A report on the National Agricultural Cooperatives Indaba

“Towards the creation of a model to enable smallholder farmers to play a critical role in the establishment of sustainable cooperative enterprises”

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A report on
the National Agricultural Cooperatives Indaba
2012

Directorate Co-operative and Enterprise Development
DEPARTMENT OF AGRICULTURE, FORESTRY AND FISHERIES
Monday, 26 March 2012

Programme Director: Mr Steve Galane

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1. Introduction

Agriculture contributes a small and declining share of South Africa’s gross domestic product, but continues to be an important economic sector because of its contribution to food supply, the country’s trade balance, employment, supply of raw materials and its value as a market for other sectors. In monetary terms, agriculture’s share of the economy has long since been outstripped by those, for example, of the mining and secondary industries. In 1960, agriculture contributed 11.1% of the GDP, down from about 20% in the 1930s. Despite the decline of agriculture’s contribution to the GDP, the sector remains vital to the economy, development and stability of the Southern African region. Primary agriculture contributes about 3% of the GDP and about 7% to formal employment.

Analysis of cooperative formation points out two major reasons for the formation of agricultural cooperatives, viz. to solve market failures and to address distortions in the supply chain. Market failures have mainly been in the form of exploitation of individual farmers or producers largely by market intermediaries, resulting in remunerative prices not reaching the individual producers. Distortions in supply chain are mainly through market intermediaries who get into a win-win situation for themselves both from the supply of raw material or agricultural inputs to the disposal of the produce. Agricultural cooperatives were established, but they found themselves caught up in the above web.

Cooperatives, particularly those in the agricultural sector, have long been recognised to play an important role in society that translates into the improvement of living conditions of their members. Being voluntary, democratic and self-controlled business associations, cooperatives offer the institutional framework through which local communities gain control over productive activities from which they derive their livelihoods. In the sector, cooperatives contribute to food production and distribution, and in supporting long-term food security. They also help in tackling rural poverty by increasing the productivity and income of smallholder farmers by helping them collectively negotiate better prices for seeds, fertiliser, transport and storage. They further help farmers expand market access and capture more of the value chain by getting involved in agro-processing activities.

The South African history indicates that white cooperatives played a significant role in the South African economy. In 1993 there were about 250 of these cooperatives with total assets of R12.7 billion and a total turnover of R22.5 billion. These were achieved as a result of some government interventions at the time. However, black farmers did receive the same form of support, and this has led to them not being able to meaningfully participate in the mainstream economy. Smallholder farmer cooperatives in South Africa (typically small to medium size enterprises) do not have a great deal of negotiation powers because of a number of reasons which include the following:

- the quantum and value of assets that they have;
- their carrying capacity-both financial and infrastructural;
- volume of operations;
- lack of market information; and
- lack of access to formal financing mechanisms in the absence of collaterals.

The relationship of all these factors prevents smallholder farmers to seek alternative market mechanisms. Loans against no collaterals also mean advance mortgaging of their produce to the market intermediaries who discount procurement prices and sale at market prices, making high profits. Despite the important role that cooperatives play in the economy, smallholder farmers have not been able to establish viable and sustainable cooperatives that contribute significantly to the national economy. The annual report of the status of cooperatives for the financial year 2010/11 paints a rather disturbing picture on the state of cooperatives in the sector. The type of cooperatives established by smallholder farmers face numerous challenges. These constraints, as highlighted above, have been corroborated by the cooperatives’ report in question. The report indicates that the majority of smallholder farmer cooperatives are at production level, and very few of them have access to markets, value adding and agro-processing opportunities.

In response to the above situation, the 2012 National Agricultural Cooperative Indaba was organised by the Department of Agriculture, Forestry and Fisheries to provide a platform to work towards the development of a model that will enable smallholder farmers in South Africa to critically play a meaningful role in the establishment of sustainable cooperative enterprises. The main objective of the indaba was to afford smallholder co-
operatives to share experiences among themselves and learn the best cooperative practices from each other. The Indaba also brought together experts from various disciplines such as finance, marketing, value adding and agro-processing as well as training and development. A platform was created to attempt to find solutions to known challenges preventing smallholder cooperatives from making a significant contribution to the national economy. An opportunity for exchanging information and networking was also presented through the indaba.

2. Official opening

The National Agricultural Cooperatives Indaba was officially opened on 26 March 2012 with four key items rendered in the following order:

- Opening and welcoming remarks by the Acting Deputy Director-General: Economic Development, Trade and Marketing branch, Dr Simphiwe Nqangweni;
- Introduction of guests by the Programme Director, Mr Steve Galane, the Director: Communication Services within the Department of Agriculture, Forestry and Fisheries;
- Purpose and expectations of the Indaba by Dr Amon Myeni, the Acting Director: Cooperatives and Enterprise Development;
- Opening address by the Director-General of the Department of Agriculture, Forestry and Fisheries, Mr Langa Zita.

2.1 Opening and welcoming remarks

In his opening and welcoming remarks, the Acting Deputy Director-General of the Economic Development, Trade and Marketing Branch (Dr Simphiwe Nqangweni) emphasised participation by all delegates working together towards the creation of an integrated framework in support of a viable, sustainable and profitable cooperative movement in the sector. He also mentioned that the framework or model must also enable smallholder farmers to play a critical role in rural development as one of government’s strategic priority areas.

2.2 Introduction of guests

The introduction of guests was done by the Programme Director of the day, Mr Steve Galane, the Director: Communication Service within the Daff.

2.3 Purpose and expectations of the Indaba

In providing the purpose and expectations of the Indaba Dr Myeni, the Acting Director: Cooperatives and Enterprise Development in the department, began by defining the concept ‘Indaba’ as a life-changing gathering, more in particular during the colonisation process where colonial masters communicated with people through the traditional leadership. As a result, when an indaba is called, people associate it with making great sacrifices or making a serious contribution towards something.
To illustrate the achievement of better success through working together of members in a cooperative, an example of six blind men who were asked to describe an elephant was provided. Each of the men provided a different description of what an elephant is. By putting all their descriptions together they were able to get a better and complete picture of an elephant. To illustrate cooperative affairs in South Africa, the following two scenarios were provided:

2.3.1 An enabling environment in which all types of cooperatives will be able to thrive was created through legislation. To this effect, the Cooperatives Act 14 of 2005 was enacted together with the Cooperative Development Policy and an Integrated Cooperative Development Strategy. Effectively, the creation of enabling environment has been achieved.

2.3.2 The second element is the development of cooperatives which entails the actual organisation of cooperatives. This element has not been achieved yet. In ensuring the development of cooperatives in the sector, the following should be considered:

2.3.2.1 Establishment of cooperative banks (village banks)
2.3.2.2 Establishment of marketing cooperatives
2.3.2.3 Establishment of agro-processing and value adding cooperatives
2.3.2.4 Establishment of training and development cooperatives
2.3.2.5 Establishment of input supply cooperatives

In expressing the expectations of the indaba Dr Myeni indicated that it would be a great achievement if the Indaba could culminate in the development of an Integrated National Agricultural Cooperative Development Framework/Model as well as Framework for the National Agricultural Cooperative Development Strategy. Critical to this is finding a legitimate structure to lead the cooperative development agenda in the sector.

2.4 Opening address

In his opening address, the Director-General of the Department of Agriculture, Forestry and Fisheries, Mr Langa Zita, indicated that smallholder development should be the basis for rural development with cooperatives playing a critical role in this regard. Agrarian and land reform should be directed by cooperative development. In this regard, the responsibility of government is to ensure that smallholder farmer cooperatives are organised into a viable framework to ensure that smallholder farmers can begin to see the benefits of co-operating. To achieve this, the Director-General indicated that emphasis should be placed on the creation of an Integrated Cooperative Development Model so that at the end of the day one can begin to see the fruit of agriculture cooperation by smallholder farmers.

In line with the Zero Hunger Strategy of the Department of Agriculture, Forestry and Fisheries and the Comprehensive Rural Development Strategy, the Director-General is of the view that there is a need to embark on labour intensive projects that have the capacity to create more job opportunities rather than using expensive machinery. One of the resolutions of the 52nd National Conference of the African National Congress in 2007 in Polokwane was to support the growth of rural market institutions through, among others, the provision of infrastructure and by helping rural communities and small holder farmers to build organisations which should help them to access markets, build links with the formal sector value chains and coordinate their activities to realise economies of scale. The resolution went further to say that such organisations may include producer cooperatives, smallholder associations, input supply cooperatives, marketing cooperatives and/or state regulated institutions designed to support and promote market access and collective action amongst small rural producers.
In enhancing this resolution, the Director-General added that the establishment of marketing cooperatives should be encouraged to ensure that there is a market for the products of smallholder farmers. The grants provided by government such as the Comprehensive Agricultural Support Programme (CASP), for example, within the Department of Agriculture, Forestry and Fisheries, should be used as catalysts to initiate meaningful agricultural cooperative enterprises. It is in this context that the Director-General emphasised the need for cooperatives to adopt business principles and support economic development of rural communities as well as to play a critical role in agrarian reform.

At the centre of the Zero Hunger Strategy is the availability of market opportunities for smallholder cooperatives in a form of institutions such as correctional facilities, schools and universities as well as hospitals to cooperatives. This is in line with a Cabinet decision on 7 November 2007 that stipulated that 85% of government expenditure on 10 identified products should be procured from SMMEs, including cooperatives. Food, perishables and supplies is one of the ten products identified.

In conclusion, the Director-General indicated that cooperatives have and are playing a critical role in the national economies of countries like Brazil, Italy and Kenya, just to name a few. The secret of these countries according to the Director-General lies in proper organisation of smallholder farmers, and the Director-General has a firm belief that smallholder cooperatives can be brought into the mainstream economy through effective cooperative mobilisation. The declaration of the year 2012 by the United Nation as the International Year of Cooperatives is testimony to the critical role played by cooperatives in building national economies. The Director-General concluded by encouraging delegates to engage in vigorous and prudent deliberations to ensure the achievements of the objectives of the indaba for the benefit of smallholder farmers in South Africa.

3. Objectives and outcomes of the indaba

As outlined in the introduction, the indaba was organised in response to identified challenges limiting the ability of smallholder farmers from participating in the economic mainstream. Below are the specific objectives and outcomes the indaba had to achieve:

3.1. Purpose/main objective of the Indaba

The purpose of the National Agricultural Cooperatives Indaba was to work towards the creation of a model that will enable smallholder farmers to establish sustainable cooperative enterprises, thereby enhancing the contribution of the sector to the country’s GDP.

3.2. Specific objectives of the indaba

Mainly the specific objectives of this indaba are two-fold:

3.2.1. To create opportunities for smallholder cooperatives to share information and experience from each other, and to learn best practices on how to organise and manage their affairs effectively and efficiently.

3.2.2. To bring together experts from various disciplines such as finance, markets, agro-processing, capacity building and training in an attempt to collectively find solutions to challenges facing cooperatives in the sector

3.3. Expected Outcomes of the indaba

3.3.1. It was expected that out of this indaba, an agricultural cooperatives forum through which cooperatives in the sector will be able to share valuable information, will be established;

3.3.2. Secondly, it was expected that this indaba will provide solutions to known and potential challenges facing smallholder cooperatives in the sector.
3.3.3. Thirdly, the Indaba is expected to provide impetus leading towards the development of a Model of engaging Cooperatives in the Agriculture, Forestry and Fisheries sector.

4. Papers presented during the Indaba

To assist in resolving the identified challenges some topics or themes were identified and papers invited from key stakeholders. The following papers were presented at the Indaba:

4.1. Articulating the national vision on cooperative development in South Africa by Mr Jeffrey Ndumo, the Chief Director of the Cooperatives Unit in the Department of Trade and Industry.

In articulating the national vision on cooperative development in South Africa, Mr Ndumo began by providing the International Cooperative Alliance (ICA)’s definition of a cooperative, the values as well as the universal principles that guide the daily operations of cooperatives.

The importance of cooperatives was illustrated by providing international perspectives pointing to the fact that cooperatives have a turnover of about 1,1 trillion US dollars globally. Kenya was mentioned as one of the countries with successful cooperative movement in Africa. International Cooperative movements represent 800 million members, more than the total population of the entire European continent.

In South Africa the origin of agricultural cooperatives is associated with the Afrikaner nationalist movement which mainly saw the development of three types of cooperatives:

- Marketing cooperatives for the distribution and sale of agricultural produce
- Supply cooperatives for inputs such as seeds, fertiliser and livestock
- Processing cooperatives that turn products into higher value products for both human and animal consumption

The promulgation of the Land Act in 1912 led to rapid development of white commercial farmer cooperatives. From the 1940s these cooperatives benefited substantially from state support in a form of subsidies under the Marketing Act. The 1970-80s saw the development of black cooperatives in the homelands as part of the apartheid policy of separate development. However, no support similar provided to white cooperatives was advanced to the black cooperatives.

According to the Companies and Intellectual Property Commission there were 54,461 registered cooperatives in South Africa as at 31 January 2012. Many of these, 47% to be precise, are agriculture cooperatives followed by service cooperatives at 37%. In terms of the vision for growing smallholder farmer cooperatives, government has identified the development of agriculture and rural development and has also embarked on land distribution and restitution as central to its efforts of reducing poverty and unemployment, particularly in rural South Africa. Agricultural cooperatives are viewed as labour intensive with a potential of creating job opportunities.

However, the main challenge or constraint facing these cooperatives is lack of demand for their products owing to poor market access or inaccessibility of lucrative national and international markets. In view of this, government intends creating an incentive scheme or fund to facilitate the establishment of secondary marketing cooperatives as vertical structures. It is envisaged that these types of cooperatives will facilitate both economies of scale and scope. They will also facilitate cost reduction with respect to logistics, administration and marketing of produce.
The envisaged fund is targeted to support secondary marketing cooperatives with the following:

- support to conduct feasibility studies;
- support with the development of business and project operational plans;
- incentives for the technical managerial support to provide adequate capacity for the efficient running of the secondary marketing cooperatives; and
- fund fixed capital and some operational requirements.

Government intends to promote the incubation system support for cooperatives targeting the rural and agriculture cooperatives. In conclusion, Mr Ndumo pointed out to the audience the number of cooperatives benefiting from the current Cooperative Incentive Scheme and their geographic distribution. From 2005 to March 2011 a total of R92,523 million has been disbursed to 488 cooperatives, of which 47% (230) are those in the agricultural sector.

4.2 The role of the South African National Cooperatives Apex Body (SANACO)

With the demise of the National Cooperative Association of South Africa (Ncasa), the cooperative movement in South Africa was dealt a major blow. Ncasa was an apex body representing the interest of all cooperatives in South Africa. However, it faced numerous challenges which led to its collapse. In an attempt to revitalise the cooperative movement, the South African National Cooperatives (SANACO) was established as an apex body and mouth piece of all cooperatives in the country.

The President of SANACO, Mr Lawrence Bale, told delegates that SANACO supports the declaration by the United Nations of 2012 as the International Year of Cooperatives. SANACO believes that the cooperative model can facilitate the mobilisation of communities into viable economic enterprises. The contribution of cooperatives to socio-economic development with regard to poverty reduction, employment creation and social integration can never be over emphasised. Mr Bale made use of the platform to encourage delegates from cooperatives that are not members of SANACO yet to contact the organisation and register accordingly.

4.3 The role of farmer organisations in assisting smallholder farmers to establish sustainable cooperatives

The National African Farmers’ Union (NAFU) was established as a vehicle to enhance the development of black farmers in South Africa. The Acting President of NAFU, Mr Augustinus Hendricks, indicated to delegates that the main challenge facing smallholder cooperatives in the country is skills development, adoption of new technology and cooperative governance. He indicated that capacity building and training can alleviate this challenge of lack of capacity. NAFU identified preferential procurement as one of the key factors that can be used to create market for smallholder products. This is in line with the Cabinet resolution that requires government to procure 85% of the identified 10 listed products from SMMEs, including cooperatives by government. Mr Aggrey Mahanjana, the Executive Chairperson of the National Emergent Red Meat Producers’ Organisation (NERPO) presented on behalf of the African Farmers Association of South Africa (AFASA), a model for mobilising smallholder farmers into sustainable cooperatives.
AFASA’s cooperative development approach emphasises that a farmer must belong to a particular commodity group before becoming a member of a cooperative. AFASA’s approach seeks to mobilise smallholder farmers according to commodities with primary cooperatives at local level, secondary cooperatives at district level, tertiary cooperatives at provincial level and national cooperatives at a national level. Again, two major reasons for establishing cooperatives in agriculture were mentioned viz. supply of inputs to smallholder farmers and marketing of smallholder farmers’ produce.

Mr Mahanjana highlighted the dilemma in the South African farming community where ideas and philosophies are politically directed. He cautioned that for as long as there is a continuation of forming cooperatives for the wrong reasons, the cooperative movement will not show any growth. Cooperatives are supposed to be formed by smallholder farmers who are already in business. Smallholder farmers must be producers first before they can be members of cooperatives.

5. Critical support mechanisms for the establishment of sustainable cooperative enterprises in the agricultural sector

In line with the identified challenges facing by smallholder farmer cooperatives five key themes were identified and the request to present papers extended. Papers were subsequently presented as follows:

5.1 Creating an effective financial support system for smallholder cooperatives in the sector

As reflected in the introduction, smallholder farmer cooperatives do not have negotiating powers because of lack of access to formal financing mechanisms in the absence of collaterals. Mr Aggrey Mahanjana, the Executive Chairperson NERPO presented what he terms “the wagon holistic approach to farmer support and development”.

According to this approach, farmer support and development should be aimed at maximising profits and ensuring growth and development of smallholder farmers. The approach places land and infrastructure at the centre. Finance is not the only support mechanism for smallholder farmers. The wagon holistic approach lists other support mechanisms such as logistics, market intelligence, business knowledge and networks, labour, technology, information, government policy and legislation.

Mr Aggrey Mahanjana
5.2 The role of marketing cooperatives as key drivers to agricultural development for smallholder farmers

In the introduction of this report, it was pointed out that analysis of agriculture cooperation point to identifies two major reasons, one of which is the need to solve market failures. Mr Ramabulana, the Chief Executive Officer of the National Agricultural Marketing Council (NAMC) acknowledged the foregoing statement and further indicated that marketing cooperatives should be established to correct the failures of the markets. His message to delegates was three-fold:

• Cooperatives are business enterprises and as such should be directed by business motives;
• Incentive schemes from government or any other sources should therefore respect business fundamentals;
• A Cooperative is regarded as a failure if members establish them for opportunistic reasons; however, support to genuine cooperatives will yield good results.

Mr Ramabulana indicated that smallholder farming in South Africa is largely subsistence based on little or no market integration. Smallholder farms in South Africa are sufficient enough to generate income if utilised efficiently, and the involvement of the private sector and cooperatives is key to effect changes but require an increase in productivity. As a result, marketing cooperatives can benefit smallholder farmers by providing some of the functions that are provided by middlemen.

5.3 The role of agro-processing and value-adding cooperatives in the development of smallholder farmers

One of the challenges facing agricultural cooperatives as highlighted by the annual report on cooperatives in the sector is the inability by smallholder cooperatives to engage in value adding and agro-processing opportunities in South Africa. Mr Steven Hanival, the Chief Director of Agro-processing in the Department of Trade and Industry (dti) told delegates that the agro-processing environment in South Africa is particularly difficult at present mainly owing to the global financial crisis. As a result of this, imports are increasing while exports are decreasing, which is to the detriment of the manufacturing sector.

The South African population is served by formal retailers most of whom are increasingly stocking imported produce. Domestic markets are also under tremendous pressure owing to increasing competition (imports of poultry products, sugar and beef). Export markets are difficult to access and South Africa is not on par with other agricultural exporting countries.

There is, therefore, a need for a policy framework for the agro-processing sector. Such a policy framework should have the following as its strategic pillars:

• Support: high-quality, high-value competitive sub-sectors such as fruit, wine and fish;
• Support: Moderately competitive/uncompetitive mature sub-sectors that are stuck in the low value stream such as tea, canning and parts of food processing
• Support: New subsectors with niche market potential but small-scale production such as ostrich meat, indigenous flowers, biofuels, essential olive oils and medicinal extracts.
• Support: Food security intervention, particularly the introduction of new technology for small-scale producers, is required.

In demonstrating the role of cooperatives in agro-processing, KWV was given as an example of a cooperative that excelled in the wine sector. Mr Hanival told delegates that agro-processing cooperatives can be used to:
• Deal with inherent tensions and market power in value chain;
• Lower and diversify their risk profile;
• Benefit from higher returns in processing; and
• Raise capital as agro-processing is capital intensive.

There are both on-farm and off-farm processing opportunities for cooperatives to take advantage of on-farm processing opportunities include washing, grading, preparing, packaging, branding, refrigeration and transportation. On-farm processing has very low capital requirements, it requires limited skills, but it is important to package and brand for a specific target market.

Off-farm processing involves the fundamental changes to the produce such as processing grapes into wine. This type of processing requires relatively high capital and substantial additional skills. In an off-farm processing, branding and packaging become crucial. With high-scale production, export becomes a viable option as well. With regard to on-farm processing, attractive sectors have been identified and includes prepared/ready-to-eat fresh fruit and vegetables, peanut butter and honey, jams, dried fruit/preserved fruit and vegetables, essential oils and olive oils as well as traditional remedies.

The ‘Off-farm’ attractive sectors include maize micro mills, aquaculture and fish farming, fruit canning, meat processing, wine and packaged teas. Mr Hanival indicated that in most cases financial support is available from the dti.

In conclusion, Mr Hanival revealed to delegates that R3,7 billion has been invested in the food-processing sector between 2009 and 2011. In supporting agro-processing cooperatives there must be initiatives to link smallholder farmers with formal retailers. In addition, smallholder farmers must be assisted to invest in both on-farm and off-farm processing. Low return in farming often compounds problems by siphoning off capital that could be used for processing investments. The message that was left with delegates was that smallholder farmers have to invest in processing directly.

5.4 Training and capacity building as a key factor in ensuring effective leadership and management of agricultural cooperative enterprises

Training and development have been found to be key constraints to smallholder cooperatives. These cooperatives have not been able to strengthen their business operations mainly owing to inadequate training support. Lack of professional and qualified managers is also a challenge facing cooperatives.

Membership in cooperatives is predominantly constituted by the elderly who have the will to produce but lack the necessary skills and modern methods to produce. This continuously weakens management, governance and business skills in cooperatives. Inability to attract young professionals compounds the capacity problems in smallholder cooperatives. Studies have concluded that only a small proportion of students pursuing professional courses are willing to join cooperatives because of the negative image of the sector and the low emoluments offered by cooperatives. The anticipated model should be able to create a conducive environment for smallholder cooperatives that focuses on issues relating to the training and development of farmers.

Ms Kwathi Koka of the Small Enterprise Development Agency (SEDA) told delegates of the creation of the Cooperatives and Community Public Private Partnership...
Dr Simon Letsoalo of the Tshwane University of Technology (CPPP) that was established after combining the sector development and the cooperatives programmes. This programme supports non-traditional enterprise organisational forms with a special focus on rural areas and use of local resources. It aims to provide leadership in the establishment and growth of viable, sustainable cooperatives and collectively owned enterprises in various sectors including the agricultural sector to facilitate their successful participation in the economy.

The purpose of the Coops and CPPP Programme is, among others to:

- 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 cooperatives and collectively owned enterprises to information, business skills training and markets; and
- foster a culture of cooperation among cooperative beneficiaries.

Small-holder cooperatives can benefit from SEDA programmes such as the “business build” that provides information relating to tendering (procurement), networking and business linkages, business technical support as well as taking part in an export readiness assessment. SEDA “business grow” can also assist smallholder cooperatives with business assessment and diagnostic tools, as well as business management tools to improve management of their enterprises, management systems/technology where they can receive technical support and potential exporters can receive support with global marketing.

5.5 The role of inputs supply cooperatives in the reduction of transaction costs for smallholder cooperatives

According to Dr Letsoalo; the smallholder cooperative is constituted by small-scale farmers with limited access to resources, credit, information, markets and high transaction costs. Dr Letsoalo used the following classifications to categorise transaction costs:

- Search and information costs/coordinating costs that are incurred in determining the availability of the input and a place with the lowest price,
- Bargaining and decision costs/operations costs for acceptable agreement over the product,
- Policing and enforcement costs/opportunism costs incurred for making sure that the other party keeps to the terms of the contract.

Transaction costs are often influenced by social, legal, political and economic institutions and are characterised by, among other things, frequency, uncertainty and asset specificity. Smallholder cooperatives can assist in reducing transaction costs by purchasing in volumes, manufacturing, processing or formulating products and distribution of farm supplies and inputs. Collective action strengthens bargaining power, compensates for missing markets and, therefore, reduces costs of transacting. Dr Letsoalo is of the view that government could bear some of the costs of coordinating collective action.

In conclusion, Dr Letsoalo mentioned that government or the state has a role to play in assisting with the reduction of transaction costs for smallholder cooperatives. This could be done in two ways: Firstly, government
can improve the physical infrastructure such as roads and telecommunications, and secondly, government can improve on the institutional infrastructure.

2nd Day

Tuesday, 27 March 2012

The second day of the indaba was dedicated to intensive discussions, engagements and deliberations by-commissions over specific themes. The day started with Ms Maliga Moodley, the Deputy Director, Directorate: Cooperatives and Enterprise Development providing a recap of the activities of day one.

This was followed by the introduction of commissions, the themes and venues for the commissions.

6. Commissions, deliberations and feedback

To afford delegates an opportunity and platform to deliberate on key issues and constraints facing by smallholder cooperatives and to propose practical solutions to these challenges, five key themes were identified. Each of these themes was a reflection of the challenges identified as key limitations to smallholder cooperatives. Five break-away sessions were established—each given a specific theme to focus on. Essentially five commissions were established to focus on five key themes.

A key strategic question that was to be considered by all commissions in their deliberations was ‘what are the key elements that must be put into place in order to establish cooperatives beyond production’? Further to this key strategic question, the commissions were asked to deliberate on the following key issues:

- The type of cooperatives to be established
- How should they be organised;
- Who should direct the process;
- Their location; and
- The establishment costs.

After their deliberations commissions had to provide feedback of their discussions and the outcomes thereof which would then form part of the indaba resolutions and way forward. These are some of the discussions/deliberations that came from the commissions 1:

6.1 Effective financial support systems for smallholder cooperatives in the sector

The first commission was tasked with the responsibility of addressing the issue relating to the creation of effective financial support systems for smallholder cooperatives in the sector and was facilitated by Ms Vivian Phadime of the Directorate: Development Finance Coordination within DAFF. It should be noted that the discussions of the commissions were based on the elements indicated under six (6) above.

The commission noted that finance is a cross-cutting issue that affects cooperatives at all levels and resolved that cooperatives should be established for the correct purpose according to commodities. The commissions pointed out that village banks are not sustainable at present; they should be supported by the primaries, which are also facing many challenges, resulting in unsustainability owing to the lack of support. They also indicated
that if the support for primaries can be strengthened to be able to sustain the secondary cooperatives, it is then that the village bank can be established as secondary level. Village banks should be established at secondary cooperatives, and all primary cooperatives affiliated need to contribute funds to sustain the operation of the secondary structure. This requires further research to inform the implementation or development of these types of cooperatives because of the past experience with the sustainability of village bank. In terms of who should direct the process of establishing village banks, the commission identified both private and public institutions, in particular the development finance institutions, agricultural unions and secondary cooperatives or government agencies/parastatals.

The following have been noted by this commission as key constraints to the development of village banks:

- Lack of security or collateral;
- Language barriers;
- Registration requirements for village banks which are too cumbersome;
- Turnaround time for lodging an application and obtaining approval is somehow long;
- Accessibility in terms of location delays support;
- Lack of the necessary information;
- Quality of service (which has been described as poor);
- Political interference; and
- High interest rates.

To respond to these challenges the commission proposed the following solutions:

- Revision of the issue of security or collateral;
- A need to establish one-stop shops or farmer resource centres;
- Products should be packaged according to enterprise;
- Appointment of independent assessors;
- Service to be situated locally;
- Subsidised/market development interest rate;
- Increasing the funding packages;
- There should be policy reforms to encourage public-private partnership; for smallholder cooperatives;
- Government should address market failures;
- There should be special support with regard to extension service, markets and support;
- There is a need to review the current international trade constraints, e.g. WTO and FAO; and
- Decentralise economic activities in rural areas.
With regard to the questions of who should fund the establishment of village banks, the commission is of the view that cooperatives themselves, government departments, treasury, commercial banks, development finance institutions, municipalities, donors and the private sector should be able to provide funding.

The commission made the following recommendation tools for the cooperatives to succeed:

- The cooperative statutes (constitution) must be user friendly and translated into other languages for adoption by members
- Government funding programme should be amalgamated with the cooperative requirement;
- the existing Cooperative Incentive Scheme (CIS) is too small
- Operational infrastructure and office equipment should be provided
- Policies and Legislations must be comprehensive for the end users
- Cooperative body at primary level must be established
- Monitoring
- Research for new development must be conducted
- Cooperatives must participate at a government appraisal committee
- Training to be provided in all cooperatives.

6.2 Marketing cooperatives as key drivers for agricultural development for smallholder farmers

Profitable cooperatives invariably function as demand directed and market oriented. Cooperatives have failed without adopting a market directed approach. Market constraints in the context of smallholder agricultural cooperatives are mainly the result of the characteristics of smallholder farmers and the area they are located. The challenges are mainly due to poor infrastructure that characterises rural areas and limits farmers’ access to information. As such, these cooperatives are unable to secure tangible markets as a result of, among others, small volumes of produce and poor quality. Farmers in rural areas have little or no access to telecommunications such as mobile phones, the internet and e-mails.

The second commission focused on the role of marketing cooperatives as key drivers to agricultural development for smallholder farmers and was facilitated by Mr Billy Morokolo of Domestic Marketing within DAFF. The commission concluded that primary cooperatives that are established should be based on commodities and linked to secondary marketing cooperatives that are multi-purpose in nature, providing a range of functions such as packaging, branding, inputs, market research, grading, etc.

Secondary marketing cooperatives should be formed at district level, taking into consideration the size of the district. Farmers should be the key drivers for establishing secondary marketing cooperatives with the support of organisations such as DAFF, SEDA, dti and municipalities. With regard to cost of establishing the secondary marketing cooperatives, primary cooperatives should contribute as a demonstration of a sense of pride and ownership. Development finance institutions, government and donors should also take part in supporting the establishment of secondary marketing cooperatives at district level.

6.3 Agro-processing and value adding cooperatives in the development of smallholder farmers

The third commission under the leadership of Dr Simphiwe Nqangweni, the Director responsible for Agro-
processing, deliberated on agro-processing and value-adding cooperatives in the development of smallholder farmers. In their deliberations they adopted a mutual understanding of what value addition and agro-processing mean. This refers to value addition, ranging from sorting, washing, grading to physical transformation of a commodity, and can happen both on and off farm. Value adding and agro-processing can be basic, primary and secondary.

The commission noted some of the challenges that prevent smallholder farmers from venturing into value-adding and agro-processing activities as the following among others:

• Lack of finance, skills, infrastructure and capacity (both human and physical);
• Poor organisation among farmers;
• Lack of understanding of what the market requires;
• Lack of market readiness;
• Limited access to land;
• Transaction costs;
• Government’s lack of response to the farmers’ challenges;
• Lack of information and poor communication by those who provide support;
• Lack of integration of support; and
• Competition from established enterprises.

In an attempt to find solutions to these challenges the commission recommended or proposed the following solutions:

• Collaboration of efforts by smallholder farmers;
• Need to identify markets, conduct research and engage in partnerships;
• Smallholder farmers should use the appropriate technology;
• There is a need for hand-in-hand support;
• Understanding the market requirements (what, form, quality, when to deliver); and
• Farmer resource centres should be established at district level that would serve as their warehousing facility.

With regard to the type of cooperatives to be established to direct the agro-processing and value-adding agenda, the commission recommended that agro-processing cooperatives should be established according to commodities, with government providing an enabling environment and aligning interventions among all the spheres of government. The commission further recommended that government programmes in support of cooperatives must be commodity focused.

In terms of organisational requirements the needs of primary cooperatives should determine the type of secondary cooperative or farmer resource centre to be established. These centres should provide information, advice, inputs, business development services and communications. Farmers should own these centres with primary cooperatives being shareholders in the secondary cooperative.

Government should play an advisory role, facilitate public-private partnerships and fund initial development. However, the commission cautioned that the initiatives should come from the farmers themselves through strong business cases that will be presented to government and other potential funders. The idea is that cooperatives at all levels should be self-sustaining.

6.4 Training and capacity building as key factors in ensuring and management of agricultural cooperative enterprises

The commission on training and capacity building was facilitated by Ms Kwathi Koka of the Small Enterprise Development Agency (SEDA), an agency of the dti. While acknowledging the contribution of training and capacity building in ensuring effective management of smallholder cooperatives, this commission also noted the challenges facing smallholder cooperatives (which include the low literacy levels of cooperative members,
In terms of the type of cooperatives to be established, the commission came to the conclusion that all levels of cooperatives, including single and multipurpose cooperatives, can be established. However, the commission encouraged the establishment of secondary cooperatives by local municipalities. With regard to drivers of the process of providing training and capacity-building programmes the commission listed, among others, cooperatives themselves, government departments, colleges of agriculture, organised agriculture, SETAs, institutions of higher learning and financial institutions.

The tools to provide capacity building and training include incubations, mobile units, learnership programmes, internships and the development of a curriculum for cooperatives. The commission listed the National Skills Development Fund, Development Bank of Southern Africa, Cooperative Incentive Scheme, Financial institutions, House of Traditional Leaders and SETAs as funders of the training programmes. In conclusion, the commission recommended that there should be a cooperative training strategy to address the training needs of smallholder cooperatives and that a working group should be established to coordinate and integrate all issues pertaining to training and capacity building.

6.5 The role of input supply cooperatives in the reduction of transaction costs for smallholder cooperatives

Mr Thabo Ramashala, the Director of Plant Production within the DAFF led deliberations in this commission that looked at input supply cooperatives and their role in reducing costs of transacting by smallholder cooperatives. With regard to the type of cooperatives to be established, the commission concluded that this should be determined by circumstances on the ground. Smallholder farmers should, however, be encouraged to establish cooperatives at primary level according to commodities. Secondary cooperatives should be established for cost-savings purposes. Farmer resource centres as government initiatives should be prioritised at district levels.

In terms of location, primary cooperatives should be locally situated closer to agricultural advisory services and farmers, while secondary cooperatives should be situated at district level, depending on the number of primary cooperatives and the magnitude of production. The commission concluded that smallholder farmers establishing primary cooperatives should contribute to show a sense of pride and ownership.
7. Summary of resolutions and recommendations

Below is a summary of the resolutions and recommendations of the indaba.

<table>
<thead>
<tr>
<th>STRATEGIC INTERVENTION AREAS</th>
<th>KEY ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Types of cooperatives to be established</td>
</tr>
<tr>
<td></td>
<td>Creating effective financial support systems for smallholder farmers</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Agricultural development of smallholder farmers through effective market institutions</td>
</tr>
<tr>
<td></td>
<td>Development of smallholder farmers through agro-processing and value-adding opportunities</td>
</tr>
<tr>
<td>STRATEGIC INTERVENTION AREAS</td>
<td>TYPES OF COOPERATIVES TO BE ESTABLISHED</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-----------------------------------------</td>
</tr>
<tr>
<td>Ensuring effective leadership and management of agricultural cooperative enterprises through training and capacity building</td>
<td>Training and Capacity Building Cooperatives (Single purpose at primary and multipurpose at secondary)</td>
</tr>
<tr>
<td></td>
<td>Secondary multi-purpose cooperatives or farmer resource centres at local municipality level providing capacity focusing on multiple commodities</td>
</tr>
</tbody>
</table>

| Reducing transaction costs for smallholder farmers through cooperatives | Farmers are encouraged to establish both primary (single purpose) and secondary input supply cooperatives/farmer resource centres, however, prevailing circumstances on the ground will determine the type of co-ops to be established | Primary cooperatives should be according to commodities at local level closer to | Farmer resource centres at district level | Smallholder farmers/members of cooperatives to incur the cost of establishing the cooperatives |
| | | Smallholder farmers Secondary cooperatives or govt initiated farmer resource centres at district level | | |

Farmers are encouraged to establish both primary (single purpose) and secondary input supply cooperatives/farmer resource centres, however, prevailing circumstances on the ground will determine the type of co-ops to be established.
8. **Way forward**

In summarising the deliberations of the indaba for the two days, Dr Myeni, the Acting Director of the Directorate: Cooperatives and Enterprise Development provided a way forward and highlighted the sequence of activities that should flow from this indaba.

- A comprehensive report detailing what transpired at the indaba and all the resolutions and Way forward will be drafted and communicated to delegates;
- The department will develop a draft Integrated National Agricultural Cooperative Development Framework/Model based on inputs from delegates;
- The draft framework will then be presented to provinces for consultations, discussions and inputs by all stakeholders;
- Inputs from provinces will then be consolidated into a final document, leading to the development of an Integrated Cooperative Development Strategy for the sector.

9. **Vote of thanks**

In closing the first part of the indaba Dr Nqangweni, the Acting Deputy Director-General in the Department of Agriculture, Forestry and Fisheries expressed his satisfaction regarding the successful deliberations of the indaba and the results achieved. He then thanked all delegates for their contributions to the indaba and invited all of them to join the Deputy Minister during the prize award ceremony to cooperatives during the Gala Dinner.

PART TWO OF THE INDABA

DAY 2, TUESDAY, 27 MARCH 2012

10. **Gala Dinner and awarding of prizes to successful cooperatives in the sector**

As outlined under the objectives and outcomes, the main objective of the indaba was to work towards the creation of a model to enable smallholder farmers to play a critical role in the establishment of sustainable cooperative enterprises. This would be achieved through a discussion-based approach in the form of a presentation of papers and deliberations through commissions. Secondly, the other objective of the indaba was to raise awareness of the significant contribution of cooperatives to the national economy while assisting smallholder farmers and encouraging other cooperatives to increase productivity and create more job opportunities.

To do this, three successful cooperatives were selected from a pool of nine, each per province, and awarded prizes recognising their role in job creation, poverty reduction, member and community empowerment while adhering to the universal principles of cooperatives. This was done during a Gala Dinner held on the second day of the event where the Deputy Minister of Agriculture, Forestry and Fisheries, Dr Pieter Mulder, awarded the prizes to the successful cooperatives.

10.1 **Introduction of the Deputy Minister of Agriculture, Forestry and Fisheries**

In introducing the Deputy Minister, Dr Mono Mashaba, the Chief Director: Operations Support in the Office of the Director-General told delegates that Dr Mulder was born in Randfontein and completed his high school education at Riebeek High School. He studied at the Potchefstroom University for Christian Higher Education where he obtained his Doctorate in Communication Studies at the age of 26. He went on to complete post-doctoral studies in International Communication Studies. He was a lecturer for 14 years and a Professor of Communication study at the Potchefstroom University for Christian Higher Education.

In 1988 he was elected as a Parliamentary Member for the Schweizer-Reneke Constituency. Dr Mulder co-founded the Freedom Front (FF) with General Constant Viljoen. He succeeded General Viljoen as the leader of the Freedom Front. On May 10, 2009 he was appointed as Deputy Minister of Agriculture, Forestry and Fisheries by President Zuma.
10.2 Keynote address by the Deputy Minister of Agriculture, Forestry and Fisheries

Delivering his keynote address, Dr Mulder, the Deputy Minister of Agriculture, Forestry and Fisheries, quoted from the current Medium Term Strategic Framework (MTSF) document which states that “…strengthening competitiveness and promotion of small and medium-sized enterprises (SMEs) and cooperatives remains a cornerstone for the growth of the economy and the creation of decent work opportunities. We will direct an effort to facilitate market access and entry into value chains by small businesses and cooperatives, strengthen the impact of institutions providing business development support, improve the management and distribution of micro-finance, partner with the private sector to provide dedicated services and skills training to small, micro and collective enterprises, reduce the regulatory burden on small businesses and cooperatives and leverage state procurement, with concrete targets, to support the growth and sustainability of SMEs and cooperatives.”

Dr Mulder, the Deputy Minister of Agriculture, Forestry and Fisheries alluded to the challenges of urban poverty and migration to cities as inseparably bound with the struggle to defeat poverty, create work and build a better life in rural South Africa. Many rural areas still lack basic infrastructure such as roads, water and electricity supply. This lack of infrastructure entrenches the problems of chronic poverty and limits the potential of communities to sustain economic growth, rural livelihoods and social development. Dr Mulder indicated that interventions such as the Integrated Sustainable Rural Development Programme (ISRDP) have made significant, but insufficient progress. This programme was aimed at ensuring sustainable development in the rural areas.

The central role played by smallholder cooperatives in the provision of finance, markets, bulk buying of inputs, agro-processing and value-adding facilities as well as strengthening members and management of smallholder cooperatives through training and capacity building programmes was also acknowledged. The Deputy Minister indicated that it is government’s responsibility to ensure that smallholder farmer cooperatives are organised in a viable framework so that smallholder farmers can begin to see the benefits of cooperating with one another. To achieve this, there is a need to place heavy emphasis on the creation of an integrated cooperative development model in the sector, which, he believed, has been the subject of intense debate since the indaba started the previous day. Such a model will encourage cooperation among all key role players so that all of us “can face the same direction” and “speak with one voice”.

The Deputy Minister indicated that he hoped the ninety (90) functional cooperatives represented at the indaba have been made aware of their importance in serving the needs of their communities. Furthermore, he believed that the prizes that were going to be awarded to the three (3) best performing cooperatives should serve as a motivation to all those cooperatives that are represented at the indaba, and even those that were not there at the indaba.

In conclusion, the Deputy Minister told delegates that failure in this regard is not an option. The South African people cannot continue living in abject poverty any longer. The sooner we bring them into the mainstream economy the better for all of us. As Bob Marley sang... “A hungry man is an angry man”, it is our constitutional duty to ensure that all our people enjoy the fruit of this economy and not just a few as is the case at the moment. The spirit of “bambanani” must flow in our veins so that we can begin to push the frontiers of poverty away from our people despite the enormous challenges created by the apartheid system.

10.3 Awarding of prizes

Three successful cooperatives were identified through an intensive selection process that started in the provinces. Each province had to nominate a cooperative they regarded as competent enough to compete with cooperatives from other provinces at a national level. Criteria with all key elements to be used in the final selection of the top three cooperatives were given to the provinces. In the end nine cooperatives were selected by provinces and given to the organising committee.

Together with the Directorate: Communication Services, the organising team went to the provinces to verify the existence of the selected cooperatives as well as collecting further evidence. This evidence was used in compiling profiles for all the nine, cooperatives and a video developed and presented or played to the audience before announcing the winning cooperatives. An adjudication committee comprising six directorates within the DAFF was constituted and came up with the top three cooperatives as follows:

10.3.1. Sasekisani Cooperative Limited from Malamulele in the province of Limpopo obtained position one
with 199 points. This position came with prize-money of one hundred thousand Rand (R100 000, 00) and a certificate of recognition.

10.3.2. **Bambanani Cooperative Limited** from Mkhulhu in the province of Mpumalanga obtained second position with 168 points. This position came with prize money of fifty thousand Rand (R50 000, 00) and a certificate of recognition.
10.3.3. Metsimaholo Communal Property Cooperative Limited from Orangeville in the province of the Free State obtained the third position with 167 points. This position came with prize money of twenty five thousand Rand (R25 000, 00) and a certificate of recognition.

11. Vote of thanks

On behalf of the DAFF Mr Bonga Msomi, the Chief Director: Food Security expressed his sincere thanks and gratitude to all the delegates who made it possible to host the indaba successfully. Without the delegates and cooperatives there would be no Indaba. A word of thanks also went to the Deputy Minister for being part of the event and awarding of prizes to the successful cooperatives. Finally, a word of thanks and appreciation went to the organising committee for their dedication, hard work and tireless efforts in ensuring that the indaba was hosted successfully.

Annexure 1

PROCESS FLOW LEADING TO THE DRAFTING OF THE PROPOSED INTEGRATED AGRICULTURAL COOPERATIVE DEVELOPMENT STRATEGY

As part of the way forward of the indaba a sequence of activities leading to the drafting of an integrated cooperative development framework/model was agreed upon and is illustrated by the diagram below:

- Compile a report of the Indaba and circulate it to delegates and stakeholders
- Draft a framework/model for the development of cooperatives in the sector
- Consolidate inputs from provinces into a draft cooperative development strategy for the sector
- Organise consultative workshops in provinces to present the draft framework
- Convene a national consultative workshop to present the draft strategy and seek inputs into the document
- Draft the final document
A framework for the development of smallholder farmers through cooperatives

July 2012

Directorate Co-operative and Enterprise Development

DEPARTMENT OF AGRICULTURE, FORESTRY AND FISHERIES
1. Introduction

Smallholder farmers are the drivers of many economies in Africa even though their potential is often not brought forward. Smallholder farmers are defined in various ways depending on the context, country and even ecological zone. Often the term ‘smallholder’ is interchangeably used with ‘small-scale’, ‘resource poor’ and sometimes ‘peasant farmer’. In general terms smallholder only refers to their limited resource endowment relative to other farmers in the sector. Smallholder farmers are also defined as those farmers owning small-based plots of land on which they grow subsistence crops and one or two cash crops relying almost exclusively on family labour.

One of the main characteristics of production systems of smallholder farmers are of simple, outdated technologies, low returns, high seasonal labour fluctuations and women playing a vital role in production. Smallholder farmers differ in individual characteristics, farm size, resource distribution between food and cash crops, livestock and off-farm activities, their use of external inputs and hired labour, the proportion of food crops sold and household expenditure patterns.

Smallholder farmers can play an important role in livelihoods creation amongst the rural poor. Even though Smallholder production is important for household food security, the productivity of this sub-sector is quite low. Poor yields may be one of the reasons why urban and rural households either abandon or are uninterested in agricultural production. There is therefore a need to significantly increase the productivity of smallholder farmers to ensure long term food security. This can be achieved by among others encouraging smallholder farmers to pursue sustainable intensification of production through improved inputs.

Declining agricultural performance is a major driving force behind growing poverty among African smallholder farming populations, and its recovery offers the greatest prospects for rural populations to escape out of poverty. Food insecurity among the vulnerable poor rural farming populations induces a risk-minimising conservative attitude towards farming and livelihoods systems. It is in this context that the potential role smallholder agriculture makes it significant to either be ignored or treated as just another small adjusting sector of the market economy.

2. Constraints faced by smallholder farmers

Smallholder farmers in South Africa face various challenges that impede their growth and ability to effectively contribute to food security relative to the commercial farmers. Some of the constraints they face relate to lack of access to land, poor physical and institutional infrastructure. Most smallholder farmers are located in rural areas and mostly in the former homelands where lack of both physical and institutional infrastructure limits their expansions. Lack of access to proper roads, for example, limit the ability of a farmer to transport inputs, produce and also access information. Infrastructure is very poor, markets for agricultural inputs and outputs are often missing and unreliable for smallholder farmers. This means that the acquisition of agricultural resources becomes different and the supply of market services also becomes limited. Lack of assets, information and access to services hinders smallholder participation in potentially lucrative markets.

High transaction cost is also one of the major factors constraining growth of smallholder farmers and this is largely attributed to poor infrastructure. A poor road network, for example, and unreliable distribution will force farmers to grow their own food and less of perishable commodities causing a lower productivity. Increased cost of transport will also affect inputs used and the market strategies followed by the farmers. In most cases high transaction costs are caused by among others poor infrastructure and communication services in remote rural areas. It can also result from information inefficiencies and institutional problems such as the absence of formal markets.

Lack of reliable markets has also been found to be one of the main constraints faced by smallholder farmers. Many of these farmers receive low prices for their products by selling them at their farm gate or local markets. However, these smallholder farmers could receive much higher prices by selling their goods in
marketing knowledge and selling skills as well as little recognition of opportunities for product diversification or the limits between market research and product development.

Lack of human capital has also been found to be a serious constraint for smallholder farmers. They are often illiterate with poor technological skills, which can be serious obstacles in accessing useful formal institutions that disseminate technological knowledge. The majority of smallholder farmers are not capacitated with financial and marketing skills and are unable to meet the quality standards set by fresh produce markets and food processors. Lack of production knowledge leads to lower quality in production.

As a result of low endowment in production factors, such as land, water and capital assets, the majority of smallholder farmers produce low quantities of products that are equally of poor quality, which leads to their products being neglected by output markets. Increasing concentration in the food value chain is a global trend, caused by increasingly demanding consumers and concerns about food safety, which tend to make it very difficult for smallholder farmers to enter high-value markets in light of the low quantity and poor quality of their products.

Inconsistency in production coupled with lack of bargaining power is also a major challenge faced by smallholder farmers. On the one hand most smallholder farmers are not consistent in terms of producing products and supplying them to fresh produce markets and agro-processing industries. On the other hand their bargaining power is very low owing to poor access to market information and limited information and limited access to financial markets, which prevents them from selling their products at the most profitable time.

As highlighted above, smallholder agricultural growth will not be achieved without access to support services. Increasing agricultural productivity requires addressing all problems simultaneously. Cooperative development has been found to be one of the most effective interventions through which growth in smallholder farming could be enhanced thereby creating long term food security, job opportunities and income.

3. The development of smallholder farmers through cooperatives development

Government has identified cooperatives as one of the central pivots to reduce poverty, unemployment and high levels of inequality and to accelerate empowerment and development for the benefit of previously disadvantaged majority. Agriculture, including farming, forestry, fisheries and livestock is the main source of employment and income in rural areas where the majority of the world's poor and hungry people live.

Agriculture cooperatives have been found to play a crucial role in enhancing productivity of smallholder farmers. Being voluntary, democratic and self controlled business associations, co-operatives offer the institutional framework through which local communities gain control over productive activities from which they derive their livelihoods. In the sector co-operatives contributes to food production and distribution, and in supporting long term food security. They offer prospects that smallholder farmers would not be able to achieve individually such as helping them to secure land rights and better market opportunities. Smallholder farmers can gain big benefits from agricultural co-operatives including bargaining power and resource sharing that lead to food security and poverty reduction for the millions.

They also help in tackling rural poverty by increasing productivity and income of smallholder farmers by helping them collectively negotiate better prices for seeds, fertilizer, transport and storage. They further help farmers expand market access and capture more of the value chain by getting involved in agro-processing activities.

4. Rationale for the development of the framework

Realising the multiple constraints faced by smallholder farmers and recognising the role that cooperatives can play in the development of smallholder farmers, the Department of Agriculture, Forestry and Fisheries through the Directorate: Cooperatives and Enterprise Development whose mandate is among other to
promote and support the development of cooperatives in the sector saw it fit to develop this document. The aim of this document is to provide a framework for mobilising smallholder farmers into various types of cooperatives.

5. Mobilisation of smallholder farmers into various types of cooperatives

The framework presupposes that smallholder farmers are into production of various commodities mainly in the rural areas where there are no formal sources of employment. Farming therefore becomes the main source of their livelihood. Mobilisation of smallholder farmers into cooperatives takes place at two levels; viz at primary level where smallholder farmers can either be mobilised into single purpose primary cooperatives or multi-purpose primary cooperatives providing different services to farmers.

The second level involves mobilising the already existing primary cooperatives into second level cooperatives otherwise known as secondary cooperatives. The formation of second level cooperatives is informed by the needs of primary cooperatives. The Directorate: Cooperatives and Enterprise Development within the Department of Agriculture, Forestry and Fisheries in collaboration with Provincial Departments of Agriculture is responsible for mobilising smallholder farmers into cooperatives to take advantage of economies of scale.

The rationale behind establishment of secondary cooperatives at district level is to benefit primary cooperatives through the provision of the following services or functions:

a) Improved sustainability and scope of products offered through creation of economies of scale;
b) Improved logistics in terms of storage and transportation facilities;
c) Assist in ensuring compliance with food safety and quality assurance standards;
d) Improved market intelligence;
e) Improved bargaining power to ensure fair trade;
f) Lowering of transaction costs as a result of bulk buying;
g) Improved access to best available technology to improve production efficiencies and quality of products; and
h) Ensure that there are value adding and agro-processing facilities.
The table below indicates the common constraints faced by smallholder cooperatives, nature of cooperatives to be established to limit the effects of the constraints and the processes to be followed to support the establishment of these cooperatives.

<table>
<thead>
<tr>
<th>Key constraint</th>
<th>Specific challenges</th>
<th>The type of cooperative to be established</th>
<th>How to go about</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply of inputs</td>
<td>High input costs</td>
<td>Input supply cooperatives</td>
<td>Analyse the environment, collect data of smallholder farmers including the types of commodities, conduct awareness sessions on the cooperative concept, provide pre-registration support, facilitate the registration of the cooperative, link them with appropriate stakeholders</td>
</tr>
<tr>
<td></td>
<td>High transaction costs</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Transport costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Storage facilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accessibility to markets</td>
<td>Low quantities and poor quality</td>
<td>Marketing cooperatives</td>
<td>Analyse the environment, collect data of smallholder farmers, identify the different commodities, investigate the quantities, quality and safety of products, identify potential markets and requirements, provide pre-registration support, facilitate the registration of the cooperative, link the cooperative with relevant stakeholders</td>
</tr>
<tr>
<td></td>
<td>Lack of market information</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Lack of transport and storage facilities</td>
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<td></td>
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<tr>
<td>Accessibility to finance</td>
<td>Lack of credit worthiness</td>
<td>Financial services cooperatives/Cooperative Banks</td>
<td>Analyse savings patterns of smallholder farmers, conduct awareness sessions on savings mobilisation, link with appropriate stakeholders</td>
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<tr>
<td></td>
<td>Lack of collateralals</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Inability to develop bankable business plans</td>
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<td></td>
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<tr>
<td>Lack of value adding and agri-processing opportunities</td>
<td>Lack of technical skills</td>
<td>Agro-processing and value adding cooperatives</td>
<td>Conduct environmental scanning, collect data on smallholder farmers, their commodities, volumes and quality, identify value adding opportunities, provide pre-registration support, facilitate registration, link with appropriate stakeholders</td>
</tr>
<tr>
<td></td>
<td>Lack of appropriate infrastructure</td>
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<td></td>
<td>Low volumes and poor quality</td>
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</tbody>
</table>
Chamber of Agricultural Commodities/Secondary Cooperatives

First level cooperatives (primary) established by individual smallholder farmers

Second level coop formed by primary cooperatives

Services provided by the CAC

- Bulk buying of inputs
- Value adding and agro-processing
- Mobilising finance
- Collective marketing of members products

Needs Of Smallholder Farmers
- Reliable and reasonable supply of inputs
- Reliable markets
- Capacity (business and technical)
- Value adding and agro-processing opportunities
- Access to financial support

Input supply cooperatives
Marketing cooperatives
Value adding & agro-processing cooperatives
Financial services cooperatives

Smallholder Farmers (Producers)
Smallholder Farmers (Producers)
Smallholder Farmers (Producers)
### Number and types of delegates attending the indaba

<table>
<thead>
<tr>
<th>Nature of delegates</th>
<th>Number attending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperative movement</td>
<td>108</td>
</tr>
<tr>
<td>Government Departments (National and Provincial)</td>
<td>103</td>
</tr>
<tr>
<td>Local government</td>
<td>29</td>
</tr>
<tr>
<td>Government agencies</td>
<td>8</td>
</tr>
<tr>
<td>Organised agriculture and Commodity organisations</td>
<td>7</td>
</tr>
<tr>
<td>Academic institutions</td>
<td>8</td>
</tr>
<tr>
<td>Others</td>
<td>27</td>
</tr>
</tbody>
</table>

![Bar chart showing the number of delegates by type](chart.png)
Annexure 4

Criteria for selecting the best performing cooperative in agriculture for the purposes of the National Agricultural Cooperative Conference

Instructions to adjudicators:

1. Cooperatives will be judged against the six criterions listed below
2. On each criterion the co-operative will be allocated a score on a scale of 1-5
3. At the end of the criterions the scores will be added to obtain the total score for all criterions
4. The winning cooperatives will be determined by the scores

<table>
<thead>
<tr>
<th>Criterion 1</th>
<th>Description</th>
<th>Evidence required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate governance</td>
<td>Principles</td>
<td>Is the cooperative adhering to corporate governance principles?</td>
</tr>
<tr>
<td>Organisational structure</td>
<td>How well is the cooperative tured?</td>
<td>Structure of the cooperative (Organogram) and the List of board members</td>
</tr>
<tr>
<td>Employment opportunities</td>
<td>Has the cooperative created any employment opportunities</td>
<td>Number of employment created (permanent and temporary)</td>
</tr>
<tr>
<td>Member empowerment</td>
<td>How is the cooperative empowering its members?</td>
<td>Number of members benefiting from the cooperative</td>
</tr>
<tr>
<td></td>
<td></td>
<td>either through bulk procurement of inputs, collective marketing of products, agro-processing and value</td>
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<td></td>
<td></td>
<td>adding facilities/opportunities, sourcing of financial support and training and</td>
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<td>capacity building programmes etc.</td>
</tr>
<tr>
<td>Sales impact</td>
<td>Is the cooperatives generating sufficient turnover to sustain its operations</td>
<td>Annual turnover (Copy of annual financial statements)</td>
</tr>
<tr>
<td>Financial management</td>
<td>Is the cooperative keeping adequate financial records and</td>
<td>Copy of the annual financial reports/statements</td>
</tr>
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<td>produce annual financial records</td>
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Name of of Adjudicator

Signature

Date

Annexure 5: Profiles of competing cooperatives

Recognising best performance in smallholder cooperatives within the agriculture, forestry and fisheries sector

1. EASTERN CAPE (ZAMANI WARD 11 COOPERATIVE LIMITED)

Zamani Ward eleven cooperative is a community based primary cooperative found in Willowvale under Mbashle local municipality in the province of the Eastern Cape. It was initiated by 100 members from ward eleven of the Mbashe local municipality. Ward eleven comprise of 10 mainly rural villages with high rate of unemployment. People in these areas rely mainly on agriculture for sustainable livelihood.

The initiative of forming this cooperative was a response to government’s drive to encourage and promote the use of the cooperative business Model to create job opportunities and fight the scourge of poverty particularly in the rural areas. 100 members of the communities came together and contributed 100 rands each as a joining fee towards the establishment of the cooperative. This was an indication of commitment and eagerness to venture into the business world. The initial objectives of the cooperative were to engage in the production of maize, vegetables, poultry, forest, beef, essential oils and bio fuels.
In 2008 the cooperative secured financial support of 2.2 million rands from the National Development Agency which was used to erect a hydroponic structure for tomato production. The harvest was then sold to Mthatha Fresh Produce Market. Part of the funding was used to purchase 2000 broiler birds shared by members in the ten villages resulting in each village receiving 200 birds. 50% of the profit from the proceeds of the sale of the chickens would benefit the villages while the remaining 50% would go back to the coffers of the cooperative.

The affairs of the cooperative are managed by a board consisting of five members. 9 people are employed on a permanent basis while 81 are on temporary employment. Although the cooperative does not have a formal auditing firm, they do keep adequate records from which it could be detected that their sales revenue for 2010/11 was at around R200 000.

Success story: The cooperative has been able to provide income to at least 10 members of communities in each of the 10 villages constituting ward 11 of Mbashe local municipality.

2. FREE STATE (METSIMAHOLO COMMUNAL PROPERTY COOPERATIVE LIMITED)

This cooperative was established in 1997 as a communal property trust by 52 members of the Metsimaholo community, in the town of Orangeville under Fezile Dabi District municipality, Free State Province. Tierkrans farm was acquired on behalf of the Metsimaholo community through the land reform programmes in 1997 and handed over to the community. The extent of the farm is 304 hectares and is used for the production of maize, sunflower and vegetables.

In 2009 the trust was converted into a cooperative with an objective of reviving it and ensuring that it becomes productive. Nineteen (19) youthful members took over the management of the farm from their parents. The cooperative mainly uses the local VKB (Vrystat kooperasie) to sell their products.

The cooperative has a board of seven members managing its affairs. Twenty people have been employed by the cooperative on a permanent basis. Although the cooperative has appointed a firm of auditors to do their books, they have not received any financial reports since 2008. Their auditors have attributed this to documents being lost in their offices. The cooperative decided not to give the records for the 2010/11 financial year until they receive financial report for the previous financial years.

Success story: The group of youth that took over the trust in 2009 and converted it into a cooperative enterprise have been able to turn the farm into a viable enterprise providing employment to all the 23 members of the impoverished Metsimaholo township. Members of the cooperative have been empowered through training programmes from various institutions equipping them with the necessary skills to run their enterprise. Another benefit from the cooperative is that retiring members due to old age are given a start up of 50 broiler chickens and feeds to start a small business that would sustain their livelihoods while at home.

3. GAUTENG (SUPER GRAND AGRIC FEED MILL CO OP)

Super Grand cooperative is found in the town of Bronkhorstspruit in the Gauteng Province. It is a feed manufacturing cooperative that was establish in 2007 and formally registered in 2009 as a primary agricultural cooperative with limited liabilities. It was established by six members who combined have over 20 years experience in the agricultural sector. One of the members worked for Meadow Feeds (Astral Group) for seven years in various capacities the last one being a production manager. The other member also worked for Meadow Feeds in various capacities as well. The cooperative also has other members who are experiences accountant and grain farmers. The cooperative buys maize, soya and sunflower, and manufacture animal, poultry (broilers, layers, breeders and concentrate) and piggery feeds. It also distributes these feeds and other agricultural services to its clients. Apart from manufacturing and distributing animal feeds the cooperative also supply Day old chicks, Vaccine, Medication, Sawdust and provide training in Broilers, Layers, Pigs and Cattles.

The specific target market for the cooperative is mainly the emerging poultry and dry crops farmers and all unserviced rural areas in Gauteng/Mpumalanga Regions close to Bronkhorstspruit. Most of these projects have been visited and agreements of support obtained. The existing and potential commercial customers
in these areas are also limited by the lack of infrastructure and high cost of sales from the local agencies and the existing corporations. A feed mill in their area that delivers high-quality feed, in any amount, addresses most of these needs. Being on the border of Gauteng and Mpumalanga Provinces, the entity is ideally positioned for sales.

**Success story:** The cooperative currently operates on a two-shift basis and has created 32 job opportunities. All our operations are happening on the floor 490 square metres with no raw material silos and limited packing area. The cooperative has been able to grow their business within a space of three years from producing thirty tons to 400 tons per month. Because of increased demand for their products the cooperative is planning to introduce a third shift and increase staff by 18. The cooperative keep adequate records and has the capacity to generate their own financial reports.

4. KwaZulu Natal (Isizwesivumelane Primary Agricultural Cooperative Limited)

This is a primary agricultural cooperative registered in 2009 in terms of the cooperatives act 14 of 2005. It is found in an area called Inverness, KwaMhlaba local authority in Osizweni, New Castle. The main objective of the cooperative is maize and vegetable production. Through the local authorities 585 ha of land was made available for use by the cooperative. Currently the cooperative is producing maize on a large scale with beans on a very limited scale. It started with 40 members and the number has since reduced to 30.

The cooperative received financial support (R4.3M) from the Department of Agriculture, Forestry and Fisheries (Kzn) in 2009/10 under the massification programme. This money was mainly used for mechanisation and inputs. The department has also assisted the cooperative with installation of an irrigation system. Amajuba district municipality assisted them with fencing.

In 2009/10 the cooperative harvested 200 tons of maize which they sold to New Castle Mill through a grain farmer in Dannhauser that has a silo for storage. In the current financial year the cooperative has planted 188 ha of land with maize. Although the cooperative does not have auditors, they are capable of doing their own books and have produced financial statements for 2009/10 to 2011/12 financial year.

**Success story:** The cooperative is providing income to 30 members. In the next financial year the cooperative is planning to diversify into vegetables production which will see more job opportunities being created.

5. Limpopo (Sasekisani Cooperative Limited)

Sasekisani cooperative Limited (trading as SAS Eggs) is found in the village of Mahonisi, Thulamela local municipality outside the town of Malamulele in Limpopo. It was formed in 2003 by a group of 12 unemployed members of Mahonisi community. Land was made available by the Mavhamve traditional authority for farming purposes. Currently the cooperative employs 23 people.

Limpopo Business Support Agency (Libsa) financially supported the cooperative to fence a four hectare piece of land and erect a poultry house, a borehole and connection of electricity. Thulamela municipality assisted in the development of a cold storage facilities. The Department of Agriculture assisted with start-up stock (layers) and feeds.

In their quest to expand and grow the business, the cooperative acquired a loan funding of 1.7 million from the Old Mutual (masisizane fund) to construct the second poultry house, purchase equipments and layers. A further 1.7 million rands was received from the National Development Agency in a form of a grant that was used to purchase 6 tons Hino delivery truck, stipends, feeds, layers (12000), packaging material and also finance training of members on financial, business and project management and strategic planning.

The cooperative is selling to Pick n Pay in Thohoyandou, Malamulele and Giyani, Mkhombo supermarket in Mhinga, Faize supermarket and Quick save supermarkets in Malamulele, Friendly supermarket in Giyani, Friendly supermarket in Giyani, Liberty store in Vuwani, Rainbow supermarket at Tshilamba, Kismat Cash and Carry store, Alif wholesalers in Thohoyandou.
The affairs of the cooperative are managed by a board comprising of seven members. The cooperative has appointed a firm of auditors who does their books at the end of the financial year. Their 2010/11 financial statements reported a total sales turnover of 2.7 million.

**Success Story:** The cooperative has created permanent employment to 23 members of the rural Mahonisi village thereby reducing levels of poverty and unemployment. Through business excellence and quality assurance the cooperative has been able to secure and maintain lucrative markets such as the Pick n Pay supermarkets in the towns of Thohoyandou, Malamulele and Giyani. The cooperative has been able to increase its revenue from sales from a million in 2009 to about 2.7 million in 2011. The cooperative has a Quality Management System that complies with ISO 9001:2008. The cooperative is currently having two poultry houses carrying about 19000 layers at a time.

6. **MPUMALANGA (BAMBANANI FARMERS COOPERATIVE LIMITED)**

Bambanani Farmers Cooperative Limited is a poultry (broilers) and vegetables producing enterprise in the rural township of Mkhuhlu under Bushbuckridge local municipality, in Mpumalanga. The cooperative was formed in 1993 by six ex-miners that were retrenched from the mines in 1992. The affairs of the cooperative are managed by a board comprising of seven directors. Prior to them being retrenched, the men were given business skills to ensure that they will be able to continue with life after retrenchments. Each of the men started selling chickens in their homes for survival.

When demand of the chickens increased they collectively had to look for a place and eventually secured a 1.8 hectare piece of land. Today the cooperative has 10.7 hectares of land with 9 poultry houses with a carrying capacity of 18500 chickens. There are currently fifteen members (10 women and 5 men) all of whom are from the local community. Seven members work in the poultry side while the other eight work in the vegetable section. All members are receives a salary at the end of the month.

There are 10 permanent and 15 temporary employees. The cooperative has appointed an auditing company that does its books in compliance with the Cooperatives Act. According to their financial reports for the financial year 2010/11 the cooperatives has reported an annual turnover (sales) of 2.8 million rands. The Provincial Department of Agriculture (Mpumalanga) financed the erection of a perimeter fence and one poultry house.

**Success story:** From selling chickens individually in their backyards members of this cooperative have been able to grow the business to the current 18500 birds per cycle with about nine poultry houses. Their land has also increased from 1.8 hectares to 10.7 hectares giving them an opportunity to diversify into vegetable production. Membership has been increased from the initial six to 15 members all drawing decent salaries from the cooperative.

7. **NORTH WEST (BAOBAB COOPERATIVE LIMITED)**

Baobab cooperative limited is found just outside the town of Klerksdorp, Matlosana local municipality in the North West province. It was established and registered in 2008 as a primary agricultural cooperative with limited liabilities under the Cooperatives Act of 2005. The main objective for establishing the cooperative was to engage in farming activities including the marketing of farmers produce and supply of farming inputs. The cooperative is mainly producing tomatoes in six tunnels.

The cooperative has five members and all of them are directors on the board. It employs seven permanent and eight temporary employees. The construction of the six tunnels for hydroponic production of tomatoes was financed by the National Development Agency. The cooperative owns a 10 ha piece of land in wessels a road plot which is just 3km from the national fresh produce market in Klerksdorp.

The cooperative holds regular general meetings of members and keep proper records of minutes. In compliance with the Cooperatives Act of 2005 the cooperative has also appointed a firm of auditors who prepared their books for the financial year ending February 2011.

**Success story:** The cooperative has been able to secure financial support from the National
8. NORTHERN CAPE (ITEKENG Tsineng Goat Cooperative Limited)

Itekeng Tsineng Dipudi cooperative is a LRAD project established in 2004 by farmers from Gasese and Tsineng village in the Northern Cape Province. It is found almost 85 km North West of Kuruman. Members of the two villages of Gasese and Tsineng were given a grant to acquire farm titanic. The primary enterprise is Goats farming but they diversifying to accommodate cattle. The mayor objective is to improve the quality and production of their livestock to generate more income from farming as most of them are unemployed. The total number of farmers at the project is 33.

The project falls under Joe Morolong Local Municipality in John Taolo Gaetsewe District Municipality which declared a nodal area by then President of the Republic of South Africa, President Thabo Mbeki. The size of the project is 2567 ha and currently divided into 14 camps. There is enough water but the problem is water is not evenly distributed in the farm so there is a need to purchase 16 water tanks, construct 16 drinking troughs and reticulate 4,5 km pipeline, and install 2 solar pumps. The boarder fence is worn-out and need to be replaced by purchasing 35 km fence. The dipping tank is worn-out and there is a need to construct one dipping tank and two crush pens need to be constructed. The above mentioned developments will enable these farmers to farm effectively and lucratively as veld and livestock will be managed and monitored.

The cooperative has a democratically elected board of directors managing its affairs. Although there is no auditor appointed, the cooperative is keeping records of financial transactions. They also keep minutes of all meetings they hold discussing cooperative business.

9. WESTERN CAPE (FRIEMERSHEIM Multi-Purpose Cooperative Limited)

The cooperative is found in a rural town of Friemersheim (formerly known as Gonna’s kraal) under Mosselbay local municipality, Eden District in the Western Cape Province. It was established by 28 members of the rural town of Friemersheim and registered as a primary cooperative with limited liabilities in 2011. The goal was of establishing the cooperative was to initiate different economic activities aiming at reducing the high levels of unemployment in the rural town. The cooperative wanted to start with economic activities natural to the area and honey production was the first project to initiate.

Currently they produce, package and market honey in Cape Town, Mosselbay, George and locally. Apart from producing their own honey the cooperative also buy honey from small producers who are non members and package it. Agriseta has awarded bursaries to 15 members of the cooperative to be trained in bee keeping at the Cape Town College.

The affairs of the cooperative are managed and controlled by a board comprising of five directors. A firm of auditors has been appointed to do the books of the cooperative. In terms of empowerment initiatives the cooperative is sourcing markets for vegetable producers in the area. The cooperative is transferring bee keeping skills to other members of the community who are not members of the cooperative. The cooperative provide special prices for buying honey in bulk to the community members who in turn resell the packaged product at a profit. 28 job opportunities have been created by the cooperative.
Paper 1. Purpose objectives and outcomes of the Indaba

NATIONAL AGRICULTURAL COOPERATIVES INDABA
AMON MYENI
26-27 March 2012, Birchwood Hotel, Boksburg

PHILOSOPHICAL DEFINITION OF THE TERM “INDABA”
“The African concept of indaba entails more than just a meeting: it is dialogue with a view to achieving consensus and ultimately reconciliation. In this indaba (which can often take a very long time!) everyone has the right to express an opinion, until they (we) can say: simunye (“we are one”).

John Cilliers-academic.sun.ac.za.

(IN SEARCH OF MEANING BETWEEN UBUNTU AND INTO: PERSPECTIVES ON PREACHING IN POST-APARTHEID SOUTH AFRICA).

Simple Definition: A council or conference, esp. between or with indigenous tribes of South Africa (Webster Dictionary)

PHILOSOPHICAL DEFINITION OF THE TERM “INDABA” CONT..
Traditionally, an Indaba was called by amakhosi or the king; hence the praise “ndabezitha” (Uyindaba ezitheni – even the enemies regards you as extremely important ((the one who carries or possesses important matters).
Moral of the story: An Indaba is a life changing gathering more in particular during the colonisation process where the colonial masters communicated with the people through the traditional leadership.
As a result, when an Indaba is called, people associate it with making great sacrifice or making a serious contribution towards something!!!

DISTINGUISHING FEATURE OF A COOPERATIVE COOPERATIVE IS A “MEMBER-DRIVEN ENTERPRISE”

MEMBER AS SUPPLIERS  COOPERATIVE  MEMBER AS CONSUMER

COOPERATIVE AFFAIRS IN SOUTH AFRICA
1. Cooperative legislation provide the “enabling environment” (that has been achieved)
   Cooperatives act and other policies and strategies
2. Cooperative development provides the “actual organisation of cooperatives” (this has not been achieved)
   • Establishment of cooperative banks (vilage banks)
   • Establishment of marketing cooperatives
   • Establishment of agroprocessing and value-adding cooperatives
   • Establishment of inputs supplying cooperatives
   • Establishment of training and development cooperatives.
THE STORY OF THE SIX BLIND MEN AND THE ELEPHANT

EXPECTED OUTCOMES OF THE INDABA

Identification of the legitimate structure to lead the cooperative development agenda on behalf of smallholder farmers (who is representing smallholder farmer cooperatives in South Africa?)

To provide an integrated national agricultural cooperative development model/framework (to see the whole elephant and agree on its definition)
Paper 2. Keynote address by the director-general of the department of agriculture, forestry and fisheries at the national agricultural cooperatives indaba

DATE: 26 MARCH 2012

VENUE: BIRCHWOOD

Programme Director, please allow me to extend my warmest welcome to all our distinguished guests, our valued speakers, government officials in attendance, and last but not least, members of cooperatives who are here with us today.

Programme Director, I would like to take this opportunity to clearly spell out where I see cooperatives fitting into our collective work programme. In short, cooperatives are central to our mission of promoting agricultural development, rural job creation, and food security. But how so?

In the first place, it is important to remember that one of the key aspects of our agrarian reform programme is the promotion of our smallholder sector. Of course, we already have a smallholder sector, but it is small and weak. Our objective is to make it stronger, more prosperous and larger. We want to do this not merely because our targets say we must, but because without a vibrant smallholder sector, there is little hope for rural development in this country. Smallholder agriculture must form the basis for rural development, particularly within the former homelands. The land is there, the people are there; even the demand for food is there. But by and large our successful farmers in these areas are few and far between, while most of the food bought and consumed in these areas is ‘imported’ from outside.

What is holding us back? Unfortunately, many things, and what we are presently doing is making changes on a number of fronts at the same time. It is not easy.

Speaking specifically of cooperatives, part of our problem with cooperatives is that we have not always been clear as to what function they serve. We know they can be good, and we even readily agree that they are essential; but because we do not always share a common understanding as to why precisely we need them, we support them in sometimes arbitrary or inappropriate ways. And then, not surprisingly, we don’t get the results we want.

So why do we still bother? One reason is because we see the importance of cooperatives elsewhere. I myself am aware of the crucial role that cooperatives play in farmer development in a whole variety of countries, including Brazil, China, India, Spain, Italy, Greece, Kenya, Uganda and Tanzania.

Programme Director, agricultural development is indeed dependent upon effective cooperatives. The mobilisation of smallholder farmers into functional cooperatives is key to achieving our goals, but we have to do better than we’ve managed up to now. When Dr Myeni made a request for the hosting of this Indaba, I welcomed the initiative in the belief that this Indaba will assist us in identifying our challenges and charting a successful way forward.

I am told that the Department has captured 836 cooperatives on the CODAS system. Out of these 836 cooperatives, only about 200 cooperatives can be viewed as being “functional”. Still, if these 200 were vibrant cooperatives with lots of members that would be one thing. But I further understand that that the vast majority of the cooperatives captured on our system are production cooperatives, meaning that individuals come together in order to farm as a group. While sometimes this works, most often it does not. Even when it does work, it is not always clear what it truly achieves.

Let us look at this closely. What is agrarian reform? It is not simply replacing some large-scale white farmers with some large-scale black farmers, although this may be part of it. By the same token, it is not merely replacing a large-scale white farmer with a cooperative composed of black individuals. Land redistribution has attempted to do precisely this, and we have seen the results. Where land redistribution projects did not completely collapse due to group dynamics, they carried on with the same capital-intensive farm plan as the previous farmer. This is a kind of cosmetic agrarian reform that does not promote the advantages of smallholder farming, namely labour-intensity and higher land productivity. Rather, it reveals our lack of regard for small-scale farming.
So if we don’t want production cooperatives, what kinds of cooperatives do we want? What we want are cooperatives that allow smallholder farmers to carry on as smallholders, but which in effect compensate for the disadvantages of being small. In other words, we want cooperatives that ease smallholders’ access to affordable inputs and financial services, and that assist smallholders to participate in beneficiation and marketing opportunities. The general term for these sorts of cooperatives is ‘marketing cooperatives’ (secondary cooperatives), though there are a number of variations in terms of emphasis or specific function. But the general theme is, to allow smallholders to remain smallholders, while enjoying the advantages of participating in a organisation whose purpose is to provide mutual support in critical functions that smallholders otherwise struggle with. This will both allow existing smallholders to thrive, and more rural dwellers to join the ranks of the smallholder sector.

Accordingly, I would like to respectfully submit that the title of this Indaba is a bit backwards. The title refers to: ‘enabling smallholder farmers to play a critical role in the establishment of sustainable cooperative enterprises’. I would suggest that a better way of expressing it is to ‘support the development of cooperatives so that they in turn enable smallholder farmers to play their rightful, critical role in agricultural and rural development.

Much of this two-day Indaba is designed to go into the detail of the different functions that cooperatives can serve. I know from discussions with colleagues, and merely from glancing at the programme, that much of the thrust of this Indaba is to assist us to raise our sights above the production cooperatives where we have become a bit stuck.

Through you, Programme Director, I would also like to plead with all participants in this Indaba that we discuss the practical implications of this refined vision. What specifically must we do to support the emergence of more and stronger marketing cooperatives? What exactly should these cooperatives look like? Who should do what? What tools do we already have at our disposal for this work, and what tools do we still need to develop?

It is my wish for example that this Indaba will identify tangible steps that will assist us in implementing the Zero Hunger Programme. We have created the Zero Hunger Programme in order to fast-track efforts to address our dual problems of rural under-development and food insecurity. In Summary, the Zero Hunger Programme seeks to guarantee a market for smallholder farmers by seeking all government procurement for food from smallholder farmers.

Whenever government buys food for patients in hospitals; students at institutions of higher learning; school-feeding schemes for learners; inmates at prisons or awaiting-trial persons at police station holding cells, that bulk-buying of food should be set aside and be procured entirely from smallholder farmers. This will go a long way in reviving the rural economy of our country.

At the same time, however, we should be asking whether a reinvigorated co-operatives strategy could also hold the key to addressing the ills that affect our large-scale farming sector. After all, it was largely thanks to co-operatives that white commercial farming became such a dynamic sector in South Africa in the past; but with the disappearance of most of these co-ops, we observe that many commercial farms towards the smaller end of the spectrum are not surviving. Their demise has meant increasing rural unemployment, which contributes further to our unemployment crisis.

So although we see that co-operatives strategy as of particular relevance to the smallholder agenda and the Zero Hunger Programme, we should also be asking questions as to its applicability elsewhere. This could have implications for what kind of co-operatives we want to promote, with what kinds of members, and so forth.

Programme Director, the United Nations has proclaimed 2012 as the “International Year of Cooperatives”, and their slogan is “Cooperatives Build a Better World”. In my humble view, there cannot be a better world through cooperatives unless they are properly organised so that all key role players can begin to play their part. I am pleased to learn that delegates have been drawn from all key organisations so that as we debate issues, we should not leave any stone unturned.

As DG of the Department of Agriculture, Forestry and Fisheries, I would like to thank colleagues in the Economic Development, Trade and Marketing Branch for taking the initiative to host and organise this Indaba, and indeed for opening up this issue to the close scrutiny that it deserves.
I would also like to welcome every participant who is here today, and urge you all to engage in robust but productive debate. I may not be with you for the entire Indaba, but would like to inform you that tomorrow evening there will be a Gala Dinner where prizes will be awarded to the best performing cooperatives in the sector. Everyone is invited!

Thank you for your attention, and most of all for your participation!


PRESENTATION TO THE NATIONAL AGRICULTURAL COOPERATIVES INDABA, BIRCHWOOD HOTEL, JHB MARCH 2012

WHAT IS A COOPERATIVE?

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

VALUES OF A COOPERATIVE

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

PRINCIPLES OF COOPERATIVES

Voluntary and open membership Democratic member control Member economic participation Autonomy and independence Education, training and information Cooperation among cooperatives Concern for community

INTERNATIONAL CONTEXT

1.1.2 INTERNATIONAL

The Revenue of the world’s top 300 co-operatives exceeds US$ 1 Trillion, equal to the world’s 10th largest economy International Co-operative Movements represent 800 million members, more than the total population of the entire European continent Co-operatives in Germany and France create 440,000 and 700,000 jobs respectively Kenyan co-operatives accounts for 45% of the GDP and 31% of gross national savings. The co-operatives also control markets for coffee, cotton and dairy In the US, more than 100 million people or 40% of the population are members of co-operatives

SOUTH AFRICAN CONTEXT: HISTORY

Late C19th :The origins of the white agricultural co-operatives were associated with the Afrikaner nationalist movement:

marketing co-operatives for the distribution and sale of produce;

supply co-operatives for inputs such as seeds, fertilizer and livestock; and

processing co-operatives that turn into higher value products for human (or animal) consumption.

1912 :The establishment of the Land Bank and the promulgation of the Co-operative Act in 1922 led to the rapid development of the white agricultural co-operatives.

At that time, the international co-operative principles were hardly observed.

Post-second world war era, white agricultural co-operatives became major players in the national economy.

With the gradual abolition of subsidies and state protection over the past decades, white agricultural co-operatives faced the challenges of globalization, which has led co-operatives to – among others – secure
external finance for growth and diversification through conversion into private companies; external shareholding and taking over companies or establishing new companies as subsidiaries of co-operatives.

1940s: White agricultural co-operatives benefited substantially from their access to an effective quasi-monopoly situation in the marketing system for agricultural produce. This included the introduction of price fixing, in terms of the 1937 Agricultural Marketing Act.

1970s-80s: The black agricultural co-operatives were promoted as part of the apartheid economic grand-plans for the ‘home-lands’. However, they did not enjoy the type of state support provided to white agricultural co-operatives and remained weak with respect to introducing to small individual farmers and/or small primary cooperative farmers advanced technologies that can improve the quality of their produce.

Economies of scale and scope will improve the bargaining power of the small individual farmers and/or small primary cooperative farmers in relations to their buyers (i.e. retail stores, etc) and pertaining to receiving fair market price for their produce;

**SOUTH AFRICAN CONTEXT: STATUS OF COOPS**

Total number of registered co-operatives, as at 31 January 2012: 54,461

Number of co-operatives registered per province in terms of Co-operatives Act, 2005 (including some of the Co-ops that were registered under the previous Co-ops Act, that have now changed their registration numbers), as at 10 February 2012

Agriculture remain the leading cooperative sector at 47% followed by the service sector at 37%.

**VISION: GROWING SMALL HOLDER FARMERS**

Government has identified the development of agriculture and rural development, as well as, embarking on land distribution and restitution as central pivot in its efforts to reduce poverty and unemployment particularly in the rural landscape of South Africa.

Agricultural cooperatives are viewed by government as labour intensive and posses potential to create massive jobs and reduce poverty.

The biggest constraints affecting the growth and sustainability of the small farmers across varied commodities are the lack of demand of their produce or commodities due to poor or small available markets or inaccessibility of lucrative national and international markets.

Most of the small individual farmers and/or small primary cooperative farmers find it extremely costly to access lucrative markets that are either in the major towns, cities and abroad and this has been a serious constraint to their growth and sustainability.

The noted constraint is almost affecting small farmers and small primary cooperative farmers across all commodities found in the agriculture sector.

Promote a professional, ethical, dynamic, competitive and customer-focused working environment that ensures effective and efficient service delivery Secondary Marketing Cooperatives

To address the noted constraint, the government intends to create an incentive scheme/fund that will assist in facilitating the establishment of Secondary Marketing Cooperatives as vertical structures above small individual farmers and/or small primary cooperative farmers.

Establishment of Secondary Marketing Cooperatives will bring towards small individual farmers and/or small primary cooperative farmers the following value:

- Facilitate economies of scale and scope among the small individual farmers and/or small primary cooperative farmers that would make it easy for these farmers to transport and market their produce, thus, enabling them to penetrate the national and international markets;

Facilitate cost reduction with respect to logistics, administration, and marketing of their produce; Having created this vehicle the small individual farmers and/or small primary cooperative farmers, will be free to solely focus on improving their production in their farms; The marketing cooperatives can also assist
THE INCENTIVE SCHEME

The incentive scheme is envisioned, among other things, to support the following with respect to the creation of the Secondary Marketing Cooperatives (SMC): Support the conduct of feasibility studies for the creation of SMC; Support the development of business and project or operational plans; Incentivize for the technical managerial support to provide adequate capacity for the efficient running of the SMC; and Fund fixed capital and some of the operational requirements, etc.

THE INCUBATION SYSTEM

The government intends to promote the incubation system support for cooperatives targeting the rural and agriculture cooperatives. Joint effort that will include the universities and NGOs and business experts. The main aim is to enhance the sustainability of agricultural cooperatives.

PERFORMANCE OF CO-OPERATIVE INCENTIVE SCHEME, 2005 – MARCH 2011

Disbursements: 2005 to end March 2011 R92,523m 488 Co-ops have benefited

SECTOR DISTRIBUTION:

- Manufacturing – 90 (18%)
- Wholesale & Retail – 8 (2%)
- Services – 60 (12%)
- Agriculture – 230 (47%)
- Cultural Industries – 4 (1%)
- Clothing & Textiles – 93 (19%)
- Mining – 3 (1%)
- Promote greater participation by black
- Persons especially in rural areas
- Primarily aimed at assisting HDI’s,
- Women, youth & disabled
- Monthly two day workshops improved
- Application intake from NC, Limp, EC, WC, NW & FS
- Collaboration with other co-op supporting institutions
- such as National Development Agency;
- National Youth Development Agency & National
- Empowerment Fund to improve feasibility and sustainability
- Development of clustering, branding and value adding
- Model conducted in association with industry and agency players
Paper 4. Address To The National Agricultural Co-Operatives Indaba

President of Sanaco: Mr. Lawrence Bale
March 2012
Programme Director: Mr. Steve Galane;
Director- General, Department of Agriculture, forestry and fisheries: Mr. Cde. Langa Zitha;
Chairperson of the Executive Committee: AGRISETA Prof: Gilingwe Mayende;
NAFU President: Mr. Joe Gondo;
Afasa President: Mr. Mike Mlengana;
Agri-seta CEO: Mr. Jerry Madiba
Tshwane University of Technology: Dr. Letsoalo
Minister of Agriculture, Forestry and Fisheries: Honoroble Ms. T Joemat-Pettersson

The year 2012 has been declared the year of co-operatives by the United Nations.
The Co-operative model in South Africa offers hope to the previously disadvantaged communities. It is
also used as a vehicle to contribute towards job creation and poverty alleviation as well as giving hope
to our people.

Let me introduce myself to you as well as the organization that I lead Sanaco. The South African National
Apex Tertiary Co-operatives that represent all co-ops in the country at legislative level, e.g. Nedlac
International, I.C.A in SADC which is called (SADCCF), i.e. South African Development Countries Co-
operatives Federation wherein the President of South African Co-operatives was elected President of
SADCCF.

In brief, Sanaco is the only federation of co-operatives in South Africa; it is the voice of co-ops and also
the union of co-operatives.

Sanaco advocates for the interest of the co-operatives in South Africa. Sanaco ensures that the voice of
the co-operatives is heard in the National economy, policy making processes and in the South African
society.

Sanaco has its foundation at grassroots level, with structures at Local Level, Districts or Metros, Provincial
level and National representing co-operatives, as well as different sectors of the economy.

Furthermore, Sanaco is a resolution of the conference of co-ops that was organized by the DTI on the
30th June to 05th July 2008 in Gauteng, Tshwane showground, wherein the DTI stressed the issue of
one Apex one country and is also at the strategy that was signed off in Nedlac. Conferences resolved that
Apex must be the bottom up approach and it must be in all locals Districts, or Metros and all Provinces,
aligned geographically with institutional arrangement of government as well as to build economic sectors
according to Act no. 14 of 2005.

Sanaco would like to commit itself in forging a meaningful working relationship with your department in its
endeavor to drive practical skills to development within the country.

Together, Sanaco and the Department should also build capacity in government and co-operatives to
ensure proper support to the majority of our people in this regard, and these are co-operatives as well as
other people who are tasked to support co-ops.

The focus of my speech will be on Agricultural co-operatives.

Agricultural co-operatives play a vital role in feeding the communities in our country.
This role is a continuous one, as food contributes to the health and well-being of our societies.
Land serves as a basis for the existence of agricultural co-operatives.

For example: A farmer specializing in breeding of livestock will require land to keep the livestock and for
grazing purposes, same applies to the farmer specializing in producing crops will require land to plough his crops etc.

In the endeavor to develop and grow, Smallholder farmers are faced with different challenges that impact on their sustainability.

Capacity building is one of the interventions that should be at the forefront in assisting our farmers to develop and grow sustainable enterprises.

In building a strong Agricultural sector, the department of agriculture, forestry and fisheries, relevant stakeholders and SANACO must work together and develop strategies that will assist farmers to sustain themselves.

For example: Farmers specializing with the same product (piggery, poultry, vegetables, mealie meal etc.) must be willing to meet at production level to access markets and in order to meet the demands for procurement. Government must play a role in assisting these farmers to meet their demand through funding initiatives. Private sectors must be willing to use the co-operatives enterprise to supply them with their products.

Our people, your people, the people of this land deserve the best. Sanaco say if you dream of this country to be of milk and honey, Sanaco can make your dream come true, because we subscribe to the principles also guided by the ethical values of international norms and standard, again this I can quote from the recommendation 193 of the ILO.

In conclusion, I dream and working tirelessly to the day when the majority of people in our society can be born in a health co-op and buried by a funeral co-op. In between, they can send their children to study and learn in a childcare co-op, work in a workers co-op, live in a housing co-op, buy their groceries, clothing and other items from retail co-ops, do their banking in a savings and credit co-op and also buy their insurance products from insurance co-ops and fed by the agricultural co-operatives.

As a movement, we believe that through the willingness of co-operatives to take up the challenges and with the support from the government and the private sector, together we can work towards creating sustainable livelihoods.

“TOGETHER WE CAN DO MORE”

Thank You,

Mr. Lawrence Bale (Sanaco President)
MY MESSAGE!

- Cooperatives are businesses and should be business driven;
- Incentive scheme from Government or any other source must respect business fundamentals;
- Cooperatives are deemed to fail if members establish them for opportunistic behaviours;
- However, support to genuine cooperatives will deliver the intended results.

SUMMARY OF SMALLHOLDER AGRICULTURE IN SOUTH AFRICA

- Smallholder agriculture in South Africa is largely subsistence based;
- Little or no market integration, with few farmers generating sustainable income;
- Low yields;
- Low investments;
- Many small holders land holdings are sufficient to generate income if utilized efficiently, and
- Involvement of private sector or co-operatives would be key for change, but requires productivity increases.

AGRICULTURAL MARKETING

- Covers the services involved in moving an agricultural product from the farm to the consumer;
- Numerous interconnected activities are involved in doing this, such as planning production, growing and harvesting, grading, packing, transport, storage, agro- and food processing, distribution, advertising and sale;
- Businesses that have lower costs, are more efficient, and can deliver these activities, are those that prosper;
- Those that have high costs, fail to adapt to changes in market demand and provide poorer quality are often forced out of business;
- Marketing has to be customer-oriented and has to provide the farmer, transporter, trader, processor, etc. with a profit.

MARKETING CONSTRAINTS TO SMALLHOLDERS

- Lack of integration of smallholders to local, provincial and export markets;
- Weak bargaining power;
- Absence of competitive buyers;
- Low and unstable farm-gate prices;
- Absence of strong market institutions; and
- High transaction costs.
DEFINITION OF COOPERATIVE

• A cooperative is a user-owned and user-controlled corporate business in which benefits are received in proportion to use (USDA).
• A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, cultural needs and aspirations (SEDA).
• A cooperative is a jointly-owned and democratically controlled enterprise organized and operated under cooperative principles (SEDA)

FEATURES OR PRESCRIPTIONS

The International Cooperatives Association (ICA) prescribed these principles for cooperatives worldwide:

• Voluntary and open membership,
• Democratic member control,
• Member economic participation,
• Autonomy & independence,
• Concern for community,
• Education, training & information, and
• Cooperation amongst cooperatives

WHY MARKETING CO-OPERATIVES?

• To market agricultural product or product (by product),
• To process an agricultural product and facilitate distribution
• To acquire any facility or service required to add value to the primary produce,
• To render services which are necessary and useful in farming
• To render services related to buying, selling and hiring of fixed agricultural property
• To provide insurance business which relates to farming risks for farmers

HOW CAN A MARKETING COOPERATIVE BENEFIT A SMALL FARMER?

• By performing some of the marketing functions currently done by middlemen, the co-op may be able to earn a profit which can be distributed to farmer-members
• A cooperative which owns transportation equipment may be able to provide lower cost hauling services by using equipment specifically adapted to members’ crops and volumes,
• Marketing as a group, small farmers can also gain access to new and larger markets. This can mean higher prices.
• Marketing co-ops can use brands and other promotional activities to provide the small farmer with markets that are more secure.
• Tax benefits enjoyed by cooperatives offer cost savings that can be passed along to members.

REASONS FOR ESTABLISHING MARKETING CO-OPERATIVE

• When there is a surplus in production that requires a collective marketing effort;
• In order to save expenses from middlemen who benefit from the producer in various ways such as, paying producers low prices, loan at high rates of return, etc;
• When the system in force involves many middlemen and doesn’t compensate producers well
MARKETING COOPERATIVES ENABLE PRODUCERS TO

• Correct market failure where prices are too low or buyers have left the market;
• Gain market power (negotiating power) against much larger buyers;
• Spread risks and costs; and
• Have enough volume to operate a processing plant efficiently or enough to meet the demands of buyers.

KEY SUCCESS FACTORS FOR SMALL HOLDER MARKETING CO-OPERATIVES

• Co-operatives needs to handle sufficient business volume to remain economically viable. Insufficient volume does not permit a co-operative to generate the income needed to cover operating costs;
• Co-operatives need to regularly train its managers;
• If a business volume and equity permits, full-time experienced staff should be hired;
• Accurate financial statements should be prepared and distributed, and
• Co-operatives should be prepared to enforce marketing contractual agreements entered with members when necessary

CHALLENGES OF COOPERATIVE MARKETING

• Agreeing on one common mission
• A common vision is essential for moving any further on the marketing venture.
• Trust and sharing of information
• Group dynamics (democratic group decision making and costs)
• Lack of commitment from members

WHY COOPERATIVES HAVE NOT INTEGRATED FORWARD INTO HIGH-MARGIN, VALUE-ADDED ACTIVITIES

• The production orientation of directors restricts the ability of a cooperative board to supervise and assist management as the organization’s scope grows vertically and increasingly involves consumer-oriented merchandising activities
• Cooperatives are disadvantaged by scale economies associated with complex organizational tasks
• Cooperatives are often insufficiently capitalized to make the substantial investments in research and development and in advertising that are necessary to be successful in processed markets

ADVICE TO START-UP CO-OPERATIVES

• Involve a lot more people in your planning;
• Build a strong membership base;
• Get help from subject matter specialist;
• Hire professionals to manage the business;
• Financial incentive scheme from government may lead to more co-ops being formed:
• Likely to fail since they are driven by incentives.
Paper 6. The role of Agro-processing and value-adding co-operatives in the development of smallholder farmers

NATIONAL AGRICULTURAL CO-OPERATIVES INDABA MARCH 2012

Outline

• Agro-processing environment
• Policy framework for the Agro-processing Sector
• Role of co-operatives in Agro-processing
• Opportunities in Agro-processing

Agro-processing Environment

• Environment is particularly difficult at present: Effects of Global Financial Crisis. Imports are increasing and exports declining. Administered prices increasingly rapidly. Manufacturing is suffering across all sectors.
• SA population increasingly served by formal retail chains: SA continues to urbanise. 10 years ago, small towns had no formal retailers. Now, Boxer and Shoprite are everywhere. Shops increasingly stock imported produce.
• Domestic market faces increasing competition: imports in poultry/sugar/beef substantial, volume and scheduling requirements, standards, competition from established players and anti-competitive conduct. Processors have responded by increasing scale of production, thereby increasing capital intensity.
• Export markets are difficult to access: SA market access not on par with other agri exporting countries. Competitors growing and exporting more quickly than SA. Export barriers are often severe (SPS and private standards). Volume and scheduling requirements are difficult to meet.

Policy Framework for the Agro-processing Sector

Strategic Pillars:
• High-quality, high-value, competitive sub-sectors, e.g. fresh fruit, wine and fish.
• Moderately competitive/uncompetitive, mature sub-sectors that are ‘stuck’ in low-value streams, e.g. tea, canning and parts of food-processing.
• New sub-sectors with niche market potential but small-scale production, e.g. ostrich meat, indigenous flowers, biofuels, essential and olive oils, and medicinal extracts.
• Food security interventions, particularly introducing new technology for small-scale production.
Role of Co-operatives in Agro-processing Sector

Strategic Pillars:

Co-operatives are fundamental to the Agro-processing sector!

1. On 8 January 1918, growers in the Western Cape founded the Koöperatieve Wijnbouwers Vereniging van Zuid-Afrika Bpkt (KWV). KWV came to dominate and control the wine sector.

2. Importantly, KWV and other highly successful Agri-business Coops are in the processing sector and not only primary agriculture.

3. Farmers (incl. smallholders) can use processing co-ops to:
   - Deal with inherent tension and market power in value-chains.
   - Benefit from higher returns in processing.
   - Lower and diversify their risk-profile.
   - Raise capital as processing is capital-intensive.

Opportunities in Agro-processing

‘ON-FARM’ PROCESSING

Washing, grading, preparing, packaging, branding, refrigerating and transporting.

- Relatively low capital requirements and incentives are available.
- Limited additional skills requirements.
- Important to brand and package for target market. Sustainable packaging becoming important and for niche markets packaging as important as produce.
- With sufficient scale, exporting becomes viable.
- Choice of market is crucial: formal retail, niche retail, local markets, catering industry etc.

‘OFF-FARM’ PROCESSING

- Typically involves fundamental changes to the produce e.g. Grapes to wine, wheat to flour etc.
- Relatively high capital requirements and incentives are available.
- Substantial additional skills requirements.
- Branding and packaging crucial.

I. With sufficient scale, exporting becomes viable.
II. Choice of market is crucial: formal retail, niche retail, local markets, catering industry etc.
III. Technological change can open new opportunities in unconventional sectors.
IV. Competition is fierce including from imports so feasibility studies are important to identify risks...
Opportunities in Agro-processing

Sectors Attractive for Agro-processing

‘ON-FARM’ PROCESSING:
- Prepared/Ready to Eat fresh fruit and vegetables, and juices
- Peanut butter, honey
- Jams/dried fruit/preserved fruit and veg
- Essential and olive oils
- Traditional remedies

‘OFF-FARM’ PROCESSING:
- Maize micro mills
- Aquaculture/fish farming
- Biscuits/sweets/lollipops
- Fruit canning
- Meat processing
- Wines
- Packaged teas

Conclusions

- R3.7bn investment in Food-processing sector alone between 2009 and 2011.
- Offtake agreements with ‘anchor tenant’ processors but...
- Initiatives to link smallholders with formal retail chains e.g. Organic Farmer/Retailer Programme but...
- Smallholders must be assisted to invest in both ‘on-farm’ processing and ‘off-farm’ processing. The mechanisms are available but the need for business plans and feasibility studies complicates the process.
- Low returns in farming often compound problem by siphoning capital that could be used for processing investment.

Smallholder farmers have to be invested in processing directly
Smallholder cooperatives

- Free-riders
- Horizon problem
- Portfolio problem
- Control problem
- Influence cost problem
- Constituted by small-scale farmers

Limited access to:
- Resources
- Credit
- Information
- Markets
- Inadequate property rights
- High transaction costs

Transaction costs

- Costs incurred in obtaining inputs (Ortmann & King, 2007)
- Costs of organising and transaction exchange (Williamson, 1985)

Search and information costs/ coordination costs:
- in determining the availability of the input and a place with the lowest price

Bargaining and decision costs/ operations risk:
- for acceptable agreement over the product
- Policing and enforcement costs/ opportunism risk:
- cost of making sure that the other party sticks to the terms of the contract (guarantees and warranties)

Are influenced by

◊ Social institutions
  norms of behaviour
◊ Legal institutions
  definition and enforcement of property rights
◊ Political institutions
  mechanisms of property rights allocation
◊ Economic institutions
  availability and efficiency of markets (Ortmann & King, 2007)
### Transaction costs

Characteristics of a transaction
- Frequency
- Uncertainty
- Asset specificity

### Reduction of transaction costs

**INPUT SUPPLY COOPERATIVES**
- Purchase in volume
- Manufacture
- Process or formulate
- Distribute farm supplies and inputs

**COLLECTIVE ACTION**

- Group action of smallholders strengthens bargaining power
- Facilitates finding institutional solutions to problems of coordination and public service provision
- Compensate for missing markets and reduces transaction costs
- Government could bear some of the costs of coordinating collective action

1. Formulate a well established requisition system
2. Use blanket orders for frequently purchased items
3. Use system contracts for the major purchasing categories
4. Develop strong relationship with provisers and issue negotiated annual contracts to reliable suppliers
5. Establish standard products to minimise different items purchased
6. Consider service parts and maintenance when purchasing equipment items
7. Negotiate a simplified payment system to minimise paperwork.
Reduction of transaction costs

**GOVERNMENT/STATE**

Improved physical infrastructure roads and telecommunication

Institutional infrastructure (by the government)

- This entails rules and constraints
- land rental markets
- marketing associations
- contract enforcement

**Paper 8. Speech by the deputy minister of the department of Agriculture**

**Forestry and Fisheries**

Programme Director; allow me to begin my speech by quoting from the current Medium Term Strategic Framework (MTSF) Document which states that “…strengthening competitiveness and promotion of small and medium-sized enterprises (SMEs) and cooperatives remains a cornerstone for the growth of the economy and the creation of decent work opportunities. We will drive an effort to facilitate market access and entry into value chains by small businesses and cooperatives, strengthen the impact of institutions providing business development support, improve the management and distribution of micro-finance, partner with the private sector to provide dedicated services and skills training to small, micro and collective enterprises, reduce the regulatory burden on small business and cooperatives and leverage state procurement, with concrete targets, to support the growth and sustainability of SMEs and cooperatives.”

Programme Director; South Africa, like most third world countries is characterised by two farming systems: the commercial farmers who practise large scale farming and are generally regarded as “profit maximizers” that is, farming is regarded as a business entity that exists solely for making a profit. It is therefore, believed that business principles would be applied by this group. On the other hand, there are thousands of subsistence farmers who are generally regarded as producers for own consumption and the application of business principles such as maximisation of profit is non-existent.

What led to the creation of these two farming systems in South Africa? In the beginning, both black and white farmers practised subsistence farming and the situation changed during mining and industrialisation which suddenly brought a huge influx of hungry “uitlanders”. Suddenly, agricultural products became highly priced and there was a great propensity to engage in farming so as to take advantage of the profits to be made in the sector.

To assist white farmers to engage in commercial farming, the government of the day began the process of black farmer elimination by enacting four policy instruments that led to the relegation of black farmers to being labourers in white farms. During the enactment of the four agricultural policy instruments: the Land Bank Act 1912, the Land Act 1913/1936, the Agricultural Marketing Act 1937 and the Cooperatives Act 1939, white farmers had organised themselves into a formidable force. In 1924, a coalition government between the National Party which represented mainly the farmers, and the Labour Party which represented the urban white workers was elected. As was expected, this government intensified state involvement in the agricultural sector and its main mission was to empower white farmers by providing them with multitude of state assistance programmes that were driven through the four agricultural policy instruments that are mentioned above and sadly, the black farmers lost not only their land but also the right to produce and were forced into working for the white farmers and those black farmers who refused to work under the new order were banished to the African reserves which were later converted into homelands which were basically created to deal with the problem of landless blacks. Even those black farmers who were sent to the so-called African reserves were not allowed to produce more than what they needed to survive and that then led to the creation of the dual agricultural system in South Africa.
During its Polokwane Conference that was held towards the end of 2007, the ANC drew-up a number of resolutions that were expected to play a central role in the mobilisation of development in South Africa. The following were identified as the most critical pillars of development for South Africa and are commonly known as the Ten Priority Areas:

1. Creation of decent work and sustainable livelihoods
2. Education
3. Health
4. Rural development, food security and land reform
5. The fight against crime and corruption
6. Infrastructural development
7. Build cohesive, caring and sustainable communities
8. Pursue regional development, African advancement and enhanced international cooperation
9. Sustainable resource management and use
10. Build a developmental state, including improving of public services and strengthening democratic institutions.

These priority areas are mutually inclusive and are equally important; however the most relevant for agricultural development is the one that deals with issues of rural development, land reform and agrarian change.

Programme Director; please allow me to read a section of the Rural Development, Land Reform and Agrarian Change Declaration as it was carved out of the Polokwane Conference:

“Colonialism and apartheid were rooted in the dispossession of the African people of their land, the destruction of African farming and the super-exploitation of wage labourers, including farm workers and their families. Poverty, inequality and joblessness are the consequence of centuries of underdevelopment and exploitation consciously perpetrated on the majority of the population, which had its most destructive and enduring impacts on rural South Africa. Consequently, the structural faults that characterised the apartheid rural economy remain with us today.

Although one third of our people live in former bantustan areas, these regions account for one half of the poorest households. Joblessness is disproportionately high in rural areas, where the majority of those with jobs earn poverty wages. This burden of rural poverty falls hardest on women who are the majority in rural communities.

The challenges of urban poverty and migration to cities are inseparably bound with the struggle to defeat poverty, create work and build a better life in rural South Africa. The poorest amongst the urban population have the strongest connections with rural areas. Limited opportunities of sustainable livelihoods in rural areas, insecurity of tenure and widespread evictions contribute directly to the growth of informal settlements in cities and towns. Moreover, the predominance of capital intensive farming on vast tracts of land in ‘white’ South Africa is directly linked to the reproduction of high population densities and land degradation in former bantustan areas.

Many rural areas still lack basic infrastructure such as roads, water and electricity supply. This lack of infrastructure entrenches the problems of chronic poverty and limits the potential of communities to sustain economic growth, rural livelihoods and social development. Our efforts to extend free basic services to all our people are slowest to reach rural areas and farm-dwellers, even while the majority have access to free basic services in the urban areas. Moreover, access to government services such as education and health care are the weakest in rural areas.

Interventions such as the Integrated Sustainable Rural Development Programme have made significant, but insufficient progress. Social grants are making a huge contribution to pushing back the frontiers of rural poverty, fighting hunger and improving potential for economic growth in rural areas. However, in the
struggle to build a better life for all, grants are no substitute for a broader strategy of rural development and employment creation.

Municipalities in the poorest and most rural parts of South Africa are amongst the most deprived in terms of human, physical and financial resources. This lack of capacity limits the extent to which rural municipalities can act as catalysts for growth and development.

The current structure of commercial agriculture is the outcome of centuries of dispossession, labour coercion and state subsidy for the chosen few. Since 1994, commercial agriculture has continued to develop in a manner that is characterised by growing concentration of ownership and farm size, underutilisation of vast tracts of land, capital intensity, job-shedding and the casualisation of labour.

While deregulation, liberalisation and the resulting competitive pressures on the sector have eliminated many of the privileges of the large scale farm sector, various aspects of policy and legislation still reinforce the legacy of the past, including tax regimes that promote capital intensity and farm consolidation and laws such as the Subdivision of Agricultural Land Act that make it difficult to redistribute land to a modern and competitive smallholder sector. At the same time commercial agriculture has also reacted to legislation intended to protect the rights of workers and farm dwellers by sharply reducing their number, resulting in significant job losses and painful evictions of people living on farms.

Concentrated ownership, price collusion and the high degree of vertical integration in farming, agro-processing and retail limit the space for new entrants, particularly small holders, and undermine our efforts to build sustainable livelihoods in rural areas. Monopolistic practices also reinforce the recent rises in food prices, which undermines economic growth and the fight against hunger and poverty.

Water is critical both for agricultural production and sustainable livelihoods in rural areas, but is a scarce resource throughout Southern Africa. Access to water has been skewed by apartheid agricultural policies in ways that reinforce inequalities and foster waste.

Millions of our people farm on small agricultural plots in the former bantustan areas and make a substantial contribution to poverty reduction and the creation of sustainable livelihoods in the most adverse conditions. Part-time and full-time agriculture in these areas remains a critical opportunity in our people’s efforts to combat poverty, provide social security for themselves and build sustainable livelihoods. Our efforts to support them have been inadequate.”

Cabinet approved the Comprehensive Rural Development Programme (CRDP) in August 2009. Comprehensive Rural Development is one of the key priorities of government. Its main objective is the creation of sustainable rural communities throughout South Africa. The programme seeks to achieve social cohesion and development in rural communities and is based on three key pillars which are:

- Coordinated an integrated broad-based agrarian transformation
- Improved land reform programme
- Strategic investments in economic and social infrastructure in rural areas.

President Jacob Zuma launched the CRDP Programme in Giyani Limpopo in August 2009 saying that “…the Comprehensive Rural Development Programme is our national collective strategy in our joint fight against poverty, hunger, unemployment and lack of development in our rural areas. It is an embodiment of our unshaken commitment that we shall not rest in our drive to eradicate poverty.”

Programme Director; Cooperatives are social business entities driven by the philosophy of Bambanani (to care for one another) and they also fit well with the spirit of ubuntu which deals with the general well-being of a person (treat others as you would like them treat you; I am what I am because of my community) this philosophy was also espoused by Mahatma Gandhi when he said that one should be the “change that one expects to see”. To cooperate is to do business as a group so that the success of one person is the success of the entire village. Rural agricultural production cannot be increased unless small-scale farmers learn to work together. One small-scale farmer working alone is too weak to influence the forces of production and distribution. Like in the bee colony, a single bee has no impact what-so-ever in the production of honey but thousands of bees are capable of producing enough honey that is necessary for the survival of the specie. Likewise; a large number of small-holder farmers working together can significantly raise
agricultural output beyond anybody’s imagination.

Programme Director; I am saddened when I think of our current agricultural output in this Country. In the sixties, agriculture was contributing over twelve percent (12%) of gross domestic product (GDP) but currently, we are contributing less than three percent (3%) of GDP. This lamentable situation is partly exacerbated by the failure of the small-holder producers to contribute to the mainstream economy and this has resulted in millions of out rural population migrating to the bigger towns and cities as it was mentioned above. Small-holder farmers are big business in other countries such as Kenya. For example, ninety percent (90%) of the milk produced in Kenya comes from small-holder farmers. The secret here is “proper organisation” of small-holder farmers and I firmly believe that our people can be brought into the mainstream economy through effective cooperative mobilisation.

Programme Director, as it has been debated from yesterday, cooperatives can play a central role in helping farmers to gain access to the following production factors:

- Financing of small-holder projects
- Marketing of small-holder output
- Bulk-buying of agricultural inputs
- Agro-processing and value-adding opportunities
- Training of small-holder farmers in terms of appropriate technologies and enterprise development.

Programme Director; as I have alluded above, the apartheid system destroyed our people by denying them the opportunity to learn and practice what they have learnt. For hundreds of years, our people were not allowed to mobilise themselves into companies and even when cooperatives were subsequently introduced, the main objective was to provide marketing outlets for agricultural inputs suppliers and not to develop our farmers as productive farmers and as a result, small-holder farmers saw no benefit in cooperating with other small farmers and that legacy is still bedevilling the cooperative enterprise up to this day.

It is our responsibility as government to ensure that small-holder farmer cooperatives are organised in a viable framework so that small-holder farmers can begin to see the benefits of cooperating with one another. To achieve this, we need to place a heavy emphasis on the creation of integrated cooperative development models so that at the end of the day, one can begin to see the fruits.

It is our responsibility as government to ensure that small-holder farmer cooperatives are organised in a viable framework so that small-holder farmers can begin to see the benefits of cooperating with one another. To achieve this, we need to place heavy emphasis on the creation of an integrated cooperative development model in the sector, which, I believe has been a subject of intense debate since the Indaba began yesterday. It is my belief that such a model will encourage cooperation among all key role-players so that all of us “can face the same direction” and “speak with one voice”.

Programme Director, I am told that there are ninety (90) functional cooperatives represented at this Indaba and I hope that through this Indaba, they have been made aware of their importance in serving the needs of their communities. The prizes that will be awarded to the three (3) best performing cooperatives should serve as a motivation to all those cooperatives that are represented here, and even those that are not here with us. Programme Director, failure in this regard is not an option. Our people cannot continue living in abject poverty any longer. The sooner we bring them into the mainstream economy the better for all of us. As Bob Marley sang... “A hungry man is an angry man”, it is our constitutional duty to ensure that all our people enjoy the fruits of this economy and not just a few as is the case at the moment. In the ANC we say and I quote... “Together we can do more”, unquote, and do more we must ladies and gentlemen if we want to secure the future of our children! The spirit of “bambanani” must flow in our veins so that we can begin to push the frontiers of poverty away from our people despite the enormous challenges created by the apartheid system.

In conclusion, I would like to quote J.H. Goddard, the father of rocket science who said and I quote... "Every vision is a joke until somebody implements it", unquote. Let us ensure that the deliberations that we concluded during the two days do not become jokes but are translated into concrete deliverables that are going to be implemented as we go forward. Programme Director, Let us not forget that...

“THE FUTURE BELONGS TO THOSE WHO ARE ORGANISED” Amandla!
List of cooperatives attending the indaba

<table>
<thead>
<tr>
<th>Name &amp; Surname</th>
<th>Organization</th>
<th>Telephone</th>
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