority refused. They reminded their friends that they had started with the objective of preserving cultural traditions. According to them, if the people were so stupid and blind to their own heritage, it would be better to stop altogether rather than to lower their standards. The meeting broke up in disagreement and the society never put on another play.

The Formal Printing Society

It seemed impossible for educated young people in the area to find any way of using what they had learnt at school to earn a living, but a group of young men and women who had left secondary school the year before were determined to do something to help themselves. They had been taught at school to analyse problems carefully and they soon realised that their ability to read and write well was a rare and valuable skill in the area. But how could they make use of it? After some thought, they decided to start a printing business. The Government, Co-ops and private businesses in the area had to travel 150 km to the capital to get printing done and there was a high demand for business forms, posters, small booklets and even for books and newspapers to be printed locally.

The group approached a Co-op Officer, who advised them to find out about the equipment they would need. He arranged for a representative of a firm of importers of offset printing machinery to talk to the group and this man was very helpful. He recommended a suitable set of equipment and even offered to provide a two-day training course in the capital city, free of charge. The Co-op Officer agreed that his Department would pay for the young people's travel and they greatly enjoyed observing how the machinery functioned and trying to work the various pieces of equipment themselves.

They prepared a loan request with the help of the sales representative and this was rapidly approved. The machinery was delivered two months later and the group had in the meantime obtained a number of orders for printing work. They started with enthusiasm, but soon found that the job was not as easy as they had thought. Their ability to read and write was useful for checking proofs, but there were many, far more difficult tasks, like ensuring the right amount of ink on the rollers, stacking paper correctly, ensuring that the finished work dried correctly and so on.

They produced some jobs, but these were of very low quality and none of these customers placed any further orders. The machinery supplier was unable to give any further help since their offices were far away in the capital city and after some time the society had used up all its money. The manufacturers eventually agreed to buy back the equipment, at about half its original cost, and the Co-operative Bank wrote off the remainder of the loan as a bad debt.

b. Read the case studies below, then discuss them in your groups and answer the following questions:

- Who had the original idea for the workers' co-operatives in each case?
- Both societies received extensive aid from Government agencies. What fundamental difference was there in the way the assistance was initiated and provided in each case, and who basically controlled and managed each of the two Co-ops?
- What significant differences were there between the two groups with respect to:
 - recruitment
 - homogeneity of the group
 - needs of the members
 - skills of the members
 - the national environment in which they started

(Here is space for notes.)

The Bundu Women's Tailoring Co-operative (BWTC)

The BWTC was started in 1979 by the manager of the local branch of the Industrial Promotion Centre. He prepared a feasibility study and encouraged a local lady, who was running a tailoring school, to form a Co-op with 30 of her community members, who were mainly interested in sewing only for their families, but also welcomed the chance of earning some extra money to supplement their family incomes. Most of their husbands were civil servants. The IPC Manager introduced the women to the bank and helped them obtain a loan of R2000-00 for sewing machines and R6000-00 more for working capital. The women themselves raised R1 800-00.

The Co-op was launched with a big ceremony. The IPC Manager persuaded the President of the country to attend, since it was one of the first workers' Co-ops in the country and the only one run by women. Soon after this, the IPC Manager was transferred elsewhere, but before he left he persuaded a foreign aid project, the Bundu Development Project (BOP), to take the new society under its wing and the wife of one of the foreigners agreed to train the women in simple book-keeping and started to keep accounts for the society; persuaded the BDP to provide and pay for a one-week management course for all the members.

The women decided to make pyjamas, since these were simple to sew. They then found that with their own product, the quality was lower and the cost far higher than the imported pyjamas already on the market. Nevertheless, they continued to make more pyjamas and other items, since they still had money for material. Only a few items were sold.

The BOP then provided a marketing adviser to help them sell the goods. He decided that they could not compete in the local market, but he did succeed in obtaining some orders from foreign charities who were interested in helping women's groups in developing countries. Quality was still a problem, however, and so the BOP also provided an expert in quality control to help the women improve their goods. The BWTC continued to survive on occasional foreign orders.

They had problems obtaining material and in export procedures, but the foreigners were usually able to help. After two years, however, the foreign aid project came to an end and the foreigners all left. One or two customers continued to send orders, but the BWTC found it difficult to obtain materials and to produce goods of the necessary quality on time. After a few months, the money was finished and the women ceased to come to the workroom, since they preferred to stay at home. The loans were never repaid, and the BWTC eventually ceased to operate at all.

The Alma Weavers' Co-operative (AWC)

For hundreds of years Alma, has been a centre for weaving. The Government was anxious to preserve traditional crafts of this sort; they are part of the national heritage and use local skills and materials to produce products that local people still use and also export some products. In 1972 the Government allowed a group of traditional leather workers in the capital city to start a Co-op and a number of other groups of craft workers followed their example.

In 1974, 44 men in Alma started the AWC. They hoped to improve their supplies of raw material and their marketing and also to encourage young people to learn a trade. As manager, they chose the son of one of the members, who had been to secondary school and had received some basic training in book-keeping. The members raised R300-00 from their own savings and used this and a further R300-00 overdraft from the bank to buy raw materials. In spite of their efforts, it was very difficult to obtain regular supplies of high quality yarn and it was also difficult to sell their products, so a number of the weavers withdrew.

By 1978 the situation was serious: the twenty remaining members managed to raise a further R400-00 and approached the Government for help in obtaining raw material. The Government official was impressed by the members' persistence and he helped them to obtain import licenses

for raw materials and guaranteed an extension of the society's overdraft. The members responded enthusiastically and also recruited 45 women as new members. They employed one of the older weavers to train them in weaving, which had traditionally been a male occupation, and he also designed a new type of hand-loom, which enabled them to increase their productivity.

In 1983 the society's annual sales were over R300000-00. There were 66 men and 155 women members; each was earning between R 150-00 and R300-00 a month, depending on their production. The society reconstructed its workshop, and also started a literacy programme for the women members, none of whom had ever been to school. Thirty-eight of them passed the primary school leaving certificate.

The society was also able to buy a film projector and video recorder from its surplus. This further encouraged the members to improve their education, because Alma is in a mountain area and there is no television or cinema. The society, in fact, has become a major social and economic force in the community.

- c. Read the case studies below, which detail the origins and progress of two workers' Co-ops, both of which arose because skilled people were being exploited by others, but each of which had very different results. In your groups, discuss the case studies and then answer the questions posed.
 - What were the basic reasons for failure of the Cazinga Weavers, and the success of the Star Furniture Makers?
 - If you were the bank manager in the Star Furniture case, or Joseph Taylor in the Cazinga case, what would you do now?

(Here is space for notes.)

The Cazinga Weavers' Society

When a friend telephoned him to tell him that Mrs Lauro had suddenly died, Joseph Taylor, who was Co-op Officer for the Cazinga Region, decided that he should see what he could do for the Weavers' Society, right away. As he drove to Cazinga, he thought about the Weavers' Society. He had started it some years before, since he had been anxious to improve the income of the local weavers and to protect them from exploitation. At the time, a few of the middle class women in Cazinga were trading in the traditional woven cloth of the region, which was popular with tourists who came to the city 100km away.

Tourists were willing to pay up to R90-00 for a 10m length; the thread for this cost R30-00. The weavers were paid R8-00 for weaving it, which would take about a week and the women traders would then sell this to the city shopkeepers for about R60-00. Taylor thought that it was wrong that the women only earned R8-00 for something which sold for R90-00 and he decided to do something about it.

At first Taylor had failed to interest any of the weavers, but then Mrs Lauro, a middle-class housewife in Cazinga agreed to help. She invested R100-00 of her own capital and the 35 weavers whom she encouraged to join agreed to pay their share later. The bank lent the new Co-op society a further R300-00 and Taylor bought some thread and gave it to Mrs Lauro. She had agreed to be manager on a semi-volunteer basis, since she was also a school teacher.

From then on the society seemed to prosper. Taylor was transferred to other duties and was pleased to hear two years later that 15 more women had joined. A year later, he happened to meet Mrs Lauro in the city, selling cloth to a shopkeeper. Taylor remarked that the thread was not of the same quality as that which he had originally bought and asked whether she was getting it from other sources. Mrs Lauro confirmed this. The Co-op, she said, was still using the high quality thread, but this was her cloth, made by her workers.

Taylor was surprised to hear that she had her own business, but she pointed out that her semi-volunteer salary from the society was not enough. In addition to being a school teacher, she had always traded in cloth, like the other women in Cazinga, and this was why she had been able to build up the Co-op so successfully. Taylor asked her if there had been ever any confusion between her own and the society's cloth, but she had said that this had been no problem; there had been enough orders for everyone.

As soon as Joseph Taylor re-visited Cazinga, he went to the society's workshop, where he met a number of the women weavers. They were obviously sorry that Mrs Lauro had died, but when Taylor asked them what they would do they seemed to not be worried. After all, they said, there were plenty of other traders who would pay them RS-00 a week, like Mrs Lauro had.

Taylor then realised that Mrs Lauro had run the society along with her own business. The accounts, which had been duly audited, showed that the weavers' share capital had been deducted from their wages, as agreed. The loan had been repaid, and several hundred rand worth of cloth and thread were shown as being in stock. According to the accounts, the society had never made a surplus and it looked as if Mrs Lauro had charged all her travelling and other expenses to the society. Her salary had never exceeded the sum originally agreed and the weavers had never complained since they had earned what they had always earned and they did not care whether the cloth they made belonged to Mrs Lauro or the society. It was all the same to them.

It was impossible to separate Mrs Lauro's own property in the stock from that of the society and Taylor did not know what to do. Then Mrs Thomas came in; she was one of the independent traders in Cazinga and she had come to volunteer to take on Mrs Lauro's position. She felt it was her duty, she said, to help the poor weavers as her friend Mrs Lauro had done before her tragic death.

The Star Furniture Society

In 1978 15 local carpenters decided that they had to do something to improve their income. They all worked for private furniture makers in the town, who paid them very badly and they agreed to start a Co-op society instead. The carpenters decided to pay R50-00 from their savings or the sale of some of their property. At this point, 5 went back to their old jobs because they did not want to take the risk. The other 10 persevered. They refused to admit other people who were willing to pay the R50-00, but wanted to be trained. The Star, the members said, was only for skilled carpenters.

The society rented basic premises and the members had their own hand tools. Kwayu, their leader, persuaded the local branch of the Small Business Development Organisation to let them have an electric planer, which had been ordered by a local business but not paid for, on a hire purchase basis. Later they obtained a band-saw and a lathe on the same basis.

Although the members' old employers did their best to stifle the new society, the Government was in favour of Co-ops and they obtained some trial orders from public institutions. Their prices were reasonable, since the members deliberately kept their earnings low and the goods were of high quality and delivered on time. Their customers were impressed, and a number of Government staff started to buy from Star for their own use as well.

None of the members had any formal technical education, except Kwayu, who had taken a part-time course some years before that included basic costing and book-keeping. They realised the importance of quality, reliable deliveries and competitive prices. Kwayu did most of the administrative work and prepared the tenders, but also continued to work as a carpenter.

Although they sometimes had more work than they could easily cope with, they preferred either to work long hours, without taking extra money, or, if it was absolutely necessary, to employ one or two parttime carpenters on a casual basis. They preferred not to expand the membership, since they wanted to be sure that all members were fully employed throughout the year, even during slack times.

By 1983, the members had paid for the machines completely and there was about R20000-00 invested in machinery, tools and material. They had started with an investment of R500-00 and their own tools, which were worth perhaps R 100-00 per member, or a further R 1000-00 altogether. They had never received any loans and all their capital came from their reinvested surplus. The Star Society also had R5000-00 on deposit in the bank.

The members decided to build on their success by opening a Co- op shop and they applied to the bank for a loan of a further R5000-00, so that they would have the R 10000-00 they thought they needed to fit out and stock the shop. The Star Society members were well respected in the area and many people had encouraged them to open a shop to compete with the foreign traders whose prices seemed too high and who never offered credit.

UNIT 6 CO-OP DOCUMENTATION

Forms you need to know about

NUMBER ON THE FORM	TITLE OF THE FORM	WHAT IT'S USED FOR
CR 1	Application for registration of primary/secondary/tertiary co-operative	To apply to register your co-operative
CR 2	Return relating to directors of elected directors and	To inform the Registrar their particulars
CR 3	Notice of addresses and contact particulars of co-operative and changes thereof	To inform the Registrar of changes to your registered address and contact details
CR 4	Notice of appointment of auditor and consent to act as auditor, or resignation by auditor and removal of auditor	To inform the Registrar of the auditor of your co-operative
CR 5	Application for reservation of name or translated form or shortened form of name	To apply for permission to use a certain name for your co-operative
CR 6	Special resolution	To inform the Registrar of a change or an addition to your constitution
CR 7	Lodgement of financial statements	To submit your AFS to the Registrar each year
CR 8	Application for exemption from full compliance with auditing requirements	To apply for permission to not meet all of the requirements for auditing
CR 9	Special resolution for voluntary winding up of co-operative	To inform the Registrar that you wish to de-register your co-operative
CR 10	Certificate of registration of a co-operative	The Registrar issues this to you when your co-operative has been successfully registered
CR 11	Certificate of change of name of co-operative	The Registrar issues this if he has given you permission to change the name of your co-operative
CR 12	Certificate of change of name by directive of registrar	The Registrar issues this if he has declined your first choice of name and has assigned a new name to your co-operative
CR 13	Application for inspection of documents	If you need to view any of the official documents of the co-operative that are kept by the Registrar, you need to complete this form

The following documentation is provided in this unit:

CR1

CR2

CR3

CR4

CR5

CR6

CR?

CR8

CR9

CR10

CR11

157

CR12

CR13

Co-op Constitution template

Co-op Assessment

FORM CR 1

REPUBLIC OF SOUTH AFRICA CO-OPERATIVES ACT, 2005

APPLICATION FOR REGISTRATION OF PRIMARY/SECONDARY/TERTIAL CO-OPERATIVE (Section 6)

INSTRUCTIONS FOR COMPLETION OF FORM

1. *Write in block capital letters, typewrite or print in legible characters with deep permanent black ink, and lodge one set of the documents referred to at the end of Part 1.*
2. *An application, which does not comply with the requirements of the Act, these regulations or the notes on this Form, may be rejected.*
3. *If no identity document has been issued, a written statement to this effect must be attached to the application form and the date of birth must be entered where an identity number is required.*

PART 1

APPLICATION STATEMENT

WE, as founder members, apply for the registration of the co-operative, particulars of which are set out below. We confirm that on 2.....(date), a meeting of interested persons was held and that the attached constitution was adopted for the co-operative and that the persons whose names appear in Part 3 were elected as first directors of the co-operative.

Name of co-operative

Shortened form of name (if applicable)

Literal translation of name (if applicable)

Type of co-operative (i.e. Primary / Secondary / Tertiary)

Kind of co-operative (specify or describe kind even if not listed in section 4 of Act, e.g. worker/agricultural/consumer co-operative)

Main objective and description of business of co-operative

.....

.....

.....

Date of end of financial year

Province where co-operative registered office is located

FORM CR 4

REPUBLIC OF SOUTH AFRICA
CO-OPERATIVES ACT, 2005

**NOTICE OF APPOINTMENT OF AUDITOR AND CONSENT TO ACT AS AUDITOR,
OR RESIGNATION BY AUDITOR AND REMOVAL OF AUDITOR**

(Sections 50 and 51 and regulation 19)

Name of co-operative

Registration no. of co-operative (if already registered)

*Mark the applicable square

PART I (To be completed by the auditor concerned or person contemplated in section 55 (2) (b) of the Act and sent to the co-operative for completion of **PART III** and lodgment with the Registrar)

***A APPOINTMENT:**

I, consent to my appointment as auditor of the co-operative as from 2..... and declare that I am not disqualified in terms of section 49 of the Co-operatives Act, 2005, for the appointment.

***B CHANGE OF NAME OF FIRM OF AUDITORS**

The firm

has with effect from 2..... changed its name and will in future be known as

Date..... 2.....

Signature of auditor

Profession

Practice number

Office address.....

Postal address.....

FORM CR 5**REPUBLIC OF SOUTH AFRICA
CO-OPERATIVES ACT, 2005****APPLICATION FOR RESERVATION OF NAME
OR TRANSLATED FORM OR SHORTENED FORM OF NAME
(Regulation 11)**

A. Proposed Name or Translated Form or Shortened Form

(Indicate with a cross)

In order of preference	For Office Use
1.	approved/not approved
2.	approved/not approved
3.	approved/not approved
4.	approved/not approved
5.	approved/not approved
6.	approved/not approved
Reservation is valid for three months	

B. Is the proposed name associated with a person, co-operative or a company? If so, what is the name and number (if a co-operative or company) and the nature of the association (e.g. member, director etc.).

.....

.....

C. Main object/business of the co-operative/proposed co-operative

.....

.....

Name of Applicant (print):

.....

Address to which form must be returned (if not lodged electronically):

.....

Signature of applicant

Date:

CO-OPERATIVES ACT, 2005

FORM CR 6

**REPUBLIC OF SOUTH AFRICA
CO-OPERATIVES ACT, 2005**

SPECIAL RESOLUTION

[Sections 18 (4), 57(3), 60 (3), 62 (3), 63 (3), 77 (2)]

Name of co-operative

Registration No. of Co-operative

A Special Resolution passed in terms of section 18 of the Act on (date/s), at a general meeting/s of the co-operative by at least two thirds of the members present:-

1. The required quorum was present at the meeting and a copy of the resolution is hereby lodged for registration.
2. A copy of the notice convening the meeting and setting out the proposed amendment, as required by section 18 (2) of the Act, is attached.

CONTENTS OF RESOLUTION
(Use attachment if necessary)

Resolved:

Signature (Director/Secretary/Manager/Officer of co-operative)

Date _____

Special resolution registered this day of
Two thousand and

Registrar of Co-operatives

Seal of Office of the Registrar of Co-operatives

This certificate is not valid unless sealed by the said Seal

FORM CR 7

REPUBLIC OF SOUTH AFRICA
CO-OPERATIVES ACT, 2005

LODGMENT OF FINANCIAL STATEMENTS

[Sections 48 (6), 54 (3) and 55 (3) and (4)]

(To be lodged within 15 days of approval by annual general meeting)

Paragraph D to be completed by primary co-operatives only

NAME OF CO-OPERATIVE.....

REGISTRATION NO. OF CO-OPERATIVE.....

A. The following documents are lodged herewith:

1. Audited financial statements and auditor's report for the financial year ended 2.....
2. Annual financial statements pursuant to an exemption in terms of section 55 of the Act for the financial year ended 2.....(if applicable)

OR

B. The annual general meeting of the co-operative failed to approve the financial statements for the financial year ended 2.....(if applicable)

1. The reasons for the failure are

.....
.....
.....
.....

(Use attachment if necessary)

FORM CR 8

REPUBLIC OF SOUTH AFRICA
CO-OPERATIVES ACT, 2005

**APPLICATION FOR EXEMPTION FROM FULL COMPLIANCE WITH
AUDITING REQUIREMENTS**
[Section 47(2) and 55]

NAME OF CO-OPERATIVE.....

REGISTRATION NUMBER.....

(To be completed by the Chairperson of the board of directors of the co-operative and lodged with the Registrar)

1. I,..... (complete full names and surname): Chairperson of the board of directors of above-mentioned co-operative declare under oath / solemnly that:

- (a) the cost of an annual audit would materially effect the financial sustainability of the co-operative;
- (b) the co-operative has maintained adequate financial records, and is able to prepare annual financial records;
- (c) having regard to the size and kind of co-operative, the interests of members will be adequately protected.

2. I, therefore, apply on behalf of the co-operative, that the co-operative -

- (a) be allowed to combine the audit for the financial years of to into a single audit;

OR

- (b) be allowed to have the financial statements of the co-operative audited by a member of a profession whose members have been authorised to act as accounting officers for close corporations in terms of the Close Corporations Act, 1984 (Act 69 of 1984);

OR

- (c) be allowed to appoint (state name of person or organisation) being an organisation which was established for the purpose of rendering audit

FORM CR 9

REPUBLIC OF SOUTH AFRICA
CO-OPERATIVES ACT, 2005

SPECIAL RESOLUTION FOR VOLUNTARY WINDING UP OF CO-OPERATIVE

[Section 71]

Name of co-operative

Registration No. of Co-operative.....

1. A Special Resolution passed in terms of section 71 of the Act on (date), at a general meeting of the co-operative is hereby lodged for registration.
2. It is confirmed that a minimum of 75% of members of the co-operative voted in favour of the resolution.
3. A copy of the notice convening the meeting and setting out the proposed resolution and the reasons therefore, is attached.

CONTENTS OF RESOLUTION

Resolved:

1. That the Co-operative named, CO-OPERATIVE LIMITED, be placed under voluntary liquidation.
2. (other)

Signature (Director/Secretary/Manager/Officer of co-operative)

Date.....

Special resolution registered this Day of Two
thousand and

REGISTRAR OF CO-OPERATIVES

Seal of Office of the Registrar of Co-operatives

This certificate is not valid unless sealed by the said Seal

FORM CR 10

REPUBLIC OF SOUTH AFRICA
CO-OPERATIVES ACT, 2005

**CERTIFICATE OF REGISTRATION
OF A CO-OPERATIVE
(Section 7)**

I, hereby, certify that

..... **CO-OPERATIVE LIMITED**

was registered this day under section 7 of the Co-operatives Act, 2005 (Act 14 of 2005), under **registration number**..... as a **Primary / Secondary / Tertiary** (select relevant form) **Co-operative** with limited liability and that its constitution was registered today.

I further certify that.....**CO-OPERATIVE LIMITED** is with effect from this day entitled to commence business.

Signed and sealed at **PRETORIA** on this Day of
..... **Two Thousand and**

.....
REGISTRAR OF CO-OPERATIVES

Seal of Office of the Registrar of Co-operatives

This certificate is not valid unless sealed by the said Seal

FORM CR 11
REPUBLIC OF SOUTH AFRICA
CO-OPERATIVES ACT, 2005

CERTIFICATE OF CHANGE OF NAME
OF CO-OPERATIVE
[Section 10, 18 and regulation 14 (2)]

I, hereby, certify that CO-OPERATIVE LIMITED,
with Registration Number has
changed its name by SPECIAL RESOLUTION and is now called:-
..... CO-OPERATIVE LIMITED.

The effective date of the change of name is..... 2..... and
the said new name has been entered into the Register of Co-operatives.

Signed and sealed at PRETORIA on this, Day of
..... Two Thousand and

REGISTRAR OF CO-OPERATIVES

Seal of Office of the Registrar of Co-operatives

This certificate is not valid unless sealed by the said Seal

FORM CR 12

REPUBLIC OF SOUTH AFRICA
CO-OPERATIVES ACT, 2005

CERTIFICATE OF CHANGE OF NAME BY DIRECTIVE OF REGISTRAR

[Section 11]

Name of co-operative

Registration no. of co-operative

I, hereby, certify that I have changed the name of

..... CO-OPERATIVE LIMITED

to

..... CO-OPERATIVE LIMITED

in terms of section 11(2)(a) of the Co-operatives Act, 2005 (Act 14 of 2005).

The original name of the co-operative has been revoked, and the new name of the co-operative was assigned to and entered in the Register of Co-operatives.

The co-operative is registered as a **Primary / Secondary / Tertiary** (delete not applicable) Co-operative with limited liability.

From the date of this certificate, the constitution of the co-operative is deemed to have been amended to reflect the name assigned to it in this certificate.

Signed and sealed at PRETORIA on this Day of
Two Thousand and

.....
REGISTRAR OF CO-OPERATIVES

Seal of Office of the Registrar of Co-operatives

This certificate is not valid unless sealed by the said Seal.

FORM CR 13
REPUBLIC OF SOUTH AFRICA
CO-OPERATIVES ACT, 2005

APPLICATION FOR INSPECTION OF DOCUMENTS
[Section 82]

A. Applicant:

Name

Name of organisation that requests the information

Tel/Cell No. of Contact Person.....

Email Address of Contact Person.....

Postal Address of Contact Person (if the requested documents need to be posted)

.....
.....
.....

Postal Code.....

B. Information requested in respect of -

Name of Co-operative

Reg. No. (if available)

Detail of information required:-

Document/file	<input checked="" type="checkbox"/>	Cost
Access to full co-operative file		
Certificate of Registration		
Constitution		
Financial statements for Financial Year/s.....		
Form CR 1 - Application for registration of co-operative		
Form CR 2 - Return relating to directors		
Form CR 3 - Notice of addresses and change of addresses		
Form CR 4 - Notice of appointment of auditor		
Form CR 5 - Application for reservation of name		
Form CR 6 - Special resolution		
Form CR 7 - Financial statements		
Form CR 8 - Application for exemption from compliance with auditing requirements		
Form CR 9- Special resolution for winding up		
Form CR 10 - Certificate of registration of co-operative		
Form CR 11 - Certificate of change of name		
Form CR 12 - Certificate of change of name by registrar		
Certification of documents (State requirements).....		
.....		
Other (specify).....		
.....		
TOTAL COST (as per Schedule 1 of Regulations)		

C. Payment for Inspection

1. Proof of payment of prescribed fee for inspection is attached.
2. Additional fees payable (e.g. for photo copies, certification, etc), are as follows:.....

Co-op Constitution Template

Co-op Assessment

