



**labour**

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Department:  
Labour  
**REPUBLIC OF SOUTH AFRICA**

# **Worker Cooperative Support Strategy**

Compiled by COPAC  
July 2011

# Contents

<i>Acknowledgements</i> .....	4
<i>Acronyms</i> .....	5
<i>Tables, Figures and Diagrams</i> .....	6
<b>Executive Summary</b> .....	<b>7</b>
<b>Chapter 1: Understanding the worker cooperative advantage</b> .....	<b>10</b>
1.1 Brief historical background to worker cooperatives.....	10
1.2 Normative arguments for worker cooperatives.....	11
1.3 Defining worker cooperatives and worker ownership.....	12
1.4 Other important characteristics of worker cooperatives.....	15
1.5 The economics of worker cooperatives.....	15
(a) Macro-economics.....	15
(b) Micro-economics.....	16
1.6 Contexts for worker cooperative development.....	18
1.7 Challenges and constraints facing worker cooperative development.....	19
<b>Chapter 2: International Trends and Comparative Benchmarks</b> .....	<b>22</b>
2.1 The CICOPA international standard.....	22
2.2 Globalisation, economic crisis and worker cooperative responses.....	22
2.3 Brazil: worker cooperative trends and support for worker cooperatives.....	24
2.4 Canada: worker cooperative trends and support for worker cooperatives.....	28
2.5 Italy: worker cooperative trends and support for worker cooperatives.....	32
2.6 Overall Best Practice Benchmark Comparisons with South Africa.....	37
<b>Chapter 3: Addressing the Limits of South Africa’s Cooperative Policy Support Environment for Worker Cooperatives</b> .....	<b>39</b>
3.1 Harmonising international and national standards.....	39
3.2 The Cooperative Development Policy Support Environment.....	40
3.3 The Role of the Department of Labour.....	43
3.4 Cooperatives and Worker Cooperatives: Main Trends.....	43
3.4.1 Quantitative Trends.....	44
3.4.2 Qualitative Trends.....	46
(a) Successful Cooperatives.....	46
(b) Worker Cooperatives.....	48

3.5	Challenges and Limits of State Support for Worker Cooperative Development: legal, financial and technical.....	48
3.6	The New DTI Cooperatives Strategy and Amendments to the Cooperatives Act: Implications for DOL.....	50
<b>Chapter 4: Trade Unions and the Worker Cooperative Option.....</b>		<b>53</b>
4.1	The unemployment and labour standards challenge.....	53
4.2	Worker cooperative advantage for trade unions.....	53
4.3	Trade union advantage for worker cooperatives.....	54
4.4	Trade union strategy and worker cooperative development during apartheid: Challenges and lessons.....	55
4.5	Trade union support for cooperatives development policy post-apartheid.....	56
4.6	Trade union strategy and worker cooperative promotion.....	56
4.7	Strategic opportunities for trade union support of worker cooperative promotion.....	58
<b>Chapter 5: Key Recommendations for a Department of Labour Worker Cooperative Support Strategy.....</b>		<b>60</b>
5.1	Objectives of the DOL worker cooperative support strategy.....	60
5.2	Aligning Principles with the DTI Strategy.....	61
5.3	Strategic opportunities to advance a DOL worker cooperative support strategy.....	62
5.4	Main Strategic Pillars and support programs of a DOL worker cooperative support strategy.....	63
	(i) Information and Technical Support Provision.....	63
	(ii) Legislative and regulatory support.....	65
	(iii) Harnessing Inter-governmental and Non-governmental support.....	66
	(iv) Worker Cooperative Working Capital Support.....	67
	(v) Knowledge Production and Diffusion.....	68
	<i>References</i> .....	69
	<i>Annexure 1: Interview List</i> .....	75

## *Acknowledgements*

To be added by Tendani Ramulongo

## Acronyms

BEE	Black Economic Empowerment
CICOPA	International Organisation of Industrial, Artisanal and Service Producers' Co-operatives
CIP	Cooperative Investment Plan
CWCF	Canadian Worker Cooperative Federation
COPAC	Cooperative and Policy Alternative Center
DBSA	Development Bank of Southern Africa
DOL	Department of Labour
DTI	Department of Trade and Industry
EPW	Extended Public Works
GDP	Gross Domestic Product
ICA	International Cooperative Alliance
IDC	Industrial Development Corporation
ILO	International Labour Organisation
MCC	Mondragon Cooperative Corporation
MDEIE	Ministry of Economic Development, Innovation and Exports
MEWUSA	Metal and Electrical Workers Union of South Africa
MWDA	Mine Workers Development Agency
NACTU	National Congress of Trade Unions
NDA	National Development Agency
NCASA	National Cooperative Association of South Africa
NEDLAC	National Economic Development and Labour Council
NEHAWU	National Education, Health and Allied Workers Union
NUM	National Union of Metalworkers
NUMSA	National Union of Metalworkers of South Africa
OCB	Brazilian Cooperative Organisation
SACTWU	South African Clothing and Textile Workers Union
SESCOOP	The National Service of Cooperativist Learning
SETA	Sectoral Education and Training Authority
USA	United States of America

## ***Tables, Figures and Diagrams***

### ***Tables***

- Table 1: Typology of Types of Worker Cooperatives
- Table 2: Cooperative Sector Profile in Brazil
- Table 3: Labour Cooperatives in Brazil from 1991 until 2009
- Table 4: Number of Registered Cooperatives by Sector in Italy
- Table 5: Number of Registered Cooperatives by Sector and Federation, 1951-1989
- Table 6: Best Practice Benchmark Comparison with South Africa
- Table 7: National Government Support Institutions and Programmes for Cooperatives
- Table 8: Provincial and Local Government Support Institutions and Programs for Cooperative Development
- Table 9: Cooperative Contribution to Cooperative Sector
- Table 10: Cooperative Numbers by Province

### ***Figures***

- Figure 1: Overall Sector Spread of Registered Cooperatives

### ***Diagrams***

- Diagram 1: Different Contexts for Worker Cooperative Development

## Executive Summary

1. Modern worker cooperatives have existed for well over a 150 years. This institutional form came to the fore in the context of economic crises and through movements, including trade unions, wanting alternatives. The worker cooperative institutional form has evolved historically and currently there are four different kinds of worker cooperatives: worker owner cooperatives, worker producer cooperatives, worker managed cooperatives and worker supported cooperatives. Worker cooperatives provide for worker owner based work, promote economic democracy and equality.
2. The economics of worker cooperatives has important macro-economic impacts on the quality of growth, structural transformation, labour market benefits including employment creation, preservation and skills development. Worker cooperatives are also crucial to support and promote innovation. At a micro-level worker cooperatives privilege worker owners as a fixed cost which ensures worker interests are protected and paramount in a worker cooperative. Worker cooperatives emerge in different contexts which in themselves provide particular challenges for how worker cooperatives are developed. Genuine worker cooperatives are generally robust institutions which learn from practice and through innovation. This has safeguarded genuine worker cooperatives from degeneration.
3. Worker cooperatives are an integral part of the global cooperative movement and have risen to the challenge of the current global economic crisis. This has been assisted through the *World Declaration on Worker Cooperatives (2005)* which has contributed to accentuating the strengths of worker cooperatives by universalising key standards and characteristics for genuine worker cooperatives. This standard aims to prevent abuse of the worker cooperative model and to guide national legal standards supporting worker cooperatives. Brazil is poised to adopt a national worker cooperative law in keeping with this standard. In Canada worker cooperatives are supported through dedicated financing instruments, including tax incentives as part of investment plans and in Italy, even today, workers belonging to enterprises that are in crisis have a legal choice to consider converting such an enterprise into a worker cooperative. A national law provides for a mechanism that gives legal and financial advice to workers. South Africa has clear policy gaps in relation to these international best practices.
4. South Africa has a dynamic and evolving cooperative policy support environment. While affirming international standards within cooperative legislation and policy, the national context is also shaping the evolution of the cooperative support environment. Currently, the generic cooperative support framework of the DTI is allowing for horizontal and vertical supports for cooperatives to come to the fore. This framework has also encouraged greater specialisation of support for specific kinds of cooperatives in the context of an evolving support environment and as part of engendering inter-governmental synergies. Cooperative banking legislation and support, housed in the National Treasury, confirms this. Moreover, the high failure

rate of cooperatives in South Africa necessitates the need for this kind of evolution, particularly for worker cooperatives.

5. The new DTI Cooperatives Support Strategy and amendments to the Cooperatives Act (2005) seek to address the challenges facing cooperative development in South Africa. However, such interventions do not take away from the need to ensure shared responsibility across government departments and for each department to consider supporting particular kinds of cooperatives relevant to their remit. This invites and challenges the DOL to consider a support strategy for worker cooperatives grounded in concrete support programs. Such a support strategy can also assist the DOL address issues directly in the labour market.
6. South Africa has a high unemployment rate and with globalisation, labour standards are constantly under stress. Worker cooperatives and trade unions provide each other with mutual advantages in this context. At the same time, the role of trade union strategy is enhanced as part of supporting worker cooperatives. The historical experience of trade-union linked cooperatives in the 1980s points to valuable lessons around organisational, technical and financial challenges. Unions today are learning from this past and are now charting new ways to utilise the worker cooperative option. Unemployed Peoples Movements are also embracing such an option.
7. In this context the DOL needs to advance a worker cooperative support strategy that has clear objectives, aligns with the principles of the DTI Cooperative Support Strategy and harnesses strategic opportunities at an international, domestic and labour department level. Such a strategy needs to be anchored in the following pillars and programs:
  - **Pillar 1: Information and Technical Support Provision**
    - Support Program 1: Worker Cooperative Development Advice
    - Support Program 2: Worker Cooperative Turn Around, Expansion and Innovation
    - Support Program 3: Worker Cooperative Take Overs
  - **Pillar 2: Legislative and regulatory support**
    - Support Program 1: Administration, Registration and Inspection of Worker Cooperatives Act
    - Support Program 2: Education on Worker Cooperative Act Compliance
  - **Pillar 3: Harnessing Inter-governmental and Non-governmental support**
    - Support Program 1: Intergovernmental Liaison and Technical Support Coordination
    - Support Program 2: Outreach and Strategic Partnerships

- **Pillar 4: Worker Cooperative Working Capital Support**  
Support Program 1: Working Capital Fund
- **Pillar 5: Knowledge Production and Diffusion**  
Support Program 1: Research Support and Learning Platform

# Chapter 1

## Understanding the Worker Cooperative Advantage

### 1.1 Brief Historical Background to Worker Cooperatives

The development of modern worker cooperatives grew out of modern industrial society. The dislocation, exploitation and hardship endured by workers prompted a search for alternatives by workers, philanthropists and utopian thinkers. Through both the 19<sup>th</sup> and 20<sup>th</sup> centuries the emergence of worker cooperatives was far from random. Two important factors impacted on the emergence of worker cooperatives at different moments in history.<sup>1</sup> The first factor was the emergence of movements which inspired the search for alternatives like worker cooperatives. For example, with trade unions legalised in Britain in 1824 worker cooperatives were championed. In the 20<sup>th</sup> century, particularly the 1960s, worker cooperatives were championed as part of the critique made by student, trade union, civil rights and other movements against the hierarchy and alienation endured in the Fordist welfare state.

The second crucial factor that has impacted on the emergence of worker cooperatives is the crises moments of capitalism. Both economic crisis and social breakdown through war has given impetus to the development of worker cooperatives. For example, after World War II worker cooperatives emerged in many parts of Europe as part of the reconstruction effort. In Italy and Mondragon, in the Basque country of Spain, worker cooperatives took root and became integral to cooperative economies (and in particular worker cooperative economies). In the 1970s with the economic crisis worker cooperatives also came to the fore and in places like the US and Britain worker cooperatives were established. Both the role of movements and crises are still crucial independent factors impacting on the development of worker cooperatives.

However, the historical origin of the worker cooperative model itself is not very clear. The first recorded cooperatives in the world were in existence in the 1750s in France. These cooperatives were Cheesemakers cooperatives and were the world's first producer cooperatives.<sup>2</sup> In England in 1799, Charles Fourier and Robert Owen also experimented with cooperative communities. During the 19<sup>th</sup> century the Rochdale pioneers established a successful consumer cooperative to meet the needs of working class members. Their cooperative store established in 1844 not only was an economic success, but it also provided a clear model of principles and values for consumer cooperatives and laid the basis for the modern cooperative form. However, while the general principles were developed during this time, the principles and values for *worker* cooperatives were still not clearly defined out of this experience. In 1854 the Rochdale Society established a

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<sup>1</sup> See Adams, T. F and Hansen, G. B. 1992. *Putting Democracy To Work: A Practical Guide for Starting and Managing Worker – Owned Businesses*. USA: Hulogosi and Berrett-Koehler Publishers Inc.

<sup>2</sup> See Shaffer J. (1999) *Historical Dictionary of the Cooperative Movement*. Lanham and London: The Scarecrow Press Inc.

cotton mill, the Rochdale Cooperative Manufacturing Society, as a joint stock company with shareholding open to workers and outside members. Workers were paid a dividend and given some say in determining the direction of the enterprise. This experience turned out to be very successful and in 1859 a decision was made to establish a new mill. External shareholders were brought in and by 1862 the cooperative was transformed into a capitalist firm owned and controlled by external shareholders. This degeneration of the Rochdale worker cooperative was instructive and has informed the development of the modern worker cooperative model.<sup>3</sup>

Subsequent experiences of worker cooperatives in the 19<sup>th</sup> century also floundered with the worker cooperative model and principles. For example, consumer cooperative movements, Christian socialists, trade unions, Marxists, anarchists amongst others attempted to elaborate on the worker cooperative model through practical experiments. In all of these attempts the search was for the role of workers in the worker cooperative model. Consumer cooperative movements that set up worker cooperatives, for example, retained shareholdings inside these cooperatives and the rights of workers were still not clear. In some of these cooperatives workers were given a share in profits. Eventually these experiments gave rise to a recognition of the centrality of the principles of worker ownership and control. In short, through years of experimentation it became clear that worker ownership and worker control were the cornerstones of modern worker cooperatives.

## 1.2 Normative Arguments for Worker Cooperatives

The importance of worker cooperatives is best appreciated through some of the following arguments that have been made historically and internationally:<sup>4</sup>

- (i) **Worker Owner Based Work** – refers to a distinction between self employed work and wage earning based work on the one side versus worker owner based work on the other. Self-employed work generally involves an individual earning a livelihood through a particular kind of economic activity. Wage earning based work requires a worker to sell his/her labour power for a price to an employer, in a capital managed and owned firm. In a worker cooperative, worker owner based work prevails. In this case worker owners work in their enterprise under conditions determined by them, they own their enterprise and they share in the benefits and losses. Worker cooperatives are, therefore, the highest form of organising work both individually and collectively. In short, a worker cooperative provides a different kind of work option to society.

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<sup>3</sup> See Cornforth, C., Thomas, A., Lewis, J. and Spear, R. 1988. *Developing Successful Worker Cooperatives*. London, California and New Delhi: Sage Publications: pp. 10-21.

<sup>4</sup> See Bayat, A. 1991. *Work Politics And Power: An International Perspective On Workers' Control And Self Management*. London: Zed Books Ltd.; Gregory, D.K. 2003. *Governing the Firm: Workers Control in Theory and Practice*. New York: Cambridge University Press.

- (ii) **Economic Democracy** – suggests that worker cooperatives are an analogue for political democracy. Put differently, support for economic democracy in a worker cooperative, in which power is distributed equally through the one-person-one-vote principle, translates into support for political democracy. The practice of direct participatory democracy in worker cooperatives inculcates democratic skills and an appreciation for values and human capabilities centred development, which assists with strengthening the roots of democracy. Economic democracy in a worker cooperative assists in evolving citizenship and an appreciation that worker control is important for society in general. This stands in contrast to the capital managed firm in which the labour process is based on hierarchy, control, subordination and lack of transparency.
- (iii) **Equality** – refers to the value that worker cooperatives have for society in terms of ensuring and promoting greater equality of income or wealth distribution. This is partly the function of worker controlled decisions, information sharing and values based practices. Empirically, worker cooperatives have also shown a correlation with flatter income scales even if labour market pressures for scarce skills have placed pressures on worker cooperatives to increase remuneration. This stands in contrast to capital-led firms which generally distribute income upwards and engender deep inequalities in society. Moreover, as redistributive mechanisms worker cooperatives have greater efficacy than tax mechanisms because worker controlled power relations inside such cooperatives lend themselves to egalitarian outcomes. In contrast, tax mechanisms are highly contested by various social forces and often favour the wealthy and perpetuate regressive distributive tendencies in society. Globalisation of finance and internal institutional capacities can also undermine taxation as a redistributive mechanism. All of this does not preclude taxation being used positively to support and strengthen worker cooperatives, but it must be used appropriately.

### 1.3 Defining Worker Cooperatives and Worker Ownership

Worker cooperatives have been referred to as ‘producer cooperatives’, ‘service cooperatives’, ‘labour managed firms’ ‘recovered factories’ and ‘self managed enterprises’. The lack of a common identity for worker cooperatives is partly explained by the different sectors that worker cooperatives operate in.<sup>5</sup> A worker cooperative is sometimes referred to as a producer cooperative in agriculture, if different farmers come

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<sup>5</sup> See Gregory, D.K. 2003. *Governing the Firm: Workers Control in Theory and Practice*. New York: Cambridge University Press.; Gunn, C. 1984. *Workers Self Management in the United States*. Ithaca and London: Cornell University Press. and Howarth, M. 2007. *Worker co-operatives and the phenomenon of empresas recuperadas in Argentina: an analysis of their potential replication*. Oldham: The Co-operative College.

together to plan production, procure inputs, process their product and market their produce, while each individually owns their property. On the other hand, worker cooperatives that organise to ensure the provisioning of a particular service through collective ownership and democratic control, like the sale of retail goods, are referred to as service cooperatives. Similarly a manufacturing enterprise with worker ownership and a democratic workplace might be called a labour managed cooperative. A state owned enterprise might also be organised through a worker controlled cooperative. Moreover, particular political traditions have tended to emphasise particular characteristics and ultimately the identity of worker cooperatives.

Generally, worker cooperatives are owned, wholly or partially, by worker owners and are democratically controlled for worker owner benefit, both individually and collectively. A worker cooperative can be organised around different types of economic activity: farming, manufacturing, services and even social support. However, the economic activity of a worker cooperative does not clarify its real identity. A worker cooperative identity can only be fully understood and determined by looking to the internal social relations that relate to worker control and ownership. A systematic typology of worker cooperative follows to clarify this issue and guide this strategy.

**Table 1: Typology of Worker Cooperatives**

<b>Type of Worker Cooperative</b>	<b>Membership</b>	<b>Degree of Worker Control</b>	<b>Ownership</b>	<b>Country Example</b>
Worker Owned Cooperative	Worker owners	Worker control of strategic, policy and operational decisions (all decisions)	Individual and/or collective ownership of all cooperative property	Mondragon, Spain; Argentina; South Africa
Worker Producer Cooperative	Worker owners	Worker control of all decisions	Individual ownership of land or other means of production but also collective ownership of cooperative property	Kerala, India; Italy
Worker Managed Cooperative	Worker owners	Worker control of all decisions	Individual and/or collective ownership of cooperative property but state ownership of means of production	Venezuela; Zanon tile factory Argentina

Worker Supported Cooperative	Worker owners  Other kinds of members	Worker control of operational decisions	Individual and/or collective ownership of cooperative property with other members	Western Europe also known as 'social cooperative' or 'solidarity cooperative'; Quebec, Canada
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(Source: Satgar and Williams, 2011)

A **worker owned cooperative** is made up of those who work in it but who also democratically control and own the cooperative. Worker owners control the strategic, policy and operational decisions of the cooperative through the principle of one-person-one-vote. This is institutionalised into a decision-making system. Ownership exists with two possible permutations: either worker owners pay a once-off membership fee and hence the cooperative property is collectively owned and indivisible or alternatively the cooperative is individually and collectively owned at the same time. The latter occurs when workers have to buy a share in the cooperative to become a worker owner. The share capital is then placed in a member capital account such that individual ownership is valued at the value of the membership capital account. At the same time, the individual worker owner together with other worker owners is responsible for collectively owning the general property of the cooperative.

A **worker producer cooperative** exists in a situation in which each worker owner owns his/her own means of production within a particular economic activity, but share collective ownership of other property necessary for ensuring the economic activity is realisable. Worker owners control all decisions.<sup>6</sup> In a **worker managed cooperative** the **workers** do not own the core means of production, but rather the state owns the means of production. While the state owns the primary means of production, other property obtained by the cooperative is either individually and/or collectively owned depending on whether membership is determined by paying a fee or buying a share linked to a member capital account. While they do not own the factory, worker owners control all decisions. A **worker supported cooperative** is made up of different categories of membership, but those who work in the cooperative are deemed to be worker owners, who acquire membership either through paying a fee or purchasing a share in the cooperative linked to a member capital account. These worker owners are supported and collectively own the cooperative with other categories of members who have particular obligations to the cooperative. For example, volunteer members pay a membership fee and join the cooperative to impart a skill to the cooperative. A finance member pays a membership fee, but joins the cooperative merely to make a regular financial contribution to the cooperative. A user member utilises the services of the cooperative. However, while worker owners are responsible for democratically determining operational decisions,

<sup>6</sup> In such worker cooperatives there are limits to external employment and clear conditions set for such employment.

policy and strategic decisions would be made democratically based on one-person-one vote involving other categories of membership.

#### **1.4 Other important characteristics of worker cooperatives**

Inside genuine worker cooperatives worker ownership also attempts to institutionalise practices and rules that deal with the following:<sup>7</sup>

- Remuneration for work;
- The development of internal capital, including indivisible reserves;
- The development of suitable workplace infrastructure and conditions;
- The provision of non-wage protections and benefits to worker owners and their families;
- Deepening worker control and practices of self management;
- Provision of education and training as the basis for innovation;
- Improving the living conditions of families and communities;
- Combatting exploitative conditions that lead to precariousness.

#### **1.5 The economics of worker cooperatives**

##### **(a) Macro-economics**

Worker cooperatives have the capacity to impact in fundamental ways on the operations of the macro-economy. The following has been observed:

**Increasing growth** – many modern economies are driven by the objective of enhancing economic activity through achieving high growth rates. Such sources of growth are sectoral, institutional, technological and increasingly have to be ecological. In many parts of the world worker cooperative complexes and movements have demonstrated the ability to enhance growth both quantitatively and qualitatively. In Mondragon, Spain, the most advanced worker cooperative movement in the world made up of 120 worker cooperatives contributes close to 4% of national GDP, in Argentina over 200 worker run recovered factories contribute close to 10% of national GDP and in regions like in Emilia Romagna, in Italy, worker cooperatives account about 30% to the regions GDP. Currently, within the international worker cooperative movement there is a serious discussion underway on shifting to eco-centric production methods to transform the wider economic and ecological impacts of worker cooperatives.

**Structural transformation** – worker cooperatives also have the ability assist with modernising economies. Various economies with weak agro-processing, manufacturing and services sectors can benefit from the role that worker cooperatives can play. Such enterprises have the ability to manage resources, build up internal capital, manage costs and enhance efficiencies. In both Italy and Spain governments have actively promoted worker cooperatives across all sectors of the economy.

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<sup>7</sup> CICOPA, 2005, *World Declaration on Worker Cooperatives*, Columbia, pp. 3-4.

**Labour market benefits** – the labour market benefits of worker cooperatives cannot be underestimated. In the first place, worker cooperatives are crucial in confronting unemployment. The labour absorption capacity of worker cooperatives has been adequately demonstrated. In just Mondragon, Spain, 100 000 worker owners work in 120 worker cooperatives. Moreover, in various parts of the world genuine worker cooperatives have demonstrated an ability to provide stable and descent work. Such work has also been linked to developing skills through active training, job rotation and learning from other worker cooperatives. In the context of economic crises, worker take overs of enterprises, through worker cooperatives, have demonstrated an ability to ensure job protection. Government have also institutionalised regulations and policy instruments in the labour market to assist such situations.

**Innovation** – is central to the efficiency and effectiveness of successful worker cooperatives. In Mondragon Spain, not only has the worker cooperative movement built its worker run University, with a strong emphasis on engineering, but has also ensured that scientific innovation is integrated with all work processes to enhance productivity. Moreover, Mondragon’s worker cooperative banks are also integrated into cutting edge information and communication technology.<sup>8</sup> In many heavy manufacturing cooperatives high skilled labour like engineers and designers have been crucial in enhancing the innovation capacity of worker cooperatives.<sup>9</sup> Various printing worker cooperatives have also innovated on labour processes and products.<sup>10</sup>

## **(b) Micro-economics**

In a worker cooperative labour is a fixed cost unlike a capitalist business which treats labour as a variable cost. Moreover, in a capitalist business treating labour as a variable cost means labour costs are constantly seen as the solution to challenges. Bringing labour costs down through lowering wages or retrenchments are understood as the best way to run the enterprise for capitalist businesses. In contrast, worker cooperatives accept labour costs as a given and attempt to solve crisis moments differently. For instance worker cooperatives consider other factors affecting costs:

- Bring down the costs of a product/service;
- Increase marketing;
- Lowering managerial salaries;
- Increase retained earnings or re-investment;
- Draw on retained earnings or surplus pools in times of crisis;
- Temporarily reduce wages;
- Rethink strategy and retrain inside the cooperative.

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<sup>8</sup> Mondragon field notes 2009 and 2010.

<sup>9</sup> Uniforja Worker Cooperative Brazil, field notes 2008.

<sup>10</sup> Red network of printing worker cooperatives in Argentina and Inkworks worker cooperative Bay Area, San Francisco. Field notes 2008 and 2007.

Worker cooperatives produce a surplus after all expenses are deducted. Surplus or net income is subject to decision-making by worker owners. Most successful worker cooperative deal with surplus in the following ways:

- 40% for worker owners as dividends;
- 40% for reinvestment into a indivisible reserve fund;
- 10% for education and training;
- 10% for community development.

The surplus formula in a worker cooperative is part of its constitution. Worker owners decide at the annual general meeting about surplus distribution. If there are losses they also share in the losses.

The dividend paid to worker owners provides an important incentive to ensure productivity, innovation, efficiency and generally hard work prevails in the cooperative. The flipside of this is that worker owners will have to share in the same proportion in losses, which means that in a bad year instead of a dividend worker owners would be contributing the same proportionate share to losses. Having individual worker owner capital accounts that accrue dividends makes this sharing in losses possible. The latter is a crucial reason for worker owners to make their cooperative work.

The reinvestment of surplus into ‘indivisible reserves’ means the cooperative constantly builds up its own internal capital pool. Worker owners control capital rather than capital controlling them. This assists the cooperative with growth and expansion, provides leverage to secure external finance and even cushions the cooperatives in times of crisis. The successful worker cooperatives in the world provide for the reinvestment of a portion of cooperative surplus into the cooperative as indivisible reserves. The current global economic crisis has shown this to be an advantage for worker cooperatives.<sup>11</sup>

The education and training investment in a worker cooperative is ongoing. In this sense, worker ownership is about constant self development. A worker cooperative provides crucial education and training opportunities for its worker owners to enhance their skills such that the division of labour in a worker cooperative is constantly socialised with job rotation, in some instances, and with worker owner control of decision-making. This is genuine empowerment of worker owners and ultimately their enterprise.

Contribution to community means worker cooperatives are exclusive societies only concerned with ‘insiders’. The fruits of worker ownership are shared more broadly and ensure the cooperative is intimately embedded in wider social relations. Providing for a contribution to community development through the distribution of surplus means ‘work’ in a worker cooperative is for the benefit of worker owners but also those outside the worker cooperative.

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<sup>11</sup> Interview with Bruno Roelants, Secretary CICOPA, February 4<sup>th</sup>, 2011

## 1.6 Contexts of Worker Cooperative Development

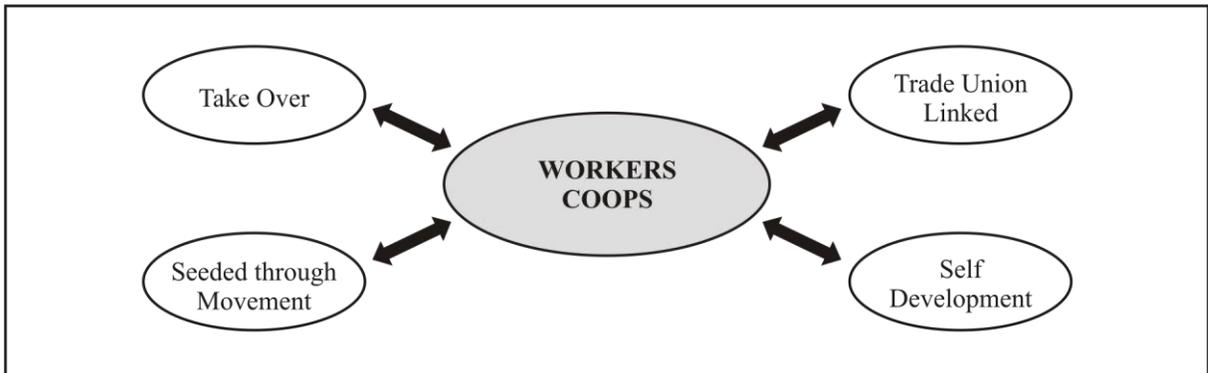
There are four contexts within which a worker cooperative can develop. (See Diagram 1)

- (i) **Worker take-overs** are one of the ways in which worker cooperatives emerge. Most capital managed firms in an economy endure high failure rates (e.g., over 70% of start-ups of capital managed firms fail). Moreover, established enterprises come up against constraints within normal business cycles of booms and busts. Stress also comes to the fore in the context of deeper systemic occurrences like recessions, such as the current experience of the global economy. These moments of economic crisis create the conditions for worker take-overs and for workers to utilise the worker cooperative option. In many countries in the world workers use legislation to assist them with taking over an enterprise and converting it into a worker cooperative. This normally entails preparing a worker take-over business plan (including a turn around strategy) and presenting it to a special tribunal for adjudication. Besides the legal support for such choices, financial and technical support institutions have also been established to empower choices in these contexts. Worker take-overs also involve viable enterprises which owners agree to hand over to workers through a process of negotiation. A third possibility involves the state, such that the state agrees to hand over ownership and/or control to workers of a viable enterprise or the state is sometimes drawn in to take ownership of a distressed enterprise but hands over management to a worker managed cooperative. This form of intervention can be transitional in character. The point here is that worker cooperatives can emerge through direct worker take-overs.
- (ii) **Trade union linked worker cooperatives** are a second way in which worker cooperatives form. These cooperatives can emerge in the context of worker take-overs in which the union actively organises and supports the workers in their efforts to take-over a distressed, liquidating or (un)viable enterprises. Trade union linked cooperatives also often emerge in the context of retrenchments. In these cases, trade unions assist workers to make the transition from wage earning to worker ownership. The South African experience of worker cooperatives in the 1980s was very much about this. However, important enabling conditions have to be in place for this kind of intervention to successfully support worker cooperatives, least of which is trade union commitment, capacity and strategic orientation to utilise the worker cooperative option, both defensively and offensively.
- (iii) **Worker Cooperative Movements** can seed new worker cooperatives. In many parts of the world worker cooperatives emerge out of the worker cooperative movement. In Mondragon, in the Basque Country of Spain, 120 worker cooperatives, with 100 000 worker owners have developed over fifty years out of a single worker cooperative movement. Another example of spawning worker cooperatives from a movement is in the USA. Currently there are about 300-400 worker cooperatives in the USA, with about 3000 worker owners and in different sectors of the economy. Various localised worker cooperative movements, most of which are linked to the US Federation of Worker Cooperatives, have spawned other

worker cooperatives. In all of these experiences there is an attempt to draw on the strengths of the movements to develop new worker cooperatives. Sharing worker cooperative models, technical advice and financial support are crucial conditions to enable worker cooperatives to be seeded through a worker cooperative movement.

- (iv) **Self development** is also a pathway for the emergence of many worker cooperatives. These worker cooperatives normally emerge out of the self initiative of a group of people in a community. In South Africa today many worker cooperatives have emerged in township communities in this way. Government, NGOs and other support organisations have also assisted the development of such worker cooperatives. The **worker supported cooperative** is an important type of worker cooperative that can be utilised in this context to assist groups of voluntarily associated individuals to appreciate the worker cooperative advantage. In this sense, this type of cooperative can be a transitional form which can evolve into a fully fledged worker owned cooperative.

**Diagram 1: Different Contexts for Worker Cooperative Development**



(Source: COPAC, 2010)

### 1.7 Challenges and Constraints Facing Worker Cooperative Development

It is important to have an approach to understanding the challenges and constraints faced by worker cooperatives before engaging the established theoretical approaches to degeneration in a worker cooperative. Given the specific character of worker cooperatives, defined by different permutations of worker ownership and control rather than the investment of capital in a capital managed firm, the challenges and constraints have to be understood case by case to prevent simplistic generalisations. Moreover, a worker cooperative that degenerates over a period of time can regenerate under certain conditions. Pressures for regeneration can easily push a worker cooperative back on track. These conditions and potentialities have to be understood and engaged with empirically. Moreover, economic determinism does not operate within worker cooperatives such that a worker cooperative will engender a democratic workplace or commercially viable enterprise. Having worker ownership and control is not a sufficient condition in itself to ensure the cooperative achieves its objectives. Worker cooperatives require *conscious*

**action and decision-making** to determine strategic development and the achievement of objectives.

In this context, constraints emerge from within the worker cooperative and in the wider socio-economic context it has to operate in. From the standpoint of conscious action these constraints can be understood and can be overcome. This also necessitates empirical investigation. Finally, worker cooperatives are embedded in social relations and context matters in understanding worker cooperatives. A worker cooperative is embedded in social relationships within the community and the sector it operates in. These social relations take the form of support relations either from community members, the state or other worker cooperatives, on the one side. On the other side, market mediated pressures also impact on the social relations of worker cooperatives. At another level, worker owners themselves are part of wider social relations in communities, households and class structures. This also impacts on the challenges and constraints faced by worker cooperatives.

Historically worker cooperatives have been understood as manifesting inherent challenges and constraints. This is commonly known as the 'degeneration thesis' and has evolved three critiques.<sup>12</sup> First, degeneration is associated with constitutional degeneration. This relates mainly to worker owners losing internal control maybe due to losing decision-making rights to a manager or a charismatic personality for example. It could also refer to losing control due to external investors who dictate conditions to the worker cooperative. In short, the legal rights that worker owners have to impact on the operational, strategic and policy decisions of the cooperative are undermined. This problem is overcome in practice and it relates to how worker ownership and control are designed. Most importantly, how education happens in a worker cooperative and the kinds of democratic traditions established through practice impact on the degree of constitutional degeneration. The best solutions to overcome this problem are actually existing and successful worker cooperatives. Learning from these cooperatives is the best way to overcome degeneration.

Second, degeneration is associated with external forces and goal degeneration. This is typically a critique made by those who want to dismiss worker cooperatives. Essentially it is argued that worker cooperatives are overwhelmed in a market and take on the characteristics of a typical capitalist business. They abandon commitment to their objectives (i.e. needs of worker owners), vision, values and principles. Instead of guiding and negotiating market relations the cooperative is led by market relations. Many cooperatives experiencing goal degeneration end up self-exploiting. In practice this problem is overcome through ongoing education inside a worker cooperative, democratic decision-making, strategic planning, community and worker cooperative economy links.

Third, degeneration is associated with internal pressures towards degeneration. This normally refers to the concentration of power in a manager or group inside the

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<sup>12</sup> See Cornforth, C., Thomas, A., Lewis, J. and Spear, R. 1988. *Developing Successful Worker Cooperatives*. London, California and New Delhi: Sage Publications, pp 112-132.

cooperative. This is the tendency towards 'oligarchy' which is prevalent also in trade unions, political parties and other institutions. Keeping the cooperative democratic is the key to this problem. Again, the best solutions to overcome this problem are actually existing and successful worker cooperatives that have maintained direct participatory democracy as a vibrant and lived practice. Learning from these cooperatives assists in overcoming this particular problem.

Essentially degeneration (constitutional, goal or oligarchy) is not inevitable in a worker cooperative. Degeneration is a potential tendency contingent on actual circumstances. Moreover, degeneration tendencies can be avoided and can be addressed through conscious solutions. The challenges and constraints faced by worker cooperatives are best tackled through rigorous social scientific investigation as the basis of conscious problem solving.

## Chapter 2

### International Trends and Comparative Benchmarks

#### 2.1 The CICOPA International Standard

CICOPA or the International Organisation of Industrial, Artisanal and Service Producers' Co-operatives is the international sectoral body for worker cooperatives in the world. It is affiliated to the ICA and has a presence in over 30 countries in the world. In an attempt to compliment and strength the ICA *Statement on Cooperative Identity* (1995), CICOPA adopted the *World Declaration on Worker Cooperatives* (2005). The *CICOPA World Declaration on Worker Cooperatives* adapts the ICA statement of identity to the specificities of the worker cooperative model.

Moreover, it provides a universal standard from which innovation can happen in national contexts and in national movements. This declaration has also assisted in clarifying the approach of the ILO to worker cooperatives, recognising that genuine worker cooperatives are outside of the employer and employee paradigm but informed by clear principles, with definite characteristics and institutionally located practices. Flowing from this clarity on the general features of a genuine worker cooperative model, such a declaration has been crucial in exposing the abuse of the worker cooperative model. This standard and its translation into national legal systems has assisted in exposing bogus worker cooperatives.

There are six crucial aspects to the *CICOPA World Declaration on Worker Cooperatives*:

- It makes the case for worker owner work as opposed to wage based or self employment centred work;
- It defines six general characteristics of worker cooperatives as it relates to the nature of work, voluntary membership, majority in such a cooperative to work in it, a different kind of work relationship, worker member controlled internal regulation and autonomy.
- It provides guidelines for internal functioning rules;
- It defines its relationship with the broader cooperative movement;
- It defines its relationship with the state, regional and intergovernmental institutions;
- Relations with employer organisations;
- Relations with worker organisations.

#### 2.2 Globalisation, Economic Crisis and Worker Cooperative Responses

Modern worker cooperative models and experiences have historically been globalised through transnational solidarity, human migrations and colonialism. Contemporary economic globalisation has posed new challenges while also providing new opportunities for worker cooperative development. This has called forth innovation and new strategies to sustain and advance worker cooperatives. Three examples stand out. First, the most

advanced worker cooperative complex in the world, Mondragon Cooperative Corporation (MCC), based in the Basque country of northern Spain has engaged globalisation through globalising its operations.<sup>13</sup> This cooperative complex has 120 worker cooperatives, 100 000 worker owners and about 78 international operations in places like Brazil, Poland and even China. This has taken root in a context in which the Spanish economy liberalised as part of European Union integration. The MCC has drawn on its strengths related to internal financing instruments, technical training and scientific innovation to survive this period. Internal restructuring based on its strengths has enabled it to globalise its values and approach to worker owner based production. In other parts of the world it is working towards transforming its local operations into worker owned enterprises.

In the United States of America, job shedding due to moving manufacturing employment off-shore has provided opportunities for local worker cooperatives and movements to utilise the worker cooperative option as part of local economic development.<sup>14</sup> Currently there are over 300 worker cooperatives in the USA, most of whom are organised through the US Federation of Worker Cooperatives. This federation is strengthening this impulse towards local development through worker cooperatives through linking cooperatives, building local networks and even establishing a financing instrument within the movement to support worker cooperatives.

A third example is Argentina.<sup>15</sup> During the 20<sup>th</sup> century Argentina achieved the status of the most developed manufacturing economy in Latin America. By 2001 and after a decade of liberalisation the Argentinian economy collapsed. In that year four governments were replaced through citizens mass protests and over 200 factories were occupied and converted into worker cooperatives to defend jobs. These initiatives were led by workers themselves who were disillusioned with trade unions and the state. Most of these recovered factories regained production levels to pre-crisis levels, contribute close to 10% to national gross domestic product (GDP) and have about 10 000 worker members.

Cooperatives have shown a great deal of resilience in the context of the global economic crisis.<sup>16</sup> For worker cooperatives the impacts have been both direct and indirect. Direct impacts have been through the financial system which has been at the root of the global crisis. This has made it difficult for worker cooperatives to leverage finance from the financial system. Indirect impacts relate to the decline of economic activity mainly in secondary industries in North America, Europe and parts of East Asia. According to CICOPA, it would seem worker cooperatives are losing less jobs and are experiencing fewer closures than capital managed firms.<sup>17</sup> Second, instead of job losses many worker

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<sup>13</sup> Vishwas Satgar, field notes based on field visits in 2009 and 2010 to Mondragon.

<sup>14</sup> Vishwas Satgar, field notes based on field visits in 2007 to Bay Area, California, Wisconsin and Washington.

<sup>15</sup> Vishwas Satgar, field notes based on field visits in 2008 to Argentina.

<sup>16</sup> Interview with Charles Gould, CEO ICA, October 9<sup>th</sup>, 2010.

<sup>17</sup> CICOPA has tracked the impact of the economic crisis on worker cooperatives through two national surveys conducted in 2009 and 2010. The conclusions mentioned draw on the 2010 survey, entitled *Cooperative Enterprises in Industry and Services Prove Their Strong Resilience To The Crisis*, conducted in 21 countries. Also confirmed in skype interview with secretary of CICOPA, Bruno Roelants, February 4, 2011.

cooperatives are resorting to cutting wages as a temporary measure. Third, worker cooperatives are overcoming economic pressures through drawing on their financial instruments, including their own indivisible reserves and movement funds. Finally, worker cooperatives are becoming more vocal in demanding greater state enabling support.

In places like Argentina, a hot bed for worker take-overs of factories, a new round has happened in the recent crisis and a new national federation has emerged. A similar trend of strengthening and consolidation is going on in Brazil. In Italy worker supported or social services cooperatives have sustained themselves and in secondary industry many worker cooperatives have used the crisis as an opportunity to convert their manufacturing operations to produce new eco-products like solar panels.<sup>18</sup>

### 2.3 Brazil: worker cooperative trends and support for worker cooperatives

Brazil has one of the most dynamic and diverse cooperative sectors in the world. This development has taken root in Brazil for over a century. However, cooperative development has not been without its problems particularly in terms of state control. Currently the national Department of Labour and Employment is at the forefront of arguing for greater harmonisation with international standards and for autonomous cooperatives, particularly worker cooperatives to take root.

**Table 2: Cooperative Sector Profile in Brazil**

Sector	NoCooperatives	Part. %	Members	Part. %	Employees
Agricultural	1.615	22,2%	942.147	11,4%	138.829
<b>Labor</b>	<b>1.408</b>	<b>19,4%</b>	<b>260.891</b>	<b>3,2%</b>	<b>4.243</b>
Credit	1.100	15,1%	3.497.735	42,4%	42.802
Transportation	1.100	15,1%	107.109	1,3%	8.660
Health	871	12,0%	225.980	2,7%	55.709
Education	304	4,2%	55.838	0,7%	3.716
Housing	253	3,5%	108.695	1,3%	1.406
Infrastructure	154	2,1%	715.800	8,7%	6.045
Production	226	3,1%	11.396	0,1%	2.936
Consumption	128	1,8%	2.304.830	27,9%	9.702
Mineral	58	0,8%	20.031	0,2%	103
Tourism and Leisure	29	0,4%	1.489	0,0%	30
Special	15	0,2%	469	0,0%	9
<b>T O T A L</b>	<b>7.261</b>	<b>100%</b>	<b>8.252.410</b>	<b>100%</b>	<b>274.190</b>

(OCB, 2009)

<sup>18</sup> Ibid.

According to the official national apex body for cooperatives in Brazil, OCB, cooperatives in Brazil have 8,252,410 members and 274, 190 employees.<sup>19</sup> Moreover, cooperatives account for exports to the value of US\$ 3,6 billion and make an aggregate contribution to Gross Domestic Product of 5.39%. Labour cooperatives in Brazil are the second largest category of cooperatives. There are 1408 of such cooperatives, with 260 891 members and 4243 employees.

**Table 3: Labour Cooperatives in Brazil from 1991 until 2009**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2009*
<b>Labour</b>	629	531	618	705	825	986	699	1025	1334	1408

(Source: Neto, 2001 and \*OCB, 2009)

Labour cooperatives have seen a dramatic increase over the past two decades. This has been spurred on by democratisation and the emergence of various movements promoting such cooperatives. This has included the trade union movement, the landless movement and even ngos supporting movement building. As of 2008 and with the onset of the global economic crisis, about 200 companies in Brazil have been converted to worker-controlled cooperative enterprises.

### ***State Support for Worker Cooperatives in Brazil***

#### *(i) Legal Support*

Since 1971 cooperatives in Brazil have been regulated by a national law. Law 5761 of 1971 is the main law regulating cooperatives, but there are now essentially two laws with the adoption of Law No. 10 406 of 2002, Chapter VII of which applies to cooperatives and appears to hold sway if different to a provision in Law 5761/71. Within this framework cooperatives, including worker cooperatives, are composed of “people who mutually undertake to contribute goods or services for the exercise of an economic activity, the common good, not for profit”.<sup>20</sup> While this legal framework provides for various rules to regulate the constitution of cooperatives it fails in two respects with regard to worker cooperatives. First, it has not been able to prevent abuse of the worker cooperative model through labour broking, for example.<sup>21</sup> Second it has not provided for uniform standards to regulate worker cooperatives, including standards set by the international worker cooperative movement itself as organised through CICOPA and as expressed through the *World Declaration on Worker Cooperatives* (2005).

As a result of these legal weaknesses with regard to regulating worker cooperatives Brazil is poised to become the first country in the world to pass a dedicated worker cooperative

<sup>19</sup> OCB (Brazilian Cooperative Organisation). 2009. ‘Presentation on OCB [www.brasilcooperativo.coop.br](http://www.brasilcooperativo.coop.br)

<sup>20</sup> Article 3.

<sup>21</sup> Interview with secretary of CICOPA, Bruno Roelants, February 4, 2011.

law in keeping with international standards and relevant to its national context.<sup>22</sup> The current draft law on worker cooperatives provides for the following:

- A definition of a worker cooperative: **“any society constituted by workers for the exercise of their labour or professional activities with common interest, autonomy and self-management in order to obtain better qualification, income, socioeconomic situation and general working conditions”**.<sup>23</sup>
- On capitalisation of the worker cooperative the new law provides for indivisible reserves and for various financing instruments to be created to assist with working capital.
- On ownership, membership and remuneration there are strict rules provided to ensure the internal operations of a worker cooperative reflect the values and principles of worker ownership. For example, there shall be no employment contract between members of such a cooperative, worker owners cannot earn less than the minimum wage and a working day cannot exceed 8 hours.
- On voting the one-member-one-vote principle applies.
- The division of surplus and losses to be determined through the worker general assembly.

(ii) *Technical Support*

Within the Brazilian cooperative system cooperatives, including worker cooperatives, are registered through OCB. This apex body is the organisation that represents cooperatives in Brazil, through legal prescription. This is in terms of Article 105 of Law 5761/71 which describes its functions as “the highest agency of representation for Brazilian cooperatives, with the mission of representing, promoting, integrating, and defending the interests of the national cooperative system; of providing expertise and consulting services to the government; of transferring knowledge and technology to cooperatives; and to coordinate relations and alliances among institutions at the national and international level while seeking sustainable development.”<sup>24</sup> In relation to worker cooperatives OCB seems to have played a destructive role by registering bogus worker cooperatives.<sup>25</sup> In addition, it would seem that OCB as an instrument of the state has not supported cooperatives outside of its business approach and model of cooperative

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<sup>22</sup> Ibid. Moreover, according to Roelants, it would seem Japan is also keen to pass such a law and has undertaken research in this regard.

<sup>23</sup> Article 2.

<sup>24</sup> In de Freitas, M L. no date. ‘General guidelines for cooperative self-management in Brazil,’ in *Brazilian Cooperativism: The conquest of autonomy*. ACDI/VOCA.

<sup>25</sup> Interview with secretary of CICOPA, Bruno Roelants, February 4, 2011.

development. Hence various worker cooperative movements have emerged with their own internal capacity building instruments like UNISOL, MST and ANTEAG.

However, more recently the Brazilian government recognised this weakness and hence proceeded to establish the National Cooperative Education Service (Sescoop – *Serviço Nacional de Aprendizagem do Cooperativismo*). This agency met a demand that cooperative leaders had been making for two decades, and was a great victory for the movement. Sescoop was created by Decree in 1999 with the mission of making cooperative self-management and monitoring viable in Brazil by training human resources to this end. As the executing agency for the Brazilian Cooperative Self-Management Program (*Programa de Autogestão do Cooperativismo Brasileiro*), Sescoop's importance for the development of the cooperative system has continually grown. It provides capacity building and training for cooperative employees, members, and leaders. The service has also been responsible for the organization, management, and implementation of professional training programs and community development programs for workers and cooperative members in all of Brazil.

Within the Ministry of Labour and Employment a more recent initiative has been put in place to assist workers take over enterprises in crisis. This *Recovery of Corporations by Workers Organised Under Self-Management* program provides professional and technical assistance as well as lines of credit to workers seeking to take over such enterprises. However, this is soon to be complimented by PRONACOOP – the National Programme for the Promotion of Worker Cooperatives – with the purpose of promoting the development and improvement of the social and economic situation of worker cooperatives and will be funded by the Ministry of Labour and Employment. This program is provided for in Article 19 of the new draft worker cooperative law and it provides for PRONACOOP to do the following:

- I develop diagnoses and institutional development plans for worker cooperatives taking part in it;
- II the delivery of technical support aimed at reinforcing the financial situation, management, organization of the productive process or of the working process, as well as, qualification of the human resources;
- III ensure supply lines of credit;
- IV provide access to markets and the commercialization of the production;
- V institutional reinforcement, cooperative education and the constitution of central cooperatives, federations and confederations of cooperatives;
- VI other actions to be defined by its managing committee in the implementation of the objectives established in the heading of this article.

(iii) *Financial Support*

Besides state funding being streamed to worker cooperatives through current and future government programs in the Ministry of Labour and Employment, Brazilian law has also provided for internal financing within worker cooperatives. First, the current laws and future worker cooperative law provides for share based capital in a worker cooperative.

This is not prescribed but provides for this option to be designed into the cooperative by worker members. Second, the current draft worker cooperative law provides for indivisible reserves. This ensures that portions of the surplus generated in worker cooperatives will be reinvested into the cooperative for growth and development. This has been the key to the success of worker cooperatives in other parts of the world.<sup>26</sup> Finally, the current draft worker cooperative law provides for flexibility in the creation of financial instruments within worker cooperatives to ensure working capital is leveraged.

#### **2.4 Canada, Quebec: worker cooperative trends and support for worker cooperatives**

According to the Canadian Governments Co-operatives Secretariat, *Co-operatives in Canada (2006 Data)* (2009) research report, a survey of 5 687 non-financial cooperatives shows the following:

- Cooperatives had 6.4 million members
- represented \$29.1 billion in total revenues
- had \$18.2 billion in assets
- employed 87 871 people, of which 77.5% were full-time employees
- 898 were agricultural cooperatives, employing 33 300 people, representing over 39 000 members, and with a total revenue of \$13.7 billion and assets of \$5.3 billion

The province of Quebec has the highest concentration of cooperatives in Canada (in 2004):<sup>27</sup>

- 3,200 cooperatives
- 79,000 jobs
- \$16 billion in business
- \$94 billion in assets
- 7.5 million members

In 2004, Quebec had 81 solidarity cooperatives, with 22 000 members and employing 1 800 people. In the same year worker cooperatives totalled 188, with 6500 members and employing 8100 people. These cooperatives are found in sectors such as forest management, services for businesses, information technologies, ambulance services, restaurant business.<sup>28</sup>

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<sup>26</sup> Skype interview with secretary of CICOPA, Bruno Roelants, February 4, 2011.

<sup>27</sup> See Simard, H. 2004. Presentation: 'The Co-operative Movement in Quebec: A dynamic and diversified movement.' Downloaded from <http://www.ace.coop/portals/0/institute/04/simard.pdf> on 22 January 2011.

<sup>28</sup> Ibid.

Drawing on the Co-operatives Secretariat, *Co-operatives in Canada (2006 Data)* (2009), research report:

“The 346 worker cooperatives that reported to the survey (most worker cooperatives are situated in Quebec) had 13 209 members, revenues of \$469.9 million and assets of \$326.1 million. Worker cooperatives operate in a wide variety of fields in Canada, but 59.9% of the cooperatives that reported to the survey were forestry co-operatives, totalling \$278 million in revenue.”

### ***State Support for Worker Cooperatives in Canada***

#### *(i) Legal Support*

Each state in Canada has its own legislation governing cooperatives. However, there is also a national act known as the *Canada Cooperatives Act* of 1996. A cooperative can be incorporated under this Act only if, firstly, it operates in at least two provinces, and secondly, if it has a fixed place of business in more than one province. However, most cooperatives are regulated provincially.

Part 21 of the Act sets out additional provisions that apply to worker cooperatives. It defines a worker cooperative as “a cooperative whose prime objectives are to provide employment to its members and to operate an enterprise in which control rests with the members”.<sup>29</sup> Under such a cooperative only employees of a cooperative may be admitted to membership, and membership investment may not exceed 50 percent of the employee’s salary in the first year of membership, unless any amount in excess of 50 percent is paid equally by all members. Furthermore, the cooperative may employ non-members, as long as 75 percent of employees are members.

The act also stipulates that the by-laws of a worker cooperative must include the following:

- any obligation of a member to provide capital to the cooperative, which capital, if required, must be applied fairly to all members;
- subject to subsections (2) and (3), the manner in which the membership of a member may be terminated;
- the procedure for allocating, crediting or distributing any surplus earnings of the cooperative, including that not less than fifty percent of those earnings must be paid on the basis of the remuneration earned by the members from the cooperative or the labour contributed by the members to the cooperative;
- the period of probation of an applicant for membership, which may not be longer than three years;
- how work is to be allocated;
- a provision for the laying off or suspending of members when there is a lack of work; and
- a provision for the recall of members to work.

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<sup>29</sup> Section 359(1)

While the Canada Cooperatives Act applies to cooperatives that operate in more than one province, the relationship between the cooperative organisation and its workers, including worker cooperatives, is regulated by the employment law of the province/s in which it operates, which includes minimum thresholds of health and safety, benefits to which all workers are entitled etc.<sup>30</sup>

The *Quebec Cooperatives Act of 2006* defines a worker cooperative as “made up exclusively of natural persons who, as workers, join together to operate an enterprise pursuant to the rules of cooperative action, and whose object is to provide work to its members and auxiliary members”. Furthermore, it also provides for solidarity cooperatives. In order to classify as a solidarity cooperative the act states that the coop must consist of at least two of the following categories of members:<sup>31</sup>

- 1) user members, that is, persons or partnerships that are users of the services provided by the cooperative;
- 2) worker members, that is, natural persons who are workers of the cooperative;
- 3) supporting members, that is, any other person or partnership that has an economic, social or cultural interest in the pursuit of the objects of the cooperative.

(ii) *Technical Support*

An important government support programme is the Cooperatives Development Initiative (CDI), which is delivered in partnership with the Canadian cooperative sector. It aims to help further develop cooperatives in Canada and “to research and test innovative ways of using the cooperative model”.<sup>32</sup> The programme consists of three interrelated components:

- 1) **Advisory Services** – This component is managed jointly by the Canadian Cooperatives Association (CCA) and Conseil canadien de la coopération et de la mutualité (CCCM). It is therefore delivered through the cooperative sector itself and a network of cooperative development experts that provide advice and assistance in launching cooperatives and strengthening existing ones.
- 2) **Research and Knowledge Development** – this component’s objective is to encourage research and dissemination of knowledge on cooperatives. It is managed by the Rural and Cooperatives Secretariat, and focuses on three priority programme areas: local community economic development, changing community demographics and low carbon communities.
- 3) **Innovative Cooperative Projects** – this component provides funding to innovative projects that respond to public policy priority areas and that generate best practices

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<sup>30</sup> See MacNamara, J. No Date. ‘Worker co-operatives and employment law in Canada.’ Paper prepared for Canadian Worker Co-operative Federation and St Mary University.

<sup>31</sup> Section 226.1

<sup>32</sup> Cooperatives Secretariat, [www.coop.gc.ca](http://www.coop.gc.ca).

and learning. The upper limit to funding is \$75 000 per year per project, with a minimum proponent contribution of 25%. These priority areas include:

- agriculture, including farmer-driven value-added agriculture and biofuels
- rural/northern community development
- innovative goods and services, including innovative technologies
- capacity building and sustainability.

Worker cooperatives are covered in these technical support programs. However, in Quebec technical support for worker cooperatives is tied into a much more established support infrastructure for cooperatives. Government support has included technical assistance, sources of capital and tax credits for member investment in worker cooperatives – such that the growth rate of worker cooperatives in the province has been almost double that of the rest of Canada.<sup>33</sup> According to one source, between 1993 and 2003, there was 87% growth in worker cooperatives in Quebec compared to 25% growth in the rest of Canada.<sup>34</sup>

### *(iii) Financial Support*

Through the national government support for worker cooperatives, the Worker Co-operative Fund Pilot Project was established. This is a \$1.5 million investment fund that was funded by the Government of Canada and implemented by the Canadian Worker Co-operative Federation (CWCF). This created new and expanded existing worker cooperatives across Canada by assisting in their capitalisation.<sup>35</sup> However, worker cooperative financing has also been extremely innovative within Quebec. The instrument developed, the Cooperative Investment Plan (CIP) is a crucial example of best practice financing for worker cooperatives.

The Cooperative Investment Plan (CIP) was established by the provincial Finance Ministry in 1985 and is now administered by the Ministry of Economic Development, Innovation and Exports (MDEIE), in response to the fact that access to investment capital “represents a persistent challenge” to co-operative enterprises in Canada.<sup>36</sup> It is designed to increase equity capital investment by members and employees of primarily producer and worker cooperatives, and certain stakeholder or solidarity cooperatives. It does this by offering personal income tax deductions for purchasing preferred shares so as to encourage employees and members to invest in their cooperatives. Assistance is provided to ‘stakeholders’ with the implementation of the CIP and includes a programme guide explaining the CIP, direct training by the MDEIE and distribution of training manuals to

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<sup>33</sup> See Hough, P, D Wilson and H Corcoran. 2010. ‘The Worker Co-op Sector in Canada: Success factors, and planning for growth.’ Canadian Social Economy Research Partnerships and Canadian Worker Co-op Federation (CWCF).

<sup>34</sup> See Cradock, T and S Kennedy. 2006. ‘Worker cooperative trends in N. America and Europe.’ Downloaded from [www.geo.coop](http://www.geo.coop).

<sup>35</sup> Ibid.

<sup>36</sup> See Canadian Co-operative Association and le Conseil canadien de la cooperation et de la mutualité, 2009: 2.

cooperative development organisations and sector federations. Eligibility for this plan is subject to certain criteria and it works as follows:<sup>37</sup>

- “The co-operative applies for and receives a certificate authorizing it to issue preferred shares under the CIP;
- The co-operative invites its members and employees to invest by purchasing those shares;
- Members and employees purchase preferred shares issued under the CIP;
- The co-operative uses the capital thus acquired for working capital, project funding, etc;
- The member or employee files their annual provincial income tax return, and claims a tax deduction equal to 125% of the amount they invested that year under the CIP.”

As Cradock and Kennedy (2006) argue, government policies and programmes specifically designed towards supporting worker cooperatives have produced results, in that in countries like Canada, France, Spain, United States and the United Kingdom where such government support has existed, there has been a consistent growth in worker cooperatives. Indeed, research by Canadian Co-operative Association and le Conseil canadien de la cooperation et de la mutualité:

...shows that the CIP program is widely regarded in Quebec as a success, and is now an established part of the provincial government's economic development strategy. It is recognized as instrumental in ensuring adequate capitalization for many of Quebec's cooperatives, which are key players in economic and social development, particularly in rural areas and the agricultural sector.<sup>38</sup>

## **2.5 Italy: worker cooperative trends and support for worker cooperatives**

Italy has the highest number of worker cooperatives in the Western world and the largest fraction of the workforce employed in such cooperatives (Dow, 2003). The following tables from Ammarito (1996: 318-319) show the number of registered cooperatives by sector, and membership of cooperative associations by sector, until 1989 respectively:

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<sup>37</sup> Ibid.

<sup>38</sup> Ibid.

**Table 4: Number of Registered Cooperatives by Sector in Italy**

Year	1951	1961	1971	1976	1981	1984	1989
<b>Consumer Cooperatives</b>	2 930	4 686	4 423	4 212	4 442	4 874	4 696
<b>Production &amp; Worker Coops</b>	<b>4 572</b>	<b>4 684</b>	<b>4 626</b>	<b>5 893</b>	<b>11 203</b>	<b>14 563</b>	<b>21 199</b>
<b>Agricultural Cooperatives</b>	1 891	4 960	9 282	11 287	14 808	16 136	17 306
<b>Housing Cooperatives</b>	3 602	16 659	28 983	36 684	48 794	51 278	45 784
<b>Transport Cooperatives</b>	154	288	458	732	984	1 079	1 129
<b>Fishing Cooperatives</b>	164	433	494	564	725	794	850
<b>Mixed Cooperatives</b>	1 018	1 790	2066	2980	7 027	9 519	14 086
<b>TOTAL</b>	14 331	33 500	50 332	64 352	88 383	98 353	105 050

(Source: Ammarito, 1996: 318)

The historical development of cooperatives, including worker cooperatives, polarised around ideological lines with ‘Red cooperatives’ being linked to Lega and ‘Christian cooperatives’ linked to CCI. This divide has softened since the end of the Cold War and with the emergence of other smaller cooperative apex structures.

**Table 5: Number of Registered Cooperatives by Sector and Federation, 1951-1989**

	Consumer	Worker	Agri-Culture	Housing	Trans-port	Fishing	Mixed	TOTAL
<b>CCI</b>	1 623	<b>4 118</b>	6 922	7 472	213	437	3 476	24 261 (48.9%)
<b>Lega</b>	2 014	<b>4 725</b>	2 910	5 102	248	157	2 295	17 451 (35.2%)
<b>AGCI</b>	173	<b>1 111</b>	680	2 575	102	86	378	5 105 (10.3%)
<b>UNCI</b>	55	<b>491</b>	431	1 498	9	25	270	2 779 (5.6%)
<b>Total</b>	3 865	<b>10 445</b>	10 943	16 647	572	705	6 419	49 596

(Source: Ammarito, 1996: 319)

Currently, Italy has 43.000 cooperatives, with 1.1 million employees and 12 million members. The total turnover is about € 127 billion.<sup>39</sup> Within the Lega Federation, for example, worker cooperatives are organised sectorally through the National Association of Worker and Production Cooperatives, gathering 859 enterprises and 6 consortium, operating in the main production sectors such as construction, engineering, planning and design and manufacturing. Their total turnover was 12,600 million Euro in 2008, with 37,000 employees and 24,500 worker-members.<sup>40</sup>

Worker cooperatives in Italy also have a strong regional presence. Within the Emilia Romagna Region the following has been observed:

- Over 7 500 coops exist in the region, two-thirds of which are worker-owned;
- 10% of workforce employed in the region are in cooperatives
- Over 80 000 members employed in worker coops (equal to about 6% of the workforce)
- Worker coops generate about 30% of the region's GDP
- Worker supported cooperatives or social cooperatives providing social services are emerging as the most prevalent form of worker cooperative in the region.

### ***State Support for Worker Cooperatives in Italy***

#### *(i) Legal Support*

In addition to Article 45 of the post-war Italian Constitution, which made the state responsible for promoting enterprises in the cooperative sector, specifically the Ministry of Labour, the Basevi Law was the main piece of legislation applying to cooperatives, including worker cooperatives. Ammirato (1996: 321) describes this law: “This law was enacted in 1947 and it provided for general guidelines for cooperatives. The most salient features include: democracy based on the one vote, one person principle; limited return on shares invested; provision for the distribution of profits of which not more than 20% could be used to increase members' income, at least 20% had to be deposited in the reserve fund; in the event of dissolution any net assets had to be devoted to a public fund; white collar workers could not exceed 4% of the workforce; finally the law also made provisions for cooperative to receive tax concessions ranging from 25% for consumer cooperatives to 100% for agricultural cooperatives.” It also supported an open door policy whereby cooperatives could not impose entrance qualifications of members, and stipulated that members had to number at least 50% of the workforce. Not more than 20% of surplus to be used to supplement wages and the not less than 20% had been deposited into the reserve fund, the remainder had to be invested in social activities or reinvested back into production.

The other important law relevant to worker cooperatives is the Marcora Law. This law is an example of best practice in the world. According to Ammirato (1996: 322): “This law

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<sup>39</sup> See Lega (2011) *Italian worker co-operatives: data and legislation* Lega website.

<sup>40</sup> Ibid.

came into operation in 1987 and had two basic objectives. First it made available a special fund to facilitate the conversion of private enterprises in crisis into cooperatives with grants not exceeding the equivalent of three years' wages. Second it set up another fund to provide cooperatives with low interest loans for the purpose of 1) increasing productivity through the introduction of technology and organisational innovation; and 2) for the purpose of maintaining employment by restructuring or reconverting their plant. Loans for the second fund ranged from 200 million to two billion lire payable between 8-10 years. Interest rates charged were between 25% to 50% lower than the market rate."

The following is an excerpt from the Office Journal of European Communities describing the legal content of the Marcora Law:

Article 1(4) and (5) of the Marcora Law provide that the Foncooper fund is to grant soft loans to cooperatives to finance projects for the following purposes:

(Article 1(4)(1))

- (a) To increase productivity and employment by expanding fixed assets and/or modernising fixed assets and/or technical services through the use of the most recent and modern innovations;
- (b) to increase returns on products, in particular by improving quality;
- (c) to rationalise the system of distribution;
- (d) to replace no more than 50% of liabilities contracted in order to carry out projects in the categories just referred to;

(Article 1(4)(2))

- (e) to restructure or convert plant.

Under Article 1(5) of the Marcora Law the eligible projects also include projects submitted by other cooperatives, that is to say the cooperatives referred to in Article 14 of the Law, which may be set up by workers laid off under the cassa integrazione income guarantee scheme, or dismissed, or both ("Article 14 cooperatives"), for the following purposes:

- (a) to build and acquire plan for production, distribution, tourism or services;
- (b) to update or expand the projects referred to in Article 1(4)(1) of the Marcora Law.

Moreover, worker supported cooperatives have been promoted in Italy. **Law 381/91 of 1991** recognises and defines such worker supported cooperatives as social cooperatives. There are two types: Type A, which is concerned with the management of social, health and education services, and Type B, which is concerned with production activities (in forestry, agriculture, trades and services) for labour integration of disadvantaged people (physical, psychic, sensorial disabled, drug addicts, alcoholics etc).

(ii) *Technical Support*

Co-operatives receive assistance from the Italian government's regional economic development agencies in the areas of “research and development, education and training, workplace safety, technology transfer, marketing and distribution, and exporting,” among others.<sup>41</sup> One example of the regional government’s role is its support of the service needs of small and very small businesses and the growing links between firms. The regional economic development agency established a network of retail service centres. Business services that are typically difficult for small businesses to afford are provided at the service centres, including sales and marketing expertise, research and analysis, advanced research and testing, quality certification and under/post-graduate and vocation education programs. The services are provided to groups of related businesses rather than single firms to create economies of scale and keep the services affordable. All relevant stakeholders participated in establishing the centres, including business associations, chambers of commerce, local administrations, trade unions and universities. These regional economic development agencies create and develop business clusters, which help create synergies and economies of scale. In these clusters, co-operatives, along with small businesses, partner to bid on larger contracts. This is most apparent in the Emilia Romagna region, in which many worker cooperatives have emerged.

(iii) *Financial Support*

The Marcora Law (see above) provides funds to convert private firms into worker cooperatives. Through this law the Italian government provides a subsidy of up to three times the investment of the workers.<sup>42</sup>

Furthermore, since 1992 cooperatives have to transfer three percent of their profits into a cooperative development fund, which is used to fund new cooperatives, develop existing ones and convert private firms into worker cooperatives. The three largest federations in Italy each have their own funds to which members contribute. For example, Legacoop’s fund, Coopfond, has a capitalisation of \$340 million and has invested \$1 100 000 million in creating 7 300 jobs. These funds are also designated towards training programmes and research into cooperatives.<sup>43</sup>

It is social and worker cooperatives that utilise the above funds the most.

All Italian cooperative like the Brazilian and Canadian laws supports the internal capitalisation of cooperatives, including worker cooperatives, through reinvestment of surplus, particularly a portion into indivisible reserves.

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<sup>41</sup> Corcoran, H and D Wilson. 2010. ‘The Worker Co-operative Movements in Italy, Mondragon and France: Context, Success Factors and Lessons.’ Canadian Social Research Partnerships and Canadian Worker Cooperative Federation.

<sup>42</sup> Ibid.

<sup>43</sup> Ibid.

## 2.6 Overall Best Practice Benchmark Comparisons with South Africa

**Table 6: Best Practice Benchmark Comparison with South Africa**

	<b>Brazil</b>	<b>Canada</b>	<b>Italy</b>
<b>Best Practice Support Instruments</b>	Draft National Law on Worker Cooperatives	Worker Cooperative Fund and Investment Plan	Provision of legal mechanism (Marcora Act) to provide technical assistance for conversion of enterprises in crisis into worker cooperatives and to provide loan finance
<b>South Africa</b>	Generic national cooperatives act with limited provision for regulation and no provision for various kinds of worker cooperatives	No dedicated financing mechanism for worker cooperatives or tax incentives	No legal mechanism to provide technical support and financing for worker take overs of enterprises

- Unlike Brazil, South Africa does not have a dedicated Worker Cooperative Law or Act. This means South African legislation is not able to stem abuse of the worker cooperative model, through labour brokers for example, because there is no explicit regulatory prohibition in this regard, moreover the current law is not able to provide for different kinds of worker cooperatives (see chapter one) and neither does the current law provide for indivisible reserves which is crucial for building internal capital in worker cooperatives. More specifically, there are other serious problem with the specific provisions related to worker cooperatives and in *Schedule 1, Part 2, of the Cooperatives Act 2005*: the definition of a worker cooperative is extremely narrow, there is a clumsy formulation in the Act which does not clarify the relationship between primary and secondary worker cooperatives, it does not specify the minimum required to establish a worker cooperative, neither is there provision for different forms of worker self management linked to the scale and size of a worker cooperative and finally the provisions do not deal with the different contexts in which worker cooperatives can emerge. South Africa has a generic Cooperatives Act supporting different kinds of cooperatives but in practice mainly through one department. The constraints and challenges facing this department, namely DTI, have also become the problems facing cooperatives, including the development of worker cooperatives in South Africa.
- Unlike Canada, South Africa does not have dedicated worker cooperative fund. Neither is there an Investment Plan provided for linking tax incentives to capitalising worker cooperatives through share purchases like in Quebec. The DTI incentive scheme does not make specific provision for worker cooperatives and neither does it provide working capital to cooperatives including worker

cooperatives.<sup>44</sup> Most worker and non-worker cooperatives in South Africa require more specialised financing instruments that could assist with working capital needs particularly. Generally, worker cooperatives in South Africa have not been incentivised through government policy to capitalise from within using shares, loans and surplus allocations let alone indivisible reserves. The lack of dedicated worker cooperative financing mechanism, as well as, the lack of incentives to capitalise worker cooperatives from within is a policy gap for worker cooperative support and promotion in South Africa.

- Unlike Italy, South Africa's Cooperatives Act provides for the conversion of companies into cooperatives but this is not located in a context and there is no provision for technical or financial support. Instead the conversion of a company into a cooperative provided for in section 66 of the Act merely provides a formalistic choice for existing company owners. Currently, the IDC Crisis Fund has developed a specialised focus trying to turn around existing private firms by working with managers and workers. The objective is to rescue a distressed enterprise and not transform property relations and give workers another choice.<sup>45</sup> This instrument does not enable a workers choice to take over or convert an enterprise into a worker cooperative. This is also the case with the Training Lay-Off Scheme which also works within the employee-employer paradigm.<sup>46</sup> Essentially, South Africa does not have a policy response and instruments to deal with situations in which workers want to take-over enterprises, including stressed and insolvent ones. There is no instrument to provide technical and financial support to workers who want to take over an existing enterprise.

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<sup>44</sup> Interview with Sithembile Tantsi, Deputy Director Cooperatives Incentive Administration, DTI, October 21, 2010.

<sup>45</sup> Interview with Christo van Zyl, Senior Strategist and Louise Paulsen, Strategist- Corporate Strategy and Portfolio Management, IDC, October 27, 2010.

<sup>46</sup> Interview Jeremy Daphne, CCMA Head Responsible for Implementing Training Lay-off Scheme, Johannesburg, November 22, 2010. Also participation in DOL workshop on Training Lay-Off Scheme.

## Chapter 3

### Addressing the Limits of South Africa's Cooperative Policy Support Environment for Worker Cooperatives

#### 3.1 Harmonising International and National Standards

Since the Rochdale pioneers' experience, in 1844, the evolution of the cooperative concept over the next 176 years has been through the role of the international cooperative movement and through learning from practice through national traditions and experiences. The international cooperative movement announced its emergence to the world with the formation of the International Cooperative Alliance (ICA) in 1895. The ICA has played a crucial role in the course of the 20<sup>th</sup> century in championing the importance of cooperative development, provided a voice to cooperators from around the world, provided research, and built a global consensus on what defines the cooperative form.<sup>47</sup>

Through the ICA's adoption of a *Statement on Cooperative Identity* during its centenary celebration in 1995 a universal definition, principles and values for cooperatives were affirmed. According to the ICA genuine cooperatives are 'autonomous association of persons, united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise' (ICA, 1996:1). This conception is further bolstered by seven principles and certain necessary values that should inform the practice of cooperatives and cooperation.<sup>48</sup> The ICA has played a crucial role in universalising a standard conception and understanding of cooperatives.

The ILO which is another important international standard setting body has also adopted and incorporated the ICA conception on cooperative identity in its Recommendation 193 concerning the *Promotion of Cooperatives* (2002). In the case of the ILO, accepting the ICA approach to cooperative identity meant revisiting its own tri-partite standards adopted in 1966 with the adoption of ILO Recommendation 127 concerning the *Role of Cooperatives in the Economic and Social Development of Developing Countries*. This labour standard was a product of its times and encouraged governments of developing

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<sup>47</sup> Today there are close to a billion people affiliated to cooperatives. This is reflected in the 227 member organisations, from 91 countries, that make up the International Cooperative Alliance (ICA) – the global apex body representing cooperatives in the world.

<sup>48</sup> These principles are: (1) voluntary and open membership; (2) democratic member control; (3) member economic participation; (4) autonomy and independence; (5) education, training and information; (6) cooperation among cooperatives and (7) concern for community in ICA. The values are: self-help, self-responsibility, democracy, equality, equity, and solidarity. In the founding tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others in ICA (1996) *Cooperative Principles for the 21<sup>st</sup> Century*, ICA Communications Department: Geneva : 1

countries to utilise cooperatives as a development tool, leading to various distortions and abuses of the cooperative concept within national development efforts.

Cooperative development has also been informed and shaped in national contexts. In this regard the guidelines and standards provided by the ICA and ILO are meant to be evolved and developed in national contexts. South Africa's Cooperatives Act (2005) affirms ICA and ILO standards and the universal approach to cooperative identity.<sup>49</sup> However, the regulatory framework for cooperatives development in South Africa is evolving based on national experience and needs. Thus far the generic Cooperatives Act (2005) is showing limitations in terms of specific kinds of cooperatives and this has led to the Cooperative Banks Act (2007), which has provided clear and more specific regulations for financial services cooperatives. Similarly the dynamic evolution of South Africa's cooperative regulatory system requires dedicated worker cooperative regulation and support. Current abuse of the worker cooperative model, its potential to contribute to development and even international harmonisation with worker cooperative standards needs to be urgently addressed at a policy and regulatory level through the Department of Labour. The analysis that follows will clarify this imperative.

### **3.2 The Cooperative Development Policy Support Environment**

South Africa's policy and regulatory support for cooperatives has historically been skewed in favour of agriculture. The 1981 Cooperatives Act was managed by the Department of Agriculture and was a key element to support white agricultural cooperatives. In addition, regulatory support to these white farming cooperatives secured tax concessions, support through marketing boards, financial support through the Land Bank, and training through agricultural colleges. Post-apartheid South Africa's commitment to promoting cooperatives first featured in the *Reconstruction and Development Program*. Subsequently, through marrying cooperative development to Black Economic Empowerment there has been a big push by government to promote cooperatives. The concept and legal prescriptions of BEE have shaped the DTI Cooperatives Policy (2004), the Cooperatives Act (2005) and the Cooperative Banks Act (2007). See Table 2 for an overview of the national government's support institutions and programmes for cooperatives.

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<sup>49</sup> In 2002 South Africa became a signatory to ILO Recommendation 193.

**Table 7: National Government Support Institutions and Programmes for Cooperatives**

<b>Government Institution</b>	<b>Support Focus</b>	<b>Support Instruments</b>
<b>National:</b>		
<b>DTI</b>	Custodian of generic cooperative policy and legislation.	Cooperatives Unit – policy, research and inter-governmental coordination; CIPRO – registration of cooperatives; TEO- financial; SEDA-non-financial; SAMAF – financial.
<b>Treasury</b>		Cooperative Banks Development Agency- Regulatory and Non-financial support
<b>Other Departments:</b>		
<b>Agriculture</b>	Promote cooperative banks through regulation and support	Financial and Non-financial support
<b>Social Development</b>		Financial and Non-financial support
<b>Arts and Culture</b>	Agricultural Cooperatives	Financial and Training Support
<b>Labour</b>	Poverty Relief Projects	SETA
<b>Public Works</b>	Culture promotion through Arts and Crafts	
<b>Minerals and Energy</b>	Vocational Skills and Training	Financial and Training Support
	EPWP	
<b>Traditional Affairs</b>	Promoting Energy Based Coops	Beneficiation and Energy Centre Support
<b>Other National Agencies:</b>		
<b>National Youth Development Agency</b>	Local Economic Development	Awareness Program
<b>National Development Agency</b>	Youth Support	Financial and Non-financial support
<b>National Empowerment Fund</b>	Local Economic Development	Financial support
	BEE	Financial support

The national government’s support for cooperatives can be summarised in the following way. The central institution managing policy and legislation for cooperatives is the Department of Trade and Industry (DTI). The DTI has been able to anchor a generic policy and legislation for cooperatives that operates horizontally and vertically across government. In terms of horizontal operations the policy and legislation provides both minimum standards and a broad scope for different kinds of cooperatives to emerge across different parts of the economy. Within government this has allowed the broadening and deepening of policy support for cooperatives. Various support focus areas have been developed relevant to the core competencies of government departments, accompanied by financial and non-financial support instruments.

Linked to the horizontal operation of DTI-led cooperative development policy is a further mutation in the emerging cooperative support system. This relates to the adoption of dedicated legislation to promote cooperative banks in South Africa through the national Treasury. The Cooperative Banks Act (2007) broadens South Africa’s regulatory support regime for cooperatives by providing for dedicated regulatory and development support for cooperative banks. This addresses the limits of minimum provisions for financial services cooperatives provided for in the DTI-led Cooperatives Act (2005). It also provides for clear standards, support instruments and monitoring to ensure cooperative financial services institutions can evolve with minimum risk to themselves and the financial system and are generally more viable as member driven institutions.

Alongside national departments are various other government linked agencies that have taken on board the broad policy thrust around cooperatives and have developed dedicated sectoral financial and non-financial supports. These range from the National Youth Development agency, Empowerment Fund and the National Development Agency. In general the national cooperative development support environment is evolving and there is room to move towards more strategic and specialised areas of support.

**Table 8: Provincial and Local Government Support Institutions and Programs for Cooperative Development**

<b>Government Institution</b>	<b>Support Focus</b>	<b>Support Instruments</b>
<b>Provincial: KZN  Gauteng</b>	Linked to Provincial growth and development path. Has dedicated strategy	Ithala Bank loans, FET Colleges, procurement policy  Gauteng Enterprise Propellor, financial, non-financial and registration support
<b>Local: Durban Metro Johannesburg Metro</b>	Linked to local government growth and development strategy. Has dedicated policy.	Cooperatives Units – providing non financial registration, education and procurement support

The vertical operation of DTI cooperatives development policy has been transmitted to provincial and local government. This has led to provincial and local governments customising the focus on cooperative development in a context specific way. This has also defined a clear support role for provincial and local government. The examples provided show some of the more organised provinces and local governments. However, generally most provincial and local governments are moving in this direction.

### **3.3 The Role of the Department of Labour**

According to the DTI, the national Department of Labour has contributed to cooperative development in the following ways:<sup>50</sup>

- 2008-2009: through the SETAs and the development of skills, R26.7 Million was disbursed and which assisted 355 cooperatives with a membership of 5570;
- 2009 – 2010: through the SETAs and the development of skills, R32 Million was disbursed and this assisted 367 cooperatives.

Through skills development the DOL has contributed horizontally to the development of cooperatives in South Africa. However, with the SETA system being placed in another Ministry the role of the DOL in supporting cooperatives is unclear.

In addition the DOL has a crucial role in monitoring compliance of labour standards in worker cooperatives. This challenge exists at two levels. First, for worker owners current labour law provides an exemption from the framework of the Labour Relations Act, 1995 (Act No. 66 of 1995) and the Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997). This is because worker owners are not employees as defined in these Acts. At the same time, the Skills Development Act, 1998 (Act No. 97 of 1998); Skills Development Levies Act, 1999 (Act No. 9 of 1999); Occupational Health and Safety Act, 1993 (Act No. 85 of 1993); the Compensation for Occupational Injuries and Diseases Act, 1993 (Act No. 130 of 1993) the Unemployment Insurance Act, 2001 (Act No. 63 of 2001) and the Unemployment Insurance Contributions Act, 2002 (Act No. 4 of 2002) also apply to such cooperatives and their worker owners. Second, in relation to non-worker owners and in the case of the Cooperatives Act (2005) up to 25% of workers in a worker cooperative may not be members. Such members fall within the ambit of the BCEA and the LRA. In both instances the DOL has an inspection role. Thus far it is uncertain to what extent DOL has carried out its inspection function to prevent the abuse of the worker cooperative model and the violation of labour laws. However, given that worker cooperatives seem to be abused in construction and the clothing industry, thus far, the inspection role of the DOL has to be bolstered.

### **3.4 Cooperatives and Worker Cooperatives: Main Trends**

In this section we outline the main quantitative and qualitative trends in Cooperative development.

#### **3.4.1 Quantitative Trends**

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<sup>50</sup> DTI, *PRESENTATION TO THE SELECT COMMITTEE ON TRADE AND INTERNATIONAL RELATIONS*, 25 August 2010.

**Table 9: Cooperative Contribution to Cooperative Sector**

<b>Agriculture</b>		
Farming Requisites	R 205 7771 102	16.9%
Fruit and Veg	R 512962480	4.2%
General Products	R 217899729	1.9%
Grain and Oil Seeds	R 4266267328	35.1%
Insurance	R 645 9575	0.05%
Meat	R 179994646	2%
Timber	R 159 865 3351	13.1%
Wine	R 749655635	6.1%
<b>Trading Co-ops</b>		
Buying Aids	R 22 74191190	19%
Home Industries	R 12476540	0.1%
Mutual Benefits	R 27854695	0.55%
Financial Services	R 10 098 208	1%
<b>TOTAL</b>	<b>R 12 164 976 479</b>	<b>100</b>

(Source: CIPRO Register 2009 and DTI Baseline Study 2009)

Despite the big BEE push to promote cooperative development it would seem that predominantly white agricultural cooperatives still dominate the cooperative sector. These are cooperatives which have high turnover volumes. In 2009 large, established cooperatives contributed R12,164,967,479 (which accounts for .33%) to the Gross Domestic Product (GDP) of the country (Parliamentary Monitoring Group 2010), clearly demonstrating that cooperatives play a role—albeit a small one—in the economy. While only accounting for .33% of GDP, there contribution in agricultural sector is enormous and, it must be remembered, the significant impact of the emerging cooperatives on meeting human needs is not reflected in such quantitative indicators.

As a direct result of state support, there has been significant growth in the number of cooperatives in the first decade of the 21<sup>st</sup> century. In 1994 there were 1,300 registered cooperatives, which grew to 4,061 by 2007. Then, remarkably, between 2007 and 2009 the number of cooperatives jumped to 22,030 and again soared further to 31,898 formally registered cooperatives by 2010.<sup>51</sup> The majority of cooperatives are located in four provinces - KwaZulu Natal, Limpopo, Gauteng, and the Eastern Cape—and are found primarily in villages, townships, and on farms.<sup>52</sup>

Table 10 shows the number of cooperatives by province, clearly demonstrating that some provinces have had tremendous growth in cooperatives in the recent years.

**Table 10: Cooperative numbers by province**

<sup>51</sup> Interviews DTI Cooperatives Unit, Geoffrey Ndumo and Patience Gidongo, October 21<sup>st</sup>, 2010. Also see contained in interview with Rector Rapoo, Registrar of Cooperatives, October 21<sup>st</sup>, 2010.

<sup>52</sup> DTI, 2009, *Baseline Study*, p.3.

Province	Current Data from CIPRO Register	National Picture No of Surviving Co-ops	No of dead Co-ops	Survival Rate	Mortality rate
KZN	8697	1044	7653	12%	88%
EC	4124	287	3957	7%	93%
WC	1003	69	934	7%	93%
NC	798	20	778	2.5%	97.5%
Limpopo	1779	405	1474	22%	78%
Mpumalanga	1396	187	1309	12.5%	87.5%
Gauteng	2265	394	1971	17%	83%
Free State	850	71	829	8%	92%
North West	1208	167	1090	13%	87%
<b>National Total</b>	<b>22030</b>	<b>2644</b>	<b>19386</b>	<b>12%</b>	<b>88%</b>

(Source: DTI, 2009)

Cooperatives in South Africa tend to be small cooperatives that are rooted in villages and townships with a majority of women members and a significant presence of youth members. For example, 65% of cooperatives have fewer than ten members and 23% have between 11 and 20 members and only 12% have over 100 members.<sup>53</sup> The majority of cooperatives are primary cooperatives with a much smaller number of secondary cooperatives and three tertiary cooperatives.<sup>54</sup> What this suggests is that primary cooperatives have not been able to form secondary and tertiary cooperatives that coordinate and support cooperatives within and across sectors.

The DTI 2009 survey found that more than 75% of cooperatives surveyed formed through community initiatives. In the survey workers cooperatives only represent 1.03% of cooperatives. However, this low number is largely because of two factors. First, the study asked cooperatives to self identify themselves. It did not ask under what type of legal classification, provided for in the Cooperatives Act (2005), was the cooperative registered as.<sup>55</sup> Moreover, self identification on the kind of cooperative was done in a context in which there are objectively speaking low levels of understanding about what cooperatives are. That is a worker cooperative in practice may not be able to self recognise itself as such because the worker owners in it don't really have this self understanding of their cooperative. Ironically this was one of the findings in the study itself about cooperatives in general; as aspirant cooperators many do not understand the cooperative model.

As it stands with most of the quantitative data available in the country the picture is not clear about worker cooperatives. In the data available, like in Figure 1 below, while it is

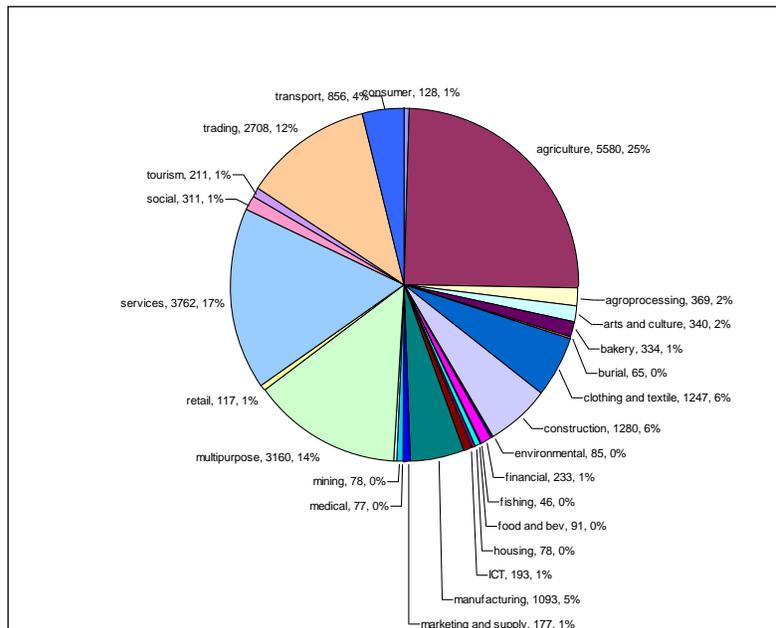
<sup>53</sup> DTI, 2009, *Baseline Study*, p.4

<sup>54</sup> The DTI 2009 baseline study found 8 tertiary bodies, but only three that provide tertiary services—the Savings and Credit Cooperative League of South Africa (SACCOL), the South African Housing Cooperative Association (SAHCA), and the South African Federation of Burial Societies (SAFOBS).

<sup>55</sup> The Cooperatives Act (2005) makes provision for cooperatives in general but provides specific provisions for four kinds of cooperatives: worker cooperatives, housing cooperatives, financial services cooperatives and agricultural cooperatives. Contained in Schedule 1.

useful in illustrating the dynamic emergence of cooperatives across various sectors and types of economic activity, the number of legally registered worker cooperatives is not clear. As per the current spread of cooperative activity it is very likely that worker cooperatives exist in all sectors of activity. Complexifying the picture is the lack of appropriate registration and baseline study research data to confirm this. However, the DTI has also confirmed the mortality rate of cooperatives is high for all sectors, and generally is 70% or more for some sectors.

**Figure 1: Overall Sector Spread of Registered Co-operatives**



(Source: Registrar of Co-operatives, *Statistics of Co-operatives in South Africa, 1922 – 2009*, cited DTI Strategy 2010)

### 3.4.2 Qualitative Trends

#### (a) Successful Cooperatives

The South African policy making discourse tends to collapse successful cooperatives with the experience of the ‘historically white cooperatives’. This is a mistake for two reasons. First, historically white cooperatives cannot be considered genuine cooperatives from the standpoint of cooperative values and principles. These were racialised institutions, based on super-exploitation of particularly African labour, and in these respects fell far short of the universally recognised principles of cooperatives in which racialised discrimination and exploitation are not acceptable. Second, these ‘white businesses’ are not dynamic member driven institutions supporting the development of a cooperative economy, which is the logic of genuine cooperatives and cooperative movements in the world. Instead such enterprises have lost their identity and character as cooperatives and are operating essentially as typical private sector businesses. Many of these institutions are cooperatives

in name and have even abandoned the pretence of being cooperatives in order to register as public companies.

However, despite this qualification about how success should be understood, post-apartheid cooperative experience also has important success stories. Such experiences are relative and are never absolute. A successful cooperative is defined by its ability to primarily meet member needs, institutionalise cooperative values and principles in its operations and is constantly innovating to enhance its cooperative advantage. However, having made the transition from expansion to consolidation in its strategic life cycle and having built viable cooperative practices, grounded in the values and principles of cooperatives, a successful cooperative is constantly innovating and drawing on its strengths to respond to pressures in its immediate environment. With this in mind some of the following experiences can be highlighted as independent, member driven experiences of successful post-apartheid cooperatives:<sup>56</sup>

- Gauteng Creative Industries is a craft cooperative engaged in marketing and selling its members art. This cooperative organises individuals, cooperatives and small businesses into a marketing channel to link mainly township based producers of arts and crafts with a wider market. There are 24 members in the cooperative which amounts to 80 artists. This cooperative has had a showroom in the Sandton Convention Center for its artist members, has even reached international trade fairs and is currently penetrating fair trade markets with its products. This cooperative has a marketing and sales unit, a financial unit and a service provision unit in charge of policies, recruitment and enterprise development. This is a member driven cooperative.
- Sodla-Sonke Cleaning Cooperative is a waste management cooperative, established in 2003 within the Nelson Mandela Bay Municipal Area. This cooperative won the tender to provide waste management services to the Walmer township. The cooperative has successfully linked its waste management activities to environmental awareness, supporting unemployed youth and rehabilitating former convicts. At its core this cooperative provides employment to about 30 people. Due to the high quality of its service it has the lowest complaint rate and in 2007 the cooperative won the competitive tender from the Airports Company to clean the outside areas of the local airport. The cooperative has institutionalised all its management functions around supervisors, regular meetings and dedicated portfolios amongst the leadership. This is a member driven cooperative.
- The Heiveld Cooperative is an organic rooibos tea farming cooperative in the Northern Cape. This cooperative secured land through governments LRAD program in the early 2000s. Today it has 51 farmers with 11 farms in total. It also has integrated its value chain activities which includes seedling production, production, processing, packaging and marketing. Today this cooperative exports over 90 tons of South Africa's finest rooibos tea to leading fair trade markets in the world. This

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<sup>56</sup> See COPAC, 2008. *The Passion of the People: Successful Cooperative Experiences in Africa*. Research Report.

cooperative has a dynamic leadership, effective management structure and is member driven.

### **(b) Worker Cooperatives**

Worker cooperatives emerge in four different contexts: (i) worker take overs of factories (ii) trade union linked cooperatives (iii) seeded through cooperative movements and (iv) self developing. In the post apartheid context worker cooperative development has been through two waves. The first wave was from 1999 until 2008 with the employment crisis. The second wave began in 2008 with the onset of the global economic crisis. The first wave of worker cooperative development has been mainly through township or community based self developing and trade union linked cooperatives. These are mainly worker owned and worker producer cooperatives. With the poor quality of quantitative data on cooperatives in general the latter cooperatives have to be identified through other research sources. The case studies done by the Cooperative and Policy Alternative Centre (COPAC) over the past five years identifies such kinds of worker cooperatives.<sup>57</sup>

Since 2008 worker cooperatives documented by COPAC are emerging in all four contexts. Two unions have recently been involved in worker take-overs. Metal and Electrical Workers Union of South Africa (MEWUSA) has attempted a worker take over through the Mine-line factory occupation and National Union of Metalworkers of South Africa (NUMSA) has attempted a buyout of a waste recycling plant which has led to the development of Sihlahla Muri worker cooperative. The Ivory Park cooperative movement is seeding more worker cooperatives in Ivory Park as is the Masibambane Unemployed Peoples Movement. There is potential in all these contexts for different kinds of worker cooperatives to emerge: worker owned, worker producer, worker managed and worker supported. However, the difficulty in the South African context is that the current policy and legislation does not provide for this worker cooperative development trend to fully emerge. The gap that exists requires a policy response.

### **3.5 Challenges and Limits of State Support for Worker Cooperative Development: Legal, Financial, Technical and Movement**

Between 2005 and 2010 close to a billion rands has been spent on cooperative development. In 2009 the DTI baseline study established that out of a total of 22,030 cooperatives, an overwhelming majority of 19,386 were no longer functioning cooperatives. In total an 88% failure rate has been achieved. In KZN with the highest spend (R454 million) and highest number of cooperatives, at 8,697, the mortality rate of 88% mirrors the national trend such that only 1,044 cooperatives are surviving.<sup>58</sup> On the flipside of the national trend only 2,644 cooperatives showed signs of surviving, pointing to a 12% survival rate. This does not amount to these cooperatives being viable in terms

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<sup>57</sup> See COPAC 2006a, 2008 and 2010.

<sup>58</sup> KZN has channelled these large quantities of finance to cooperatives through the Ithala Bank. Recent newspaper exposes have revealed widespread corruption in the Ithala Bank.

of harnessing the cooperative advantage to realise their objectives and meet member needs.

In a recent study conducted in the Eastern Cape it was generally found that most cooperatives studied in the Amathole region were marginal or just managing to be self-developing.<sup>59</sup> Out of a set of twenty case studies only one cooperative was commercially viable and grounded in institutional cooperative practices that ensure values and principles exist in the everyday world of the cooperative. Many of the cooperatives were also given government financial support through grants and had built up assets but were not enabled to utilise these resources. Most cooperators in these cooperatives were not given adequate education and training to really evolve their cooperatives in a member-driven manner.

The challenges and limits of state support facing cooperatives and worker cooperatives include the following:

- **Legal** – the legal limits on South Africa’s legislative support for worker cooperatives is covered in the chapter that provides international benchmarking. Besides pointing to the inadequacy of worker cooperative legislation, South Africa does not have a strategic policy and legislative framework to support the emergence of different kinds of worker cooperatives in different contexts. Moreover, the current legislative framework covering cooperatives in general is not being administered effectively to ensure legislative compliance even post registration. This has made it difficult to track on an ongoing basis the status, orientation and impacts of South African cooperatives both in local communities and on the macro-economy. The DTI baseline study of 2009 has also identified this challenge.
- **Financial** – with close to a billion rand being spent on BEE-led cooperative development including worker cooperatives it is important to assess what has gone wrong. The high failure rate does show that start-up financing through grants is not happening through an effective financing methodology that builds institutional and income generating capacity. Instead the BEE push for cooperatives has engendered a financing system for cooperatives which promotes corruption, state dependency and unviable institutions. Moreover, bureaucratic drag in these financing streams also limit streaming. Finally, most government financing has not been responsive to the different stages of development of cooperatives. For example, the importance of working capital is not addressed in government financing approaches and this is a big challenge for worker and other kinds of cooperatives. Linked to this is the lack of specialised financing for the expansion and growth of commercially viable cooperatives. The general one-size-fits all approach of government financing is not strategic and is not working.
- **Technical** – the major technical challenge faced in South Africa is the lack of ongoing education on the cooperative model. Most aspirant cooperators do not

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<sup>59</sup> COPAC, 2010.

understand the main characteristics, advantages and how cooperatives should operate. This was identified in the DTI 2009 baseline study. Besides organic impulses and the necessities of particular conditions that force people to work together, this is not sufficient to exploit the strengths of the cooperative model. Ongoing education on the cooperative model, both on the demand and supply side and on the micro and macro levels are required. However, for worker cooperatives this does throw up a specific set of challenges, given the contexts and kinds of worker cooperatives that can exist. Worker cooperatives require dedicated education and training support which is currently non-existent in government.

- **Movement** – government has unintentionally substituted for the cooperative movement in South Africa. This has happened mainly between 2000 – 2003 when government finance and control contributed to the demise of the National Cooperative Association of South Africa (NCASA). Currently also local government cooperative forums while useful for information sharing and problem solving are also increasingly undermining the emergence of independent and member driven cooperative movements. This limits the role cooperative development can play in promoting structural transformation such that the absence of a movement limits the emergence of backward and forward cooperative value chain linkages. It also limits the kind of networked capacities that develop inside a cooperative movement to assist and sustain cooperative development. In the cooperative banking sector this is being rectified such that the Cooperative Banks Development Agency is attempting the creation of member driven cooperatives without substituting for existing secondary support institutions.

### **3.6 The New DTI Strategy and Amendments to the Cooperatives Act: Implications for DOL**

DTI has currently placed on the national policy agenda a *New Integrated Strategy for the Development and Promotion of Cooperatives*, while at the same time, leading a process to amend the Cooperatives Act (2005) to align with the main thrusts contained in this strategy. In the main the DTI strategy and Cooperative Act amendments seek to address the failings in terms of cooperative development, challenges facing government with regard to cooperative support and seeks to fill any legal gaps in terms of the generic Cooperatives Act.

This is an extremely timely and important response. This is also about managing a responsive government policy cycle. Both the new DTI Strategy and Cooperative Act Amendments *do not seek* to achieve the following:

- Remove a role for national government line departments and other state agencies in supporting and promoting different kinds of cooperatives;
- Limit the development of different kinds of cooperatives like housing, banking, worker and so on;
- Limit the evolution and development of legislative developments to promote other kinds of cooperatives.

- Withdraw the vertical support given to cooperatives in provincial and local government.

In the main the DTI strategy and legal amendments are seeking to achieve the following:

- Improve the policy and regulatory framework for cooperative development in South Africa;
- Improve the core support capacity of government;
- Improve the effectiveness of policy tools;
- Encourage and increase inter-governmental synergies as part of building an integrated government support system for cooperatives;
- Clarify the responsibilities of various stakeholders;
- Increase the viability of cooperatives;
- Enhance the contribution of cooperatives to national development.

The DTI strategy is anchored within four main pillars, supported by cross cutting programs:

- (i) Increase the supply of non-financial support to cooperatives through the following programs: Cooperatives Business Development Support Program, Legislative Compliance Education and Training, Registration of Cooperatives, Enforcement, Inspection and Conflict Resolution.
- (ii) Create demand for cooperative products and services through the following programs: Bilateral and Multilateral Agreements, Export Marketing and Investment Assistance, Ten Products for Targetted Procurement from Small Enterprises.
- (iii) Improve the sustainability of cooperatives through the following programs: Enterprise Networks Program, Business Infrastructure Support, Taxation of Cooperatives.
- (iv) Increase the supply of financial support to cooperatives through the following programs: Micro-loan support through Wholesaling, Cooperative Incentive Scheme and Cooperative Special Project Fund.
- (v) Cross Cutting Programs include: Cooperative Promotion and Awareness Support Program, Education and Training, Cooperative Research, Monitoring and Evaluation.

In addition the main amendments to the Cooperatives Act of 2005 provide for:

- The creation of a Cooperatives Training Academy, Cooperatives Development Agency, Cooperatives Advistory Council and a Cooperatives Tribunal;
- An intergovernmental mechanism;
- Clear provisions for the different institutional tiers of a cooperative movements;
- Specific amendments to the general provisions of different kinds of cooperatives;
- Tighter auditing rules and provisions.

All of this has two crucial implications for the Department of Labour and its role in promoting worker cooperatives.

First, the new DTI cooperative support strategy makes explicit the need for shared responsibility in government for implementing the strategy. The strategy is explicit in its call to all departments in government, including DOL, to ensure:

Applicable departments at national level that are promoting specific sectors (e.g. housing, health, transport, etc) that are relevant to co-operatives development have a duty of formulating specific **Co-operative Sector Strategies/Policies/Support Programmes and institutional arrangements** aimed at developing co-operatives in those relevant sectors. These co-operative sector policies, strategies and programmes must form part of the integrated system of support and must be aligned with the core principles of this strategy (DTI, 2011:59).

Second, the new DTI strategy makes a direct call to the Department of Labour to define a clear role in policy and legislative terms to support the promotion of worker cooperatives as part of deepening synergies within government around cooperative development:

Worker co-operatives are promoted in order to deal with the problem of unemployment, to turn around ailing companies and to avoid retrenchment of workers. High unemployment rate is one of the challenges that South Africa is facing. It is the aim of this strategy, in conjunction with the DoL to support worker co-operative initiatives including worker take-over; worker buyouts and turnaround of ailing companies. Worker co-operatives operating in the labour-intensive sectors such as mining; construction; textiles; arts and craft and waste and environmental management will be given priority attention in line with all related legislation pertaining to workers (DTI, 2011:64).

## Chapter 4

### Trade Unions and the Worker Cooperative Option

#### 4.1 The Unemployment and Labour Standards Challenge

South Africa's unemployment rate stands at over 20%. With the impact of the global economic crisis about one million jobs have been lost. In general terms South Africa's growth path has been job shedding. For unions this labour market condition impacts in the following ways:

- Excess unemployed labour places a downward pressure on wages;
- Strike action becomes increasingly necessary to address wage gaps;
- Job losses also mean a loss in union membership and a loss in union dues;
- Labour standards are placed under stress as unions are weakened.

#### 4.2 Worker Cooperative Advantage for Trade Unions

There are a number of advantages of the worker cooperative option for trade unions. We outline the three main advantages.

- **A Transformative Strategic Response for Unions** – the worker cooperative option and advantage enhances the offensive and defensive strategic options for unions. It introduces a transformative element beyond collective bargaining and macro-level policy dialogues. In the context of high levels of retrenchment the challenge of worker occupations and take-overs through the worker cooperative option gives another choice to all involved. It also prompts employers to rethink retrenchment and even consider other options to deal with a distressed enterprise. Moreover, the attempt to defend jobs through the worker cooperative option addresses the impact high unemployment levels have on undermining trade union power in the labour market. For viable enterprises, private or state, the worker cooperative option provides a transformative option if workers can make a compelling case for such an option. The transformation of property relations in this manner also contributes to addressing the legacies of the apartheid economy.
- **Worker Cooperatives as a Model of Descent Work** – the idea of descent work has been presented as an alternative by the ILO to the push downwards of labour standards. Successful worker cooperative models provide an opportunity to demonstrate an example of descent work in terms of progressive labour standards. This includes higher wage levels, non-wage benefits like medical aid and pensions, and training and skills development. Moreover, the humanised and quality of life aspects of worker ownership and control also demonstrate the wider impacts of descent work on social relationships. Ultimately successful worker cooperative

models can increase the leverage of unions with employers around high skill and high wage development paths for enterprises and economic sectors.

- **Building a Worker Cooperative Economy** – worker cooperatives linked to unions do not have to remain stand alone islands. Instead trade union linked worker cooperatives can be organised into a worker cooperative movement that can enhance the structural power of worker cooperatives in a market, a sector and even a community. Moreover, the organisation of value chains and economic sectors through worker cooperatives enhances the possibility of harnessing the cooperative advantage to plan, innovate, leverage finance for growth and generally overcome competitive pressures. The solutions emerging from the worker cooperative economy can also be utilised to give unions leverage when dealing with difficult employers who merely want to bring down the costs of labour or retrench when faced with competitive challenges.

### 4.3 Trade Union Advantage for Worker Cooperatives

**Trade unions also provide important advantages to worker cooperatives:**

- **Organising solidarity support** – trade unions have important organisational, financial and political capacities which can be harnessed by worker cooperatives. This can happen at different stages of development for a worker cooperative. Depending on the economic activity of the worker cooperative, trade union membership can also be organised to support the worker cooperative. For example, a cooperative bank or consumer retail outlet run as a worker cooperative can be supported by trade union members.
- **Harnessing structural power to shape industry trends** – union membership density, levels of organisation in an industry and worker intellectual capital can be linked to worker cooperatives as part of redirecting particular industries. For example, trade and industrial policy can be contested more effectively from below if unions and worker cooperatives unite and struggle together around common policy agendas.
- **Contributing to build a worker cooperative movement** – if unions champion the worker cooperative option this immediately contributes to building and strengthening the worker cooperative movement. In an industry in which a worker cooperative takes root, the experience of establishing and running the cooperative can be shared with other workers involved in enterprises in the same industry. Trade unions can facilitate this and thus enhance the solidarity between worker owners and workers. Moreover, this kind of solidarity can also assist with limiting competitive pressures particularly if union members champion support for the worker cooperative inside their enterprise and attempt to impact strategically on their enterprise to enable the worker cooperative to gain more space to establish itself.

#### **4.4 Trade Union Strategy and Worker Cooperative Development During Apartheid: Challenges and Lessons**

The first wave of worker cooperative experiences in South Africa took place in the 1980s. This was largely due to trade union initiatives to assist workers in the context of retrenchments. The National Union of Metal Workers in South Africa (NUMSA) was drawn in to assist 960 workers dismissed at SARMCOL, Howick, in 1985. Around the same time, in the Eastern Cape Ford Motor Company was also retrenching and this led to a trade union linked cooperative initiative.<sup>60</sup> Similarly other unions such as the National Union of Mineworkers (NUM) and the South African Clothing and Textile Workers Union (SACTWU) also promoted trade union linked worker cooperatives in the context of retrenchments. It is estimated that NUM established close to forty worker linked cooperatives during the late 1980s and early 1990s. Like NUMSA, the NUM also developed internal union capacity to support the development of these cooperatives. Internal cooperative departments were set up. However, in the case of the NUM it went the furthest and spun off the Mine Workers Development Agency (MWDA).<sup>61</sup> The MWDA is still in existence although its support role for cooperatives has diminished. These worker cooperative experiences were part of defensive union strategy. One estimate suggests that about 96 worker cooperatives were established during the 1980s (some trade union linked and some through community based self development). These worker cooperatives had a membership of 1800 in total and 70% of these cooperatives had less than 20 people.

The trade union linked worker cooperatives of the 1980s faced many problems. It is important to reflect on these problems in order to learn lessons for the present context. The financial problems faced by these worker cooperatives included:

- Lack of access to finance for start-up, working capital and growth. In the case of NUM donor driven finance also engendered specific problems;
- Limited financial controls and lack of proper financial management.

The technical problems endured by these worker cooperatives included:

- Shortage of cooperative business skills;
- A lack of understanding of self management and democratic decision-making;
- Insufficient mentoring given the lack of cooperative support organizations;
- Lack of education on the worker cooperative model;
- A lack of literacy and numeracy skills also affected the cooperatives;
- No feasibility studies were done in most instances;
- Lack of proper cooperative business planning.

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<sup>60</sup> Interview, Dinga Sikwbu, Head of Education, National Unions of Metal Workers of South Africa, October 8<sup>th</sup>, 2010, Johannesburg.

<sup>61</sup> Interview, Sifiso Ndwandwe, CEO Mineworkers Development Agency, October 18, 2010, Johannesburg.

The organizational problems faced by these worker cooperatives included the following:

- Dependency relationships developed with regard to the union. Worker owners and cooperatives failed to develop autonomy and capacity for independence;
- In some instances the unions also wanted to own and control the cooperatives;
- Some unions were also concerned about the wage levels in the sector and therefore wanted to influence the worker cooperatives to maintain sectoral wage levels;
- The criteria used to include workers in a cooperative was not always clearly defined;
- The divisions in the unions also spilled over into some of the worker cooperatives.

#### **4.5 Trade Union Support for Cooperatives Development Policy Post-apartheid**

Trade union strategy has been engaging with cooperative support and promotion at a broad and macro policy level. This was confirmed with trade union interviews particularly trade unions engaging in the NEDLAC space. This is partly the result of three developments. The first is the adoption by South Africa of ILO Recommendation 193 passed in June 2002. South African trade union federations participating in the ILO played an active role in the formulation of the recommendation. These unions also ensured the government adopted this Recommendation to ensure South Africa's standards on cooperative development, including worker cooperatives, was harmonised with international standards. The second important development and related to ILO Recommendation 193 is the adoption of the new Cooperatives Act of 2005. Union federations again supported this Act in the NEDLAC process and also made submissions to parliament. Finally, unions also seem to support the need for cooperatives, particularly worker cooperatives, because of the role these organisational forms can play in advancing models of descent work.

#### **4.6 Trade Union Strategy and Worker Cooperative Promotion**

While trade union strategy has been actively promoting cooperatives, including worker cooperatives, within the macro-policy space this has not translated into concerted union support at an enterprise and sectoral level. Instead union practice displays an ambivalence and uncertainty about the role of worker cooperatives in union strategy. This is partly a function of a lack of understanding of the worker cooperative option, the role of business unionism through union investment companies and a lack of strategic capacity. Despite this there have been three important post-apartheid engagements by unions with cooperatives at a micro-level.

- In the 1990s university restructuring had a devastating impact on low skill jobs at universities. Right sizing, downsizing, outsourcing and various other restructuring strategies forced unions like NEHAWU on the defensive. Many jobs were lost. At the University of Fort Hare NEHAWU mobilised against outsourcing of cleaning, security and gardening jobs. This led to the formation of worker cooperatives and a commitment by the university to provide the work to the cooperatives. Over the past few years this has been the case. However, recently the cleaning cooperative lost its contract and is now trying to draw on its skills and assets base to diversify its client

base, while the gardening and grounds worker cooperative has been retained by the university.

- As an outcome of the Presidential Job Summit in 1998, the three union federations in South Africa set up the Job Creation Trust after gathering one-day's wages from workers.<sup>62</sup> The purpose of the Trust was to assist with unemployment. An amount of R89 million was collected. This money has been invested and returns have been used to finance job creation projects in communities through community groups. Over R60 million in grants and loans have been disbursed to 110 projects to create about 40 000 jobs. In the case of loans supported enterprises start paying back after a few months. This has assisted with creating breathing space for income generation. The technical support for the Trust comes from the Development Bank of Southern Africa (DBSA). The Trust has in its interventions supported a few community based cooperatives. It has not supported cooperatives linked to trade union strategy to defend jobs or advance new transformative property relations through the worker cooperative option.
- The third experience with worker cooperatives emerges from the global recession. The impact this had on the labour market with close to a million jobs lost prompted unions like NUMSA to hold a conference on the crisis and to develop policy recommendations and union interventions at factory level to defend jobs. One such intervention has been an attempt to buyout a distressed waste recycling plant in Johannesburg to defend the jobs of workers by converting it into a worker cooperative. This initiative began in December of 2009. This initiative failed for various reasons but largely because the employer failed to negotiate in good faith and he pushed ahead with the retrenchment. This, however, has not deterred the union which has organised the remaining workers into a waste recycling cooperative. The union is providing active support to assist the cooperative with start up like an office space, insurance for equipment purchased, a telephone, parking for vehicles and a grant for working capital. This process has also tested the responsiveness of the Johannesburg Metro and the DTI Cooperative Incentive Scheme. The former has entertained a cooperative business plan from the union for at least five months, but up to now has not delivered anything despite its cooperatives support policy and cooperatives unit. The DTI Cooperative Incentive Scheme eventually came through with a R350 000 start up grant after a great deal of political pressure from the union. This has been a process fraught with numerous problems primarily given that the DTI Cooperative Incentive Scheme is not geared to respond to all the needs of worker cooperatives particularly working capital.

Another important experience during the global recession has been the first ever occupation of a factory by retrenched workers to defend their jobs.<sup>63</sup> The occupation is part of a strategy to convert the factory into a worker cooperative. This has happened at Mine-Line Engineering in Gauteng. The 110 workers who were

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<sup>62</sup> Interview, Sharmila Garnie, CEO Job Creation Trust, November 19, 2011.

<sup>63</sup> Interview, Mametla Sebei, Media and Campaigns Coordinator – MEWUSA, November 21, 2010, Johannesburg.

retrenched were mainly organised by the Metal and Electrical Workers Union of South Africa (MEWUSA). The union supported and organised the occupation of the factory after it was discovered that the former owner was asset stripping. Moreover, he shut down the factory without paying workers their benefits, including pension. The employer also attempted to use the shut down to deflect claims for the accidental death of 3 workers in his factory in August of 2010. The Mine-Line occupation has forced greater transparency around the liquidation process, has clarified the rights of workers to their benefits and has also demonstrated how union strategy can be used to place other options on the agenda in the context of liquidating and stressed enterprises. Currently the Mine-Line workers have gone through a process to capacitate a worker cooperative and are testing the responsiveness of the Job Creation Trust, the IDC Stress Fund, the Training Lay-off Scheme and the DTI Cooperative Incentive. There are many challenges ahead for this experience but it does demonstrate how the worker cooperative option can transform industrial relations including property relations.

Both the NUMSA and MEWUSA experiences have gained the attention of the labour movement and workers within these unions. Currently NUMSA is keen to develop a worker cooperative policy for the union to enhance its strategic capacity. Similarly MEWUSA is keen to draw lessons from the Mine-Line experience to share with NACTU and other unions. Together with the Cooperative and Policy Alternative Centre (COPAC) these unions are talking about building a trade union linked worker cooperative movement as a response to the economic crisis.

#### **4.7 Strategic Opportunities for Trade Union Support of Worker Cooperative Promotion**

There are three strategic opportunities for unions to support worker cooperative promotion. First, cooperative development in South Africa has been promoted in a very general way through the current policy and legislative framework. Specific problems are emerging for different kinds of cooperatives which are challenging the limits of a general approach. For example, worker cooperatives are being abused in some sectors and some parts of the country. In construction and clothing it has been suggested that worker cooperatives are being used as fronts for labour broking and are being used to bring down labour costs. Such problems require a more dedicated legal and policy framework to assist proper worker cooperative development. The opportunity in this regard for unions is to support the formulation and implementation of national worker cooperative legislation. Such legislation will not only address problems related to the abuse of worker cooperatives but would also provide the means to strengthen union efforts to scale up and utilise trade union worker cooperatives more effectively.

Second, union investment companies can also be re-aligned to support worker cooperatives if a proper legal, policy and strategic framework is put in place in government. This could mean that unions could dedicate financial resources for a more focused worker cooperative financing and technical support mechanism. Such a mechanism could complement and strengthen union strategic efforts to promote

cooperative development. Moreover, such a mechanism could compliment current crisis response mechanisms set up like the Training Lay-Off Scheme and the IDC Stress Fund. Both these mechanisms do not support the worker cooperative option but can be married and integrated with dedicated worker cooperative support mechanisms to provide a more effective response to the crisis and beyond.

Third, the utilisation of trade union linked worker cooperatives not only provides opportunities to create and retain jobs but it also provides unions with the opportunity to think more holistically about member needs. It prompts a paradigm shift in unionism beyond labour standards towards providing solutions for worker needs outside the world of work. For example, trade union linked worker cooperatives can run retail stores which bring down the price of food or can run chemists to bring the costs of medicine. In Singapore this is currently the case with trade union linked cooperatives. Moreover, trade union linked worker cooperatives could also establish a dedicated worker cooperative bank to meet the financial needs of trade union members. Currently NEHAWU is experimenting with a credit union to meet member financial needs in a more sustainable way.

## Chapter 5

### Key Recommendations for a Department of Labour Worker Cooperative Support Strategy

#### 5.1 Objectives of the DOL worker cooperative support strategy

The proposed DOL worker cooperative strategy will seek to achieve the following objectives:

- **Contribute to evolving the inter-governmental cooperative support system** - the national policy, legislative provisions and new DTI strategy for cooperative support are aimed at building an integrated and dynamic cooperative support system. Such a cooperative support system requires clear roles for various stakeholders and particularly for different national departments to support and promote the development of different kinds of cooperatives within their ambit. Hence, DOL will promote and enable worker cooperative development through legislative, strategic and programmatic support interventions. Such interventions to fit within the broad DTI support framework while accounting for the specific needs of worker cooperatives.
- **Enhance the macro-economic impacts of worker cooperatives** - worker cooperatives have a crucial role in providing employment, enhancing skills diffusion, increasing growth and ensuring innovation. The DOL will provide the necessary strategic programmatic support to enable worker cooperatives to realise this potential and advantage. This will be done in a manner that recognises the autonomy and independence of worker cooperatives.
- **Improve the effectiveness of enabling financial and non-financial support to worker cooperatives** – the South African cooperative support system in government has been in existence for less than a decade. This support system is evolving organically and in the context of a dynamic policy cycle. Through the DTI and the national baseline study various challenges and shortcomings have been identified with the supply of generic state support for cooperatives. The new DTI strategy attempts to take on board critical lessons to overcome these challenges and also seeks to ensure across government financial and non-financial support is more effective. This means DOL support for worker cooperatives will be responsive to the different contexts in which worker cooperatives emerge, the different kinds of worker cooperatives in existence, the level of development of worker cooperatives, the specific market challenges facing worker cooperatives and the demand side needs of worker cooperatives.

- **Provide regulatory standards to prevent the abuse of the worker cooperative model and ensure descent worker owner work** – unlike other kinds of cooperative models the worker cooperative model is capable of organising different kinds of economic activity, across all sectors of an economy. While this strength provides the worker cooperative model with a unique advantage, it can also be abused. At the same time, genuine worker cooperatives with their diverse internal characteristics in terms of achieving descent worker owner based work have to be enabled. In this regard, the extent to which current labour law applies to worker owners and employees in a worker cooperative are a crucial foundation. However, this is not sufficient to achieve worker owner based descent work given the broader institutional challenges and requirements of building successful worker cooperatives. Hence labour standards relevant to worker cooperatives have to be complimented and strengthened by a dedicated worker cooperatives Act for South Africa which will harmonise with national cooperatives policy, the amended generic Cooperatives Act (2005), the new DTI cooperatives strategy and universally recognised international worker cooperative standards. Together labour and worker cooperative standards will provide for a new concept of descent worker owner work which is crucial to prevent abuse of the worker cooperative model.
- **Build effective partnerships with key role-players** – the worker cooperative support effort has to be embedded in a variety of state and non-state institutional relationships. This includes government departments, government linked institutions, worker cooperative support organisations, worker cooperative movements, the trade union movement, the unemployed peoples movement and various other local social forces committed to supporting the development of genuine cooperatives. In this context the DOL will seek to secure effective partnerships to dynamise the support infrastructure and environment for worker cooperatives.

## 5.2 Aligning principles with the DTI Strategy

The DOL support strategy will be aligned to the new DTI strategy for cooperative support by being anchored within the principles of this strategy, translating these principles in relation to worker cooperative support and ensuring all strategic support programs are guided by these principles. These principles are defined as follows in the context of supporting worker cooperatives:

- **Promotion of cooperative responsibility is a shared responsibility** - such responsibility resides within government departments, government linked institutions, the cooperative movement institutions, trade unions and a host of other relevant stakeholders, include international stakeholders like the international worker cooperative movement and nationally based worker cooperative movements.
- **The strategy must cover the entire life cycle of cooperatives** – which would include the different contexts in which worker cooperatives emerge and stages of development from pre-formation, micro, survivalist, growth and expansion.

Moreover, the strategy must contribute to the turn around of ailing worker cooperatives.

- **The strategy attends to all the cooperative beneficiary base** – including targeted support to youth, women and people with disabilities wanting to organise worker cooperatives. Moreover, worker cooperatives in urban and rural areas and across different sectors of the economy will be supported.

### 5.3 Strategic opportunities to advance a DOL worker cooperative support strategy

#### (a) International Opportunities

- **Knowledge diffusion** - South Africa's worker cooperative support framework is behind the innovation and best practice in the world. There is a lot to learn from comparative experiences around worker cooperative legal, technical and financial mechanisms. This also means South African can learn from the mistakes of other countries, challenges and best practices. Knowledge diffusion and policy learning in this regard has to be an ongoing process.
- **Linking** - The international worker cooperative movement is organised through CICOPA internationally and has nationally based movement centres. Many of these movements are keen to build transnational links and solidarities. The learning and mutual economic benefits that can develop out of these relationships for South African worker cooperatives should not be underestimated.

#### (b) National

- **Policy and legal gaps** – South Africa's national cooperatives policy, the new DTI cooperatives support strategy and generic legislative framework (the amended Cooperatives Act of 2005) allows for the further development and evolution of the cooperative support environment. In particular it encourages policy and legislative support for various kinds of cooperatives like housing, financial services, agricultural and worker cooperatives. Moreover, the DTI does not have sufficient capacity to promote different kinds of cooperatives across the South African economy. The new strategy does enhance the capacity of the DTI but in the context of encouraging inter-governmental synergies and shared responsibility. The DOL is well positioned to champion and promote a strategy and dedicated legal framework for worker cooperative development, informed by international best practice.
- **Unemployment** – is the obvious challenge facing the country. The challenge of overcoming unemployment is being championed by powerful social forces in society. This includes trade unions, unemployed people's movements and community organisations. An effective worker cooperative support strategy by the DOL will be crucial to provide a basis for partnership with these social forces and could provide an effective government response to work with these social forces in the different contexts in which worker cooperatives could emerge to address unemployment. This would ensure the Labour Department is not driving worker

cooperative movement development but enabling its emergence through working with existing second tier institutions. It also means public policy on worker cooperatives is driven by voices from below.

(c) Internal DOL Opportunities

- **Horizontal Deepening** - Within government there is a great need to ensure the horizontal deepening of cooperative support and development. With the SETAs being removed from the labour department this opens up a gap inside the labour department and does provide a strategic opportunity for worker cooperative support to emerge as a central thrust within the department, as part of the *Public Employment Services Program* or can even be a stand alone thrust within the DOL.
- **Connecting to Labour Centres** – such centres are at the frontline of public service provision on behalf of the DOL. With advice provided to the unemployed and job seekers through career guidance councillors such a space provides a crucial opportunity to organise groups of the unemployed voluntarily into worker cooperatives. It also provides an opportunity to assist retrenched workers and even unions if they want to take over an enterprise. Such a space can provide coordination, planning and links for such an initiative to happen.

**5.4 Main Strategic Pillars and Support Programs of a DOL worker cooperative support strategy**

The DOL will house the worker cooperative support strategy within the Department, within an appropriate institutional space. Such a worker cooperative support thrust in DOL will be guided by the following strategy, its support programs and institutional mechanism:

(i) **Information and Technical Support Provision**

**Support program 1: Worker Cooperative Development Advice**

**Description:** This program will provide front end advice to individuals and organisations interested in establishing a worker cooperatives. Such advice will relate to the legal, institutional and practical steps to set up a worker cooperative. In terms of the latter emphasis would be placed on intergovernmental synergies particularly the role of the envisaged new DTI Cooperative Development Agency and other opportunities available from various government departments. An organising program will be developed between prospective worker co-operators and government support agencies and programs to ensure the formation of such a cooperative

**Market segment:** Pre-formation worker cooperatives

**Objective being addressed:** building support system for cooperatives, enhanced macro-economic role of worker cooperatives and enhanced effectiveness of non-financial state support.

**Institutional Arrangements:** Career guidance councillors based in DOL Employment Centres will anchor this program . They will coordinate and work with various government agencies like the DTI Cooperative Development Agency, Department of Agriculture, local municipality cooperative units and so on relevant to developing an organising program for the prospective worker cooperative.

**Key Performance Indicators:** Number of individuals, groups and organisations advised, number of organising programs developed to establish worker cooperatives, number of workshops hosted at Labour Centre, number of worker cooperatives registered.

### **Support Program 2: Worker Cooperative Turn Around, Expansion and Innovation**

**Description:** This program will provide technical advice to ailing or marginal worker cooperatives and to worker cooperatives wanting to expand. It would utilise various diagnostic tools and provide advice that links vocational and cooperative business training, institutional capacity building, financing and innovation in order to assist worker cooperatives turn around or expand. Such turn around or expansion plans to be encapsulated in business plans with clear implementation strategies.

**Market segment:** micro, small, medium and large worker cooperatives. Ailing worker cooperatives. All kinds of worker cooperatives

**Objective being addressed:** building support system for cooperatives, enhanced macro-economic role of worker cooperatives and enhanced effectiveness of financial and non-financial state support.

**Institutional Arrangements:** Worker cooperative development specialists housed in Labour Centers. Such specialists to also work with the SETAs, various financing mechanisms (inside DOL and beyond) and the Productivity Institute.

**Key Performance Indicators:** number of worker cooperatives assisted, number of turn around or expansion business plans developed, number of cooperatives successful and number of new innovations developed to assist efficiency and productivity in the cooperatives.

### **Support Program 3: Worker Cooperative Take Overs**

**Description:** This program will provide technical advice to assist workers or unions wanting to take over an enterprise either through a buy out or through a take over in the context of retrenchments. Such a program will assist with negotiating such a transaction

through a feasibility study, worker cooperative business planning and worker cooperative formation. In addition, such a program to assist worker cooperatives with start-up.

**Market segment:** pre-formation worker cooperative and all kinds of worker cooperatives.

**Objective being addressed:** building support system for cooperatives, enhanced macro-economic role of worker cooperatives, enhanced effectiveness of financial and non-financial state support.

**Institutional Arrangements:** Worker cooperative take over specialist located at the head office of DOL who has a high level of worker cooperative business planning skills, legal and research skills. Such a specialist to be brought into Labour Centres to work with guidance councillors, worker cooperative development specialists working in local Labour Centres and other relevant stakeholders to provide technical advice and mentoring, where necessary.

**Key Performance Indicators:** Number of groups or unions assisted, number of feasibility studies done and business plans developed. Also number of cooperatives registered in the context of take overs.

## (ii) Legislative and Regulatory Support

### **Support Program 1: Administration, Registration and Inspection of Worker Cooperatives Act**

**Description:** This program will champion and implement a Worker Cooperatives Act for South Africa. Such an Act to provide for the following:

- Aligned objectives with the Cooperatives Policy and Amended Cooperatives Act;
- Harmonise with international worker cooperative standards;
- Provide for different kinds of worker cooperatives and minimum constitutional requirements;
- Clarify ownership structures for such cooperatives;
- Clarify membership types;
- Provide restrictions;
- Provide provisions for worker take overs;
- Provide prohibitions against abuse;
- Clarify surplus and reserve requirements;
- Provide for regulations for pre-formation guidelines.
- Provide for a Registrar of Worker Cooperatives including administrative roles and duties;
- Provide for the creation and administration of a Working Capital Fund;
- Provide reporting requirements of worker cooperatives;
- Provide dispute resolution processes and mechanisms;
- Provide for winding down and de-registration of worker cooperatives.

In addition such a program will implement the law and ensure its effective administration. The Registrar of Worker Cooperative would be housed within this program.

**Market segment:** All sizes and kinds of workers cooperative.

**Objective being addressed:** Providing regulatory standards

**Institutional Arrangements:** Registrar of Worker Cooperatives and administrative unit housed in DOL.

**Key Performance Indicators:** number of worker cooperatives registered, number of different kinds of worker cooperatives registered, number of cooperatives inspected, number of cooperatives adhered to pre-formation regulations, number cooperatives reporting and number of cooperatives de-registered.

### **Support Program 2: Education on Worker Cooperative Act Compliance**

**Description:** Such a program to provide education on the contents and compliance with the worker cooperative Act. Such education to be part of the advice provided for the formation of a worker cooperative but also in the context of turning around a worker cooperative and even a worker cooperative take over.

**Market segment:** All sizes and kinds of worker cooperatives.

**Objective being addressed:** Providing regulatory standards to prevent abuse and ensure descent work and enhancing the effectiveness of non-financial support.

**Institutional Arrangements:** Career Guidance Councillor housed in local Labour Centres will be responsible for delivery.

**Key Performance Indicators:** number of workshops held, number cooperatives participated.

### **(iii) Harnessing Inter-governmental and Non-governmental Support**

#### **Support Program 1: Intergovernmental Liaison and Technical Support Coordination**

**Description:** This program will actively seek to link the DOL to the DTI mechanisms established to support cooperative development, including the envisaged Cooperative Advisory Council, the Cooperative Development Agency and the Cooperative Academy. The DOL will actively earmark capacity to link at these various levels to ensure the DTI cooperative support capacity is integrated with the implementation of this strategy. In particular with regard to the Cooperative Academy the DOL needs to ensure demand side training is available for cooperatives requiring turn around, expansion and even support post take over. Moreover, the Cooperative Academy to house a worker cooperative

manager training program to ensure a cadre of worker cooperative managers are trained and available for worker cooperatives wanting to employ worker cooperative managers. Such a pool of managers could also play the role as mentors and worker cooperative development specialists required by the DOL. The link with the Cooperative Development Agency will be such as to ensure technical support for worker cooperative formation and for take overs but also to ensure start up capital is streamed accordingly.

**Market segment:** All sizes and kinds of worker cooperatives.

**Objective being addressed:** Building effective partnerships, promote the evolution of the cooperative support system and ensure effective financial and non-financial support.

**Institutional Arrangements:** DOL worker cooperative program

**Key Performance Indicators:** Number of meetings attended of DTI forums, reports provided, worker cooperative support programs leveraged, number of worker cooperatives benefitted from this.

### **Support Program 2: Outreach and Strategic Partnerships**

**Description:** This program will ensure the DOL establishes worker cooperative support partnerships with worker cooperative movements (national and international), trade unions, unemployed peoples movements, community organisations and support organisations. Such partnerships to advance common projects that assist with the implementation of the worker cooperative support strategy, enhance its effectiveness and its impact.

**Market segment:** All sizes, kinds and levels.

**Objective being addressed:** Building effective partnerships and enhancing macro-impacts of worker cooperative development.

**Institutional Arrangements:** DOL worker cooperative program

**Key Performance Indicators:** Number of partnerships reached, number of worker cooperatives established and supported

### **(iv) Worker Cooperative Working Capital Support**

#### **Support Program 1: Working Capital Fund**

**Description:** This program will provide a pool of capital just for working capital required by worker cooperatives. Such a fund to be housed and managed in a dedicated institution set up through the worker cooperatives Act. Such a fund to receive its funds directly from the labour department and the UIF. This fund to provide loan products to all worker cooperatives (including for youth, women and the physically disabled) through a

financing methodology that builds effective institutional capacity in worker cooperatives to ensure income generation and commercial viability. All funding to be streamed based on a proper worker cooperative business plan. Such a fund to work closely with all support programs for worker cooperatives in the DOL.

**Market segment:** All sizes, kinds and levels of worker cooperatives.

**Objective being addressed:** enhancing macro-impact, evolution of worker cooperative support system, ensuring more effective financing, strengthening partnerships.

**Institutional Arrangements:** Working Capital Fund linked to and accountable to DOL worker cooperative support program.

**Key Performance Indicators:** number of loans provided, the size of loans, recovery rate, a low delinquency rate and number of successful worker cooperatives financed.

(v) **Knowledge Production and Diffusion**

**Support Program 1: Research Support and Learning Platform**

**Description:** This program will ensure that worker cooperative support is guided by social science, particularly an effective policy research methodology. Such a program will map aggregate worker cooperative trends and produce a bi-annual worker cooperative review. Such a review to also include the macro-economic impacts of worker cooperatives. In addition such a program to conduct detailed research on different kinds of cooperatives, challenges facing worker cooperative development, successes experienced and training gaps. A key component of such a research methodology to also include a comparative methodology through study visits, guest speakers from the international worker cooperative movement and joint research projects. In addition, such research to be linked to the convening of an annual worker cooperative forum and the hosting of a website for dissemination of DOL research publications.

**Market segment:** all sizes, kinds and levels of worker cooperatives.

**Objective being addressed:** evolving cooperative support system, ensuring more effective financial and non-financial support and deepening partnerships.

**Institutional Arrangements:** DOL worker cooperative support program

**Key Performance Indicators:** number of research publications, number of biannual worker cooperative reviews produced, number of annual worker cooperative forums held and number of hits on website.

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*Annexure 1: Interview List*

1. Dinga Sikwbu  
Designation: Head of Education, National Unions of Metal Workers of South Africa (NUMSA)  
Date: 8/10/2010  
Place: Wits, Johannesburg
2. Charles Gould  
Designation: International Cooperative Alliance, Director General  
Date: 9/10/2010  
Place: Melville, South Africa
3. Sifiso Ndwandwe  
Designation: CEO Mineworkers Development Agency and Chair of the Cooperative Banks Development Agency Board  
Date: 18/10/2010  
Place: MDA Office, Johannesburg
4. Rector Rapoo  
Designation: Registrar of Co-operatives  
Date: 21/10/2010  
Place: Department of Trade & Industry, Pretoria
5. Patience Gidongo  
Designation: Cooperatives Unit, DTI  
Date: 21/10/2010  
Place: Department of Trade & Industry, Pretoria
6. Jeff Ndumo  
Designation: Chief Director, Coops Unit  
Date: 21/10/2010  
Place: Department of Trade & Industry, Pretoria
7. Sithembile Tantsi  
Designation: Deputy Director Cooperatives Incentive Administration  
Date: 21/10/2010  
Place: Department of Trade & Industry, Pretoria
8. R. Madonsela  
Designation: Head of Sandton Labour Center  
Date: 27/10/2010  
Place: Sandton Office

9. Christo van Zyl  
Designation: Senior Strategist – Corporate Strategy and Portfolio Management  
Date: 27/10/2010  
Place: Industrial Development Corporation, Sandton
10. Louise Paulsen  
Designation: Strategist- Corporate Strategy and Portfolio Management  
Date: 27/10/2010  
Place: Industrial Development Corporation, Sandton
11. Makaota Sebe  
Designation: Regional Manger Krugersdorp Labour centre  
Date: 16/11/2010  
Place: Krugersdorp Labour Centre
12. Krister Janse van Rensburg  
Designation: Chief Administrative Officer, The Federation of Unions of South Africa (FEDUSA)  
Date: 17/11/2010  
Place: FEDUSA Head Office, Horizon Park, Roodepoort
13. Noko Nkgoeng  
Designation: General Secretary, General and Industrial Workers Union of South Africa (GIWUSA)  
Date: 19/11/2010  
Place: GIWUSA Head Office, Germiston
14. Sharmila Garnie  
Designation: Executive Director, Job Creation Trust  
Date: 19/11/2010  
Place: Job Creation Trust Office, Midrand
15. Mametla Sebei  
Designation: Media and Campaigns Coordinator, Metal and Electrical Workers Unions of South Africa (MEWUSA)  
Date: 21/11/2010  
Place: Wits University, Johannesburg
16. Jeremy Daphne  
Designation: CCMA Head Responsible for Implementing Training Lay-off Scheme  
Date: 22/11/2010  
Place: CCMA, Johannesburg

17. Estelle Crafford  
Designation: DoL Groups and support to career guidance  
Date: 7<sup>th</sup> December 2010  
Place: DoL offices in Pretoria
18. Martin Ratshivhanda  
Designation: DoL, acting director on employer services program  
Date: 7<sup>th</sup> December 2010  
Place: DoL offices in Pretoria
19. Ratha Salbehe  
Designation: PS Branch manger  
Date: 7<sup>th</sup> December 2010  
Place: DoL offices in Pretoria
20. Bruno Roelants  
Designation: Secretary, International Organisation of Industrial, Artisanal and Service Producers' Co-operatives (CICOPA)  
Date: 4<sup>th</sup> February 2011  
Place: Skype Interview while he was in China