



DEPARTMENT:  
AGRICULTURE



# what IS A COOPERATIVE



BOOK ONE

What is a

# COOPERATIVE

## CONTENTS

1. Outcomes
2. Introduction
3. The History of Cooperatives
4. Germany
5. Other Parts of the World
6. Cooperatives in South Africa
7. Financing a Cooperative
8. Business with Members only?
9. Autonomy?
10. Assessment

© 2000 Department: Agriculture

All rights reserved. No part of this book shall be translated, reproduced, stored in a retrieval system, or transmitted by any means, electronic, mechanical, photocopying, recording, or otherwise, without written permission from the publishers.

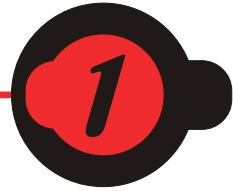
Published by  
**Department: Agriculture**  
Private Bag X250  
Pretoria  
0001

Design, Layout and Illustration by  
**Dimensional Dynamics**

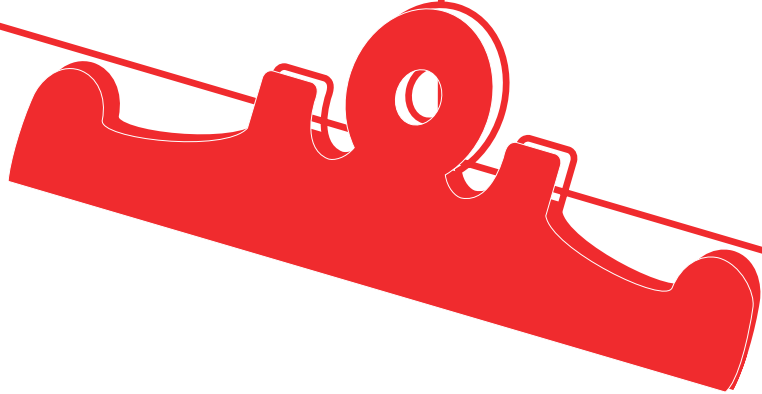
Printed by  
**Consortium Publishers**

**ISBN: 1-86871-093-9**

# BOOK ONE



# Outcomes



After studying this booklet you will have a clear idea of

- What a cooperative is and how it originated
- how it differs from companies
- who can start a cooperative and
- what benefits it holds for its members.

# Introduction

Through the centuries people have devised ways and means of coping with life's adversities. Often the problems confronting them were so large that one person alone could not effectively handle it and the help of other people was required. This is how the unique African institution of the *stokvel* was born, so that more than one person could voluntarily cooperate in achieving a common goal.

In this sense one could say that a cooperative is simply a *stokvel* that is legalised and enjoys the protection of the government and the law. To ensure that the rights and interests of all members are protected, a cooperative must adhere to certain legal requirements and in return for the protection it enjoys, it has certain obligations.

The characteristics of a cooperative differ very distinctly from other types of business, such as companies and closed corporations.

- A cooperative is established by a group of individuals and cannot be formed by a single individual, unlike companies and closed corporations. The word cooperation implies that a group of people must work together on a voluntary basis.
- The group must also have a mutual or common need or purpose for forming the cooperative. If members have different needs, a cooperative cannot be established.
- The common need should be capable of being met more economically by the group than by an individual. A group of people would therefore be able to form a funeral cooperative or a farming cooperative, because a group of people could more easily meet the objectives than a single individual on his or her own.
- The activities of the cooperative must be of mutual benefit to all members. If only one member benefits, a cooperative cannot be registered.

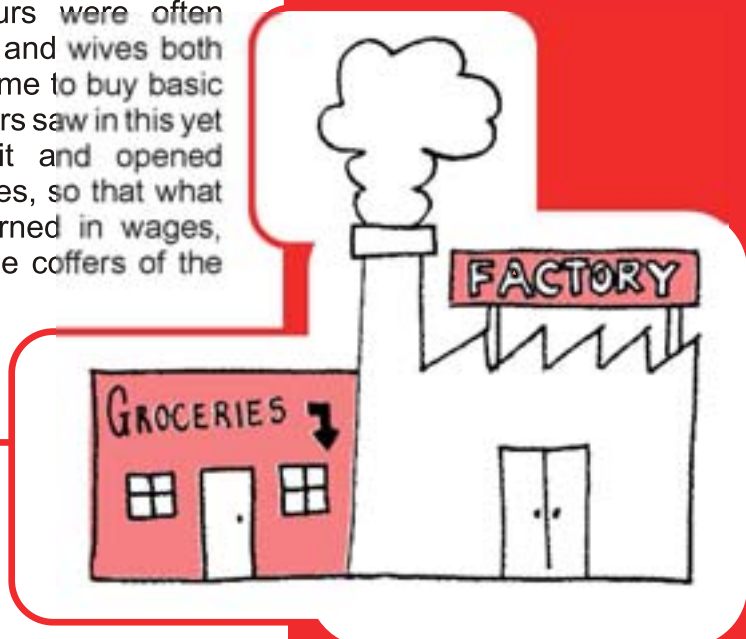
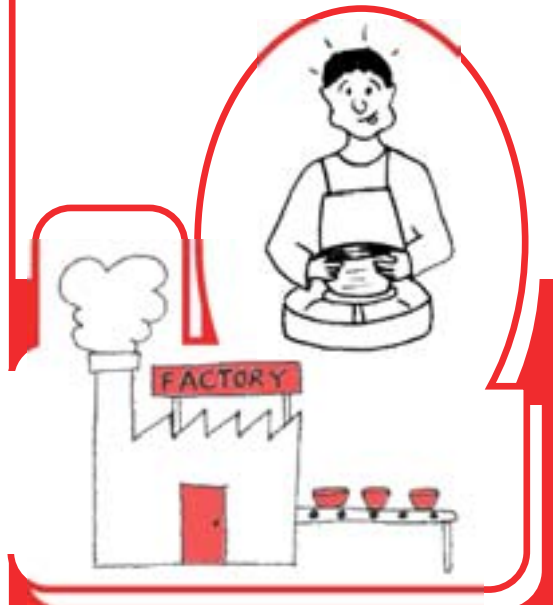


# The History of Cooperatives

It is usually when people are in need that they decide to stand together and as a group look after their own interests. Such a period in history started at the beginning of the Industrial Revolution in England, when the introduction of machines in factories put thousands of craftspeople out of business. Since early times individual families supplied most of the needs of England. They spun wool and flax, wove cloth, made pottery and forged and cast iron objects. With the development of steam engines, for the first time in history machines could do the same job far more effectively and cheaper than by hand.

Thousands of independent craftspeople went out of business and drifted to the cities, looking for work. Their plight was in many respects similar to that of African people in colonial times, who had to abandon their ancient agricultural economy and adapt to a modern, urban economy.

Shantytowns developed round existing cities and as there were no trade unions, people had to accept whatever wages factory owners offered. As the working hours were often extremely long and husbands and wives both had to work, there was little time to buy basic necessities. Many factory owners saw in this yet another opportunity for profit and opened grocery stores on their premises, so that what little their factory workers earned in wages, eventually landed back into the coffers of the factory owners.





# The History of Cooperatives ... continued

In the year 1844, in the town of Rochdale, England, 28 factory workers decided to start their own shop, so that they could obtain basic necessities at the lowest possible prices. They founded the world's first cooperative shop along the following principles:

- There would be democratic control of their shop;
- Membership would be voluntary;
- They would not run their business for profit, but would take just enough on their capital to pay their expenses and to buy more products.
- Whatever profits they made would eventually be equally distributed among the members as a percentage of what every member has spent - so that those who had spent most would get back the most and those that have spent the least, would get less;
- The patronage or the value of business done by a member with his cooperative is up to this day the way on which a cooperative distributes its profits. This differs from companies and closed corporations, whose profits are distributed by way of dividends on shares owned. This means that one could buy shares in a company and get a cut of its profit without necessarily having done business with it.

*The most evident difference between cooperatives and other types of business is that the principle of proportionality applies here: the more a member transacts his business through his cooperative, the larger his bonus will be.*

- The people of Rochdale further decided that all sales would be in cash, so that no member could run up a debt, as often happened at the factory stores, making many factory workers practically defenseless against the bosses;
- Only basic products of good quality would be sold;
- Politics and religion would play no role in their activities; and
- They would do as much as they could to educate their members.

More and more such cooperative shops were founded and in 1864 they joined forces to found the *Cooperative Wholesale Society*. This enabled the shops to buy in bulk and demand better discounts on what they bought, so that they, in turn, could sell at lower prices to their members.



# Germany

At about the same time agricultural cooperatives were started when Friederich Raiffeisen of Germany persuaded farmers to found their own credit banks. In those years farmers were often dependant on large landowners and local traders for capital to buy seed, fertilizer and other material needed to produce a harvest. Many farmers became so deeply indebted that they lost their land. Reiffeisen, a wealthy businessman, propagated the idea of local cooperative credit banks that could loan money to their members for their requirements. Most agricultural towns eventually founded their own banks and contributed greatly to the financial success of the farming community.

The next step was the amalgamation of many of these banks, with the result that cooperative credit banks have now been in existence for more than a century after their inception in Germany.

Where Reiffeisen was primarily interested in the wellbeing of the farming community, Schultse-Deltzsch in turn was interested in the financial well-being of city dwellers. He initiated small loans to many independent craftspeople to buy materials for production and to small businessmen to buy stock for resale. This gave rise to a cooperative wholesale organisation and regional banks. Amongst others the German Cooperative Bank, the largest of its kind in Germany, was founded in the city of Bonn in 1949, shortly after the Second World War . It contributed greatly to the reconstruction of Germany's economy after the war.



# Other Parts of the World



In this century the United States of America as well as Japan followed the example of Britain and Europe. Japan went so far as to found a cooperative for the expansion of foreign trade in 1961. This unique organisation, Unicoop Japan, played an important part in Japan's economic success.



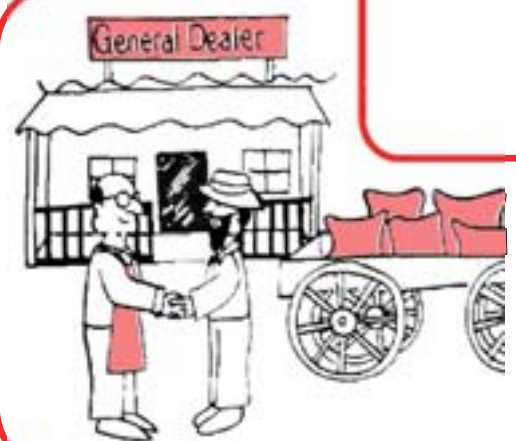
## Cooperatives in South Africa

The cooperative movement started in all earnest after the end of the Anglo-Boer War in 1902. Agriculture in the former Boer republics of the Free State and Transvaal came to a complete standstill during the war. In many cases houses and outbuildings were deliberately burned down and live stock killed as part of the British scorched earth policy against the Boer guerilla forces. Economic reconstruction had to take place despite a lack of development capital.

The little that farmers could produce were in most cases sold directly to the nearest general dealer, who would fix a price for farm produce and at the same time supplied the farmer with groceries, clothing and farming requisites. In a good year the farmer would be able to produce a little more than he owed the general dealer, but in times of adversity, farmers could become deeply indebted to the dealers and a good many lost their farms.

No wonder farmers decided they should stand together and find new ways of marketing their products. In the Transvaal, the Cape Province, the Free State and Natal, government supported attempts were made to start cooperatives. However, due to their isolation, many farmers were sceptical and did not really trust this new development. For this reason all cooperatives could not count on the whole-hearted solidarity of all their members.

The first decades of the cooperative movement in South Africa were slow and often fraught with dangers. But in the end, cooperatives played a decisive role in the successes of South Africa's farming community. More than anything else it lifted agriculture from subsistence farming to the very successful commercial farming of today.





# Financing a cooperative

To become a member of a cooperative and to share in the advantages that loyal membership brings, one must buy shares. Shares can be compared to the membership fees one has to pay to join a private club. Unlike a company or a closed corporation, one does not earn dividends (the way in which companies divide their profits) on the basis of how many shares one has in the cooperative, but on the basis of how much business one has done with the cooperative. At the end of every financial year, if capital is not urgently required for other purposes, the members may decide to divide the profit that was made during the year among themselves. This is done as a percentage of the business that one has done with the cooperative. The more business one has transacted through the cooperative, the higher one's *bonus* will be.

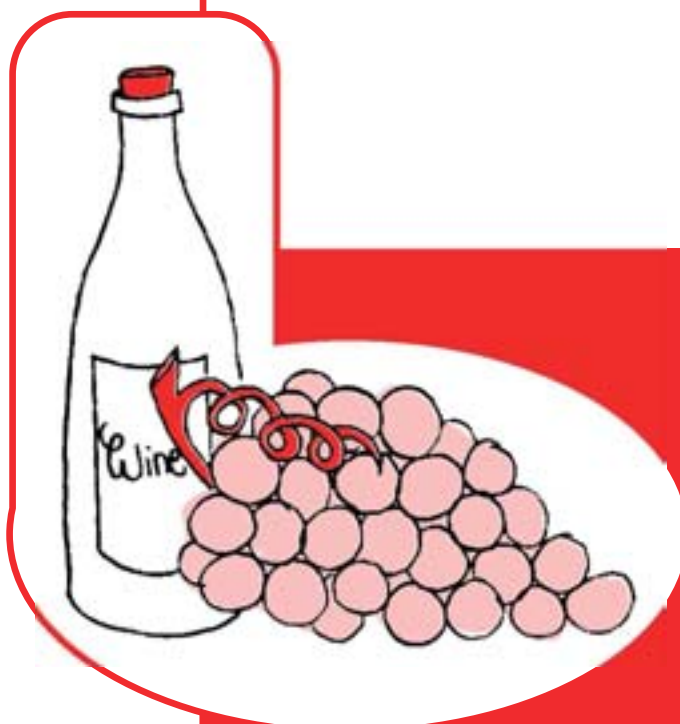
Originally shares in a cooperative did not appreciate in value, and more shares did not give a member an advantage above members with fewer shares. However, even cooperatives need financing and the law was changed so that cooperatives may now give a competitive interest on shares, to encourage members to buy more shares, and thus to increase a cooperative's share capital. On the other hand, unlike companies, more shares do not entitle a member to more votes in the general meeting of members. However, cooperatives may make provision for a member's voting power to increase in proportion to the amount of business he or she transacts with the cooperative. Cooperatives may also buy shares back from members, if they deem it necessary, in contrast to companies who are not allowed to do that.



Another way in which cooperatives can obtain share capital, is usually found in cooperatives that handle fruit or wine. Most of them work on a *quota system*. This means that for RX worth of shares, a member may deliver so many tons of produce to the cooperative. The more produce a member wants to deliver for processing or resale, the more shares he has to buy.

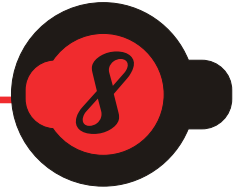
Even in this way the principle of *proportionality*, that lies at the heart of the cooperative movement, still holds true, as members are compelled to help finance the cooperative to the extent that they make use of its services.

But it is possible that a cooperative could require more capital in order to expand or to improve its service. In such a case a cooperative could resort to a *compulsory loan* made by members to their cooperatives. If members expect a cooperative to sell their farm produce, the cooperative could compel their members to contribute a percentage of the value of their crop to the cooperative, on an annual basis, by means of a loan. Even here the principle of proportionality holds true.



# Financing a cooperative ... continued

# Business with members only ?



A cooperative belongs to its members, and there is nothing wrong with the principle that it also serves only members. The idea of an organization for self-help is violated once non-members are allowed to benefit from the activities of the cooperatives. This is especially true where cooperatives process the produce of members (e.g. making wine) or marketing their produce to the open market or even exporting it. This would mean that a facility that members have created and markets that members have developed at great effort and expense, are now made available to people who have contributed nothing to the effort. Once this is allowed, the principle of a cooperative is seriously undermined.

However, some consumer cooperatives do sell to non-members, but in that case non-members are not entitled to bonuses on the business they have transacted with the cooperative. Such bonuses are only distributed among members, so that the members in fact benefit from the business of non-members.

**The mutual and democratic nature of cooperatives, on the other hand, demands that no person who fulfils the requirements of membership and can contribute to the activities of a cooperative, may be excluded from membership. Discrimination on whatever basis has no place in the cooperative movement.**

**On the other hand, membership must also be voluntary, and if a person chooses not to belong to a cooperative, he or she may in no way be coerced to join.**

# Autonomy ?



Although the government has put money and effort into promoting the idea of cooperatives as a way of improving the infrastructure of especially underdeveloped areas, cooperatives are not part of the government and it belongs only to its members and is in all respects autonomous of the government.



The *International Cooperative Alliance*, a body that promotes the idea of cooperatives in all parts of the world, has determined the following additional principles:

## **Education**

Cooperatives have an obligation to train their members and Boards on a continuous basis, to improve their knowledge of how they can contribute and benefit from the cooperative movement. They must also inform the general public on the advantages of cooperatives.

## **Cooperation**

Cooperatives among themselves should foster the idea of mutual cooperation in every way.

## **Communities**

Cooperatives should be concerned about the communities in which they exist. Although cooperatives serve their members, members are at the same time part of communities, and if all is not well with these communities as a whole, individual members will also suffer.



# Assessment

1. Describe the institution and working of the stokvel.
2. Name four characteristics of a Cooperative.
3. Describe the history and reasons regarding the development of the Cooperative in the following countries:
  - a) England
  - b) Germany
  - c) USA/UK/Japan
4. Describe the history of the Cooperative with regards to:
  - a) Colonial times
  - b) Cooperatives forming in South Africa
5. How does a person become a member of a Cooperative with regards to the systems that may be instituted for that specific reason?
6. Describe the principle of proportionality.
7. Should Cooperatives deal only with members?
8. How are non-members facilitated in the Cooperative?
9. Are Cooperatives a part of National Government or are they autonomous bodies?
10. Name the principles laid down by the International Cooperative Alliance.





