Assessment of Cooperatives in the Poultry Industry

Final Report
Addressing the Needs, Opportunities and Challenges of Cooperatives and Collectively Owned Enterprises in the Poultry and Related Industries
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## List of Acronyms and Abbreviations

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<th>Expansion</th>
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<tbody>
<tr>
<td>Coops &amp; CPPP</td>
<td>Cooperatives and Community Public Private Partnership</td>
</tr>
<tr>
<td>DPFO</td>
<td>Developing Poultry Farmers Organisation</td>
</tr>
<tr>
<td>Dti</td>
<td>Department of Trade and Industry</td>
</tr>
<tr>
<td>SAPA</td>
<td>South African Poultry Association</td>
</tr>
<tr>
<td>SEDA</td>
<td>Small Enterprise Development Agency</td>
</tr>
<tr>
<td>SMME</td>
<td>Small, Medium and Micro Enterprises</td>
</tr>
<tr>
<td>TOR</td>
<td>Terms of Reference</td>
</tr>
<tr>
<td>Co-op</td>
<td>Cooperative</td>
</tr>
<tr>
<td>COE</td>
<td>Collectively Owned Enterprise</td>
</tr>
<tr>
<td>CIPC</td>
<td>Companies and Intellectual Properties Commission</td>
</tr>
<tr>
<td>Dti CIS</td>
<td>Department of Trade and Industry Cooperative Incentive Scheme</td>
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Chapter One: Introduction
1. Introduction

1.1. Project Overview

Urban-Econ Development Economists was appointed by the Small Enterprise Development Agency (SEDA) to compile a set of guidelines and recommend interventions aimed at promoting the development of cooperatives and collectively owned enterprises in poultry and related industries. The ensuing research will address the needs, opportunities and challenges faced by these businesses, particularly relating to market access.

The study was commissioned by SEDA through their Cooperatives and Community Public Private Partnership (Coops & CPPP) Programme. The vision of this programme is “to provide leadership in the establishment and growth of viable, sustainable cooperatives and collectively owned enterprises in various sectors and to facilitate their successful participation in the economy”. The programme has a special focus on rural areas particularly the development of agri-business.

The study is motivated by the Department of Trade and Industry’s (DTIs) Integrated Strategy on the Development and Promotion of Cooperatives (2012). The strategy advocates for cooperative development through improved capacity, management and technical skills; compliance with applicable legislation; and an increase in access to markets, information, business infrastructure and financial and non-financial support. As an agency of the DTI it is mandated that SEDA advance these objectives through their existing Coops & CPPP Programme.

1.2. Project Scope

The scope of the study including the purpose and objectives are detailed in this sub-section. The scope of the study is determined through the Terms of Reference (TOR) and a preliminary discussion with representatives from SEDA.

1.2.1. Study Purpose

The purpose of the study is to guide SEDA in the promotion of cooperatives and collectively owned enterprises in poultry and related industries.

The study identifies opportunities and services of SEDA in assisting SME’s within the poultry industry, and develops a strategy to seize such opportunities in order to create new and support existing enterprises with the potential to create jobs.
1.2.2. Study Objectives

The study objectives, as set out in the terms of reference and reiterated during discussion with representatives from SEDA, are defined as follows:

- Identify areas of specific demand or opportunity for provision of products and services by local cooperatives and collectively owned enterprises in this sector
- Identify challenges or barriers faced by cooperatives and critical factors to operate successfully in the industry
- Identify key sector segments and value-chains and analyse key developments in such segments
- Identify products and services that SEDA could provide to cooperatives and collectively owned enterprises to enable growth in this industry

1.3. Study Area

The Coops & CPPP Programme is tasked with promoting nationwide development. It is therefore understood that the study area for this particular study is South Africa as indicated in Figure 1-1.

For the purpose of conducting interviews, Urban-Econ has made use of its provincial satellite offices situated in various provinces across South Africa. It is imperative to take cognisance of the fact that South Africa is an open economy. There are linkages between the province, neighbouring countries and global markets that need to be taken into consideration throughout the study.

The project team will thus be sensitive to the fact that the cooperative will function in a global market that is not bound by province or national borders. The global economy will have an impact on the local poultry production and services.

The following sub-section focus on the approach that Urban-Econ followed in order to conduct the research report.
1.4. Approach

The methodology followed in undertaking the research study initially takes an academic research approach, aimed at providing a general overview and theoretical understanding of the poultry industry in South Africa. The research approach focuses on integrating stakeholder consultations with a policy overview in order to identify the areas of specific demand or opportunity for the provision of products and services for cooperatives in the South African market as well as to provide guidelines for SEDA to support cooperatives in the industry.

After the project inception was completed and the goals, objectives and outcomes of the study were determined, a literature review was conducted. The literature review included legislation relating to the poultry and cooperative industry. Apart from the legislation the literature review also focuses on the national and provincial policies as well as support structure in the industry. The support structures were identified to formulate guidelines for SEDA to assist in the development of poultry cooperatives.

As part of the desktop research the project team also developed a poultry value chain. The purpose of the value chain was to identify the core function as well as forward and backward linkages in the sector. By analysing the value chain it becomes possible to identify support functions where cooperatives could be included as part of the value chain through inclusive business.

After the desktop research, stakeholders who need to be consulted were identified. These consultations were undertaken after the desktop research, allowing the project team to fully understand the poultry industry in South Africa. The consultations were conducted across South Africa to ensure that a representative sample were interviews. The purpose of the consultations was to obtain information from cooperatives that operates in the industry. The information was used as basis for the identification of opportunities for cooperatives in the sector.

The final section of the report, after the primary information was analysed, was to provide guidelines for SEDA to support cooperatives in the South Africa poultry industry. The study was used as a research report to identify a strategy to uplift cooperative in South Africa to become competitive in the market.

1.5. Report Outline

The question of how SEDA is able to better assist cooperatives in the poultry industry is addressed in this report.

The report consists of six chapters; a description of the content and purpose of each chapter has been summarised in Table 1.1 below.
Table 1-1: Report Outline

<table>
<thead>
<tr>
<th>Chapter Number</th>
<th>Chapter Title</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>Introduction</td>
<td>The first chapter provides context to the report and sets out the scope, purpose, approach and objectives.</td>
</tr>
<tr>
<td>Two</td>
<td>Overview of the South African poultry industry</td>
<td>An overview of the poultry industry is provided in order to assess the industry as a whole and identify potential scope for the emergence and involvement of cooperatives within the industry. Key trends and market information on the industry is provided.</td>
</tr>
<tr>
<td>Three</td>
<td>Literature Review</td>
<td>The literature review identifies and provides a succinct look at both policy and general literature which is relevant to the study.</td>
</tr>
<tr>
<td>Four</td>
<td>Assessment of Cooperatives in the Poultry Industry</td>
<td>The specific information around the collection of information and results of the surveys of cooperatives is detailed in this chapter. This includes material around how the sample was selected and detailed information on the findings</td>
</tr>
<tr>
<td>Five</td>
<td>Strategic Intervention</td>
<td>The purpose of chapter five is to highlight what Urban-Econ recommends as the most important forms of assistance needed in order to assist cooperatives in the poultry industry based on the results obtained. This includes a proposed strategy, implementation plan and additional considerations regarding the context</td>
</tr>
</tbody>
</table>
Chapter Two:
Overview of the South African Poultry Industry
2. Overview of the South African Poultry Industry

2.1. Introduction

This section provides an overview of the domestic poultry industry within South Africa. In order to understand the environment in which cooperatives do business, it is necessary to understand the market as a whole. This enables insight into where opportunities may lie. The poultry industry is also dominated, in some parts of production, by commercial producers. Identifying where small business is more prominent will illustrate where there is greater potential, while at the same time showing where small business may be able to leverage off large business.

The industry value-chain produced in this section adds to this by illustrating how role-players participate in the various functions which feed into, supplement and result from the poultry production process.

The poultry industry is broken into two main sub-sectors: broiler production and egg production. This overview will make a distinction between the two sub-sectors when providing statistics as each sub-sector has a very different set of information.

The market overview is based on information from the South African Poultry Association (SAPA) and confirmed through additional research (see full reference list for details).

2.2. Key statistics

In this section key statistics are provided for the poultry industry as a whole and for broiler and egg production as a sub set. These statistics show insight into the performance of the industry and highlight where scope for greater participation by cooperatives may exist.

2.2.1. Industry Size

The size of an industry is relevant due to a number of indicators which it presents. On the positive side, a large industry represents a high demand for a product, a lot of need for support services and industries, a large level of specialisation (which provides scope for outsourcing of functions), and a potentially large number of producers with whom small
businesses/cooperatives may be able to do business. However, a large industry may also indicate high barriers to entry and a market dominated by large producers.

The SAPA reports that the poultry industry is the largest agricultural sub-sector in South Africa accounting for 24% of all agriculture production in 2011. This figure is supported by high demand for poultry which has been seen through an increasing demand for eggs and broilers over the last 30 years.

The industry provides an important source of protein with the poultry industry producing 65.5% of locally produced animal protein; poultry consumption outweighs all other animal-protein sources combined.

The specific quantities produced by the egg and broiler industries are detailed below.

**Egg Industry**
- 405 000 tons of eggs were consumed in 2011
  - This equates to 580.2 million dozen eggs
- Per capita egg consumption in 2011 was 137 eggs

**Broiler Industry**
- 1 740 293 tons of boiler meat was consumed in 2011
- Per capita broiler meat consumption in 2011 was 33.8kgs

**Implications for the Cooperatives in the Poultry Industry:**

The poultry industry being the largest agricultural sub-sector in South Africa shows that there is strong demand for its products. The industry produces the largest quantity of animal protein thus providing an important and cheap food source. Thus, cooperatives who successfully integrate into the industry will be producing a product which is already in demand.

### 2.2.2. Employment

Due to the fact that unemployment is a major issue in South Africa, the number of jobs that an industry is able to create is an important statistic to consider.

The poultry industry provides direct employment for over 70 000 people and indirect employment to an approximate 375 000 people. Statistics South Africa reported that a total of 431 664 people were employed full-time and 365 142 people were
employed casually in the formal agricultural sector in 2007.

This equates to 796 806 people employed in the formal agriculture industry in 2007. There is a three year time difference between these two sets of statistics, however, considering that the poultry industry is only one part of this, a total of around 445 000 people employed directly and indirectly through the industry is a relatively high figure (SAPA, 2011) (Stats SA, 2007). Even if only direct employment is considered, the poultry industry would still account for approximately 10% of agricultural employment.

### Implications for the Cooperatives in the Poultry Industry:

Only 15.7% of employment in the poultry industry is through direct employment; the remaining 84.3% is through informal/indirect employment. The large percentage of informal/indirect employment illustrates a large amount of scope for support by cooperatives in meeting the demands of the industry.

#### 2.2.3. Import/Export

The figures indicating imports and exports illustrate how well the South African poultry industry is performing in relation to the international poultry market. A low number of imports and high number of exports is the ideal situation as this shows that South Africa is producing more than it is consuming and also that South African poultry is competitive on the international market.

<table>
<thead>
<tr>
<th>Table 2-1: Imports and Exports in Egg and Broiler Production</th>
</tr>
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<tbody>
<tr>
<td><strong>Imports</strong></td>
</tr>
<tr>
<td>(as a percentage of domestic consumption)</td>
</tr>
<tr>
<td><strong>Broiler</strong></td>
</tr>
<tr>
<td><strong>Egg</strong></td>
</tr>
</tbody>
</table>

*Source: South African Poultry Association, 2012*

However, the domestic poultry industry stands at a negative balance of payment on the import/export front as seen in the table above. This indicates that we are importing more than we are exporting. Approximately 9% of broiler meat consumption is from imported meat and approximately 22% of egg consumption is imported. Only 1.3% of egg production is exported, indicating that the Republic of South Africa (RSA) is importing a far greater quantity of eggs than is being exported.

Amongst other factors, the lower costs of inputs such as feed in competing nations (for example Brazil) create a lower production cost which is difficult for South African producers to compete with. The table below illustrates the differences in grain prices between South Africa, the United States of America (USA) and Brazil. This
clearly shows the higher cost of feed in South Africa. Due to the fact that feed is the primary input into the industry this has a large knock on effect of increasing the costs of production domestically.

### Table 2-2: Grain prices per ton: comparison of USA, Brazil and South Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>Maize (US $ per ton)</th>
<th>Soya Bean Meal (US $ per ton)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>262.35</td>
<td>433.42</td>
</tr>
<tr>
<td>Brazil</td>
<td>243.65</td>
<td>458.80</td>
</tr>
<tr>
<td>South Africa</td>
<td>301.05</td>
<td>530.90</td>
</tr>
</tbody>
</table>

*Source: South African Poultry Association, 2012*

According to SAPA, South African poultry exports “promise a window of opportunity for the sector” (SAPA, 2011: 11). However, this is limited by the sanitary standards set by large markets which are unobtainable for South African producers.

Globally (of 204 countries listed in 2011 data), South Africa is ranked 10\textsuperscript{th} for broiler meat production with a market share of 1.7% and 26\textsuperscript{th} for world egg production with a market share of 0.7%.

### 2.3. Industry Growth

The growth or decline of an industry from year to year is one of the most telling factors about its performance. The statistics below will show that there has been a positive rate of growth from year to year in the poultry industry. The above information regarding imports and exports does, however, present a threat to this growth.

#### 2.3.1. Industry Growth Rates

In the most recent statistics, for the year 2011, broiler and egg production showed positive rates of growth:

- In 2011 the egg industry grew by 4.6%. In the Industry Profile for the year, SAPA remained optimistic on the growth rate, predicting continuous growth rates in the coming years.

- Growth in the broiler meat industry in 2011 was not as high at around 1%. However, the figure remains positive, especially given that there was a 32% increase in competing broiler meat imports during the same period.

Between 2001 and 2011, as illustrated in the graph below, both the egg and broiler industry maintained positive growth rates (Strydom, 2011). The broiler industry showed higher rates of growth with the egg industry growing only marginally over the period. This can be seen through
compounded growth rates of the two sectors. Compounded growth rates from 2001 to 2011 were as follows:

- Broiler Industry: 38.8%
- Egg Industry: 33.7%

Figure 2-1: Graph illustrating Growth in Poultry Numbers

![Graph illustrating Growth in Poultry Numbers](source: Strydom, 2011)

2.3.2. Growth Rate Fluctuations

Further to the growth rate itself is the rate of change in growth rates. The change in growth rates indicates whether the growth rate is slowing down or speeding up. For example, in the first graph below a positive growth rate is evident for the entire period, however, when looking at the change in growth rate the number is not always positive (as seen in the second graph below).

Figure 2-2: Graph illustrating change in industry growth rates

![Graph illustrating change in industry growth rates](source: Strydom, 2011)
The graph above (Figure 2-2) shows a more indicative picture of the performance overall. It illustrates the changes in growth rates. The negative percentage change seen below indicates periods where the growth rate declined (it was not negative, only decreasing in rate of growth). Due to the positive rate of growth overall, the below (Figure 2-3) gives a clearer picture of periods in which the industry growth slowed down. As can be seen in Figure 2-3, a slowdown has taken place recently between 2010 and 2011. One of the potential causes for the erratic growth rates in the egg industry may be the long turn-around time required to change the number of laying hens in a flow.

I will assess the growth in the egg and poultry industry independently below in order to provide a greater understanding of the information behind the growth rates shown above.

2.3.3. Broiler Industry Growth

As noted above, the broiler industry experienced higher growth than the egg industry. Trends can be seen over the ten year period. These may be useful in understanding the potential growth in the poultry industry in future, given the business climate in South Africa at present.

Figure 2-3: Broiler Production from 2001 to 2011

The above table shows increased growth rates between 2004 and 2008. This can be attributed to the relatively low input costs and a favourable rand/dollar exchange rate (Strydom, 2011). The slowdown seen from 2008 to 2009 occurred as a result of increasing costs of inputs (such as grain), a stronger Rand and higher numbers of poultry imports. Despite predictions of a decrease in broiler
production post 2009, the decrease in price of broiler meat caused a continuation in positive rates of growth which can be seen into 2011.

2.3.4. Egg Industry Growth

The egg industry showed less consistent growth between 2001 and 2011. The figure (Figure 2-4) below illustrates the fluctuations in egg production over this period.

Figure 2-4: Egg Production from 2001 to 2011

Over the ten year period the number of eggs produced per annum increased by 5 296 900 cases. The majority of this increase took place between 2004 and 2007; this was a result of increased demand and good profit margins in the industry (Strydom, 2011). There is an 18 month time delay in the egg production process as a result of the time taken to breed and grow laying hens to create a sufficient laying flock size. The decline seen after 2008 is a result of the economic downswing in 2007. However, this decrease in supply lead to a price increase and production started to grow again in response. The increased production seen in 2010 and 2011, however, resulted in an oversupply in the industry.

2.3.5. Synthesis

Given that the quantity of broiler meat imports is increasing, the positive growth in rates over the period is a good indicator of the success of the industry. However, as was highlighted above in the overview, the low cost of inputs such as feed in other nations is likely to cause an increase in imports of broiler meat which may hamper the growth of the local broiler industry.
Overall the growth rates have been positive, however, the rates of change fluctuate rapidly and have seen a decline since 2010. The effect of imports is largely held as the cause of this.

### Implications for the Cooperatives in the Poultry Industry:

Positive growth rates for the poultry industry overall remain a good indicator for entrants into the market. However, the slowdown in growth rates of the broiler industry as a result of international competition may be worth considering when looking at whether egg or broiler production will be more successful by co-op entrants.

### 2.4. Value chain

The value chain is a business concept formulated and developed by Michael Porter in 1985. The value chain was developed in order to provide a better understanding of organisational activities and their influence on the organisation’s competitive strength. In other words, it evaluates the specific value that each organisational activity contributes towards the overall spread of products and services within an organisation.

The value chain can be defined as a model of a business or industry that provides a step-by-step analysis of the different value that is added to products and services from the moment that the raw material is received until the point where the final products or services are sold to customers. The aim of the value chain is to balance adding maximum possible value for minimal total cost.

Porter indicated that value adding activities are primarily inbound distribution or logistics, manufacturing operations, outbound distribution or logistics, marketing and selling, and after-sales service. In order to increase the effectiveness of the primary activities, secondary activities are identified as support measures. These may include purchasing or procurement, research and development, human resource development, and corporate infrastructure.

Within the agricultural environment, a value chain is the process of developing a basic agricultural product or raw material through the production process, where value is added at each stage to offer a final, higher value product to the customer.
A value chain is predominantly used in the identification of opportunities for SMMEs and cooperatives, and can also be utilised to grow an economy by differentiation and achieving competitive advantage.

The poultry value-chain identifies industries which are significantly impacted by the production of broilers and eggs. This impact is derived from an increase in demand or the provision of essential inputs. Figure 2-5 illustrates the poultry value-chain in South Africa and was compiled using 2011 data from the Department of Agriculture.

The poultry industry consists of two main sectors: egg production and broiler production. Alongside this is the market for day-old chicks which are bred and sold to producers in both sub-industries.

In addition to the direct production of eggs and broilers, the poultry industry has a large impact through secondary activities, suppliers and outputs. The poultry industry is the largest consumer of maize in South Africa, consuming around 2.68 million tons of maize per annum; 30% of the country’s total maize consumption. In addition to this, feed is the biggest determinant of the cost of broiler and egg production.

By-products of the industry include chicken manure, spent hens and broiler off cuts. The poultry industry value-chain identifying the various role-players in the industry is illustrated below. Most pertinent to this is the effect of the poultry industry both on suppliers, peripheral businesses and businesses further down the value chain.

Implications for the Cooperatives in the Poultry Industry:

- There may be scope for cooperatives to enter the market through secondary and support functions or through use of by-products of the industry
- Prices in the poultry industry are affected by a number of costs but most significant is the input cost of chicken feed; this has a direct result on the costs of production. If the costs of feed increase, the stability of the poultry industry and scope for new businesses will be in jeopardy
Figure 2-5: Poultry Industry Value-Chain

Poultry Industry Value-Chain

Primary Activities
- Egg Production
  - Buy Hens
  - Egg Laying
  - Sell Eggs
- Broiler Production
  - Buy Chicks
  - Broiler Growing
  - Sell Broilers

Support Functions
- Feed Companies
- Cage Construction
- Cleaning

Secondary Activities
- Breed Chickens
- Hatch Chicks
- Feed Farms

Outputs
- Manure
- Feathers
- Heads, Beaks, Feet
- Spent Hens

Secondary Activities
- Packers And Processors
- Abbatoirs

Informal Traders
- Retailers
- Exporters

Consumers
2.5. Industry Ownership

The distribution of the industry between commercial production and SMME’s provides an indication of whether small businesses are able to break into the market. A higher percentage ownership by SMME’s indicates a potentially easier market for penetration by cooperatives.

Egg production:
- Within the egg production process, 49% of domestic production is accounted for by SMME’s
- 51% commercial production is dominated by only three large producers: Eggbert (7%), Nulaid (32%) and Highveld (12%)

Broiler production:
- Large producers still dominate the broiler market, contributing to 72% of production according to the 2011 Department of Agriculture, Forestry & Fisheries (DAFF) Broiler Profile
- 72% is produced by only eight large producers

The value chain above provides more insight into these statistics. Although the broiler market is dominated by large producers there may be scope for cooperatives to participate through support functions, secondary industry and consumption of outputs. For example, as can be seen in the value-chain above, spent hens may be given to informal traders who then sell directly to consumers on a small-scale.

Implications for the Cooperatives in the Poultry Industry:
Large number of existing producers; may indicate high barriers to entry but also indicates that there are many potential producers with whom co-ops can do business

2.6. Distribution

The spread of the poultry industry over the various provinces as well as the concentration of production in each province creates a picture of where the industry is the most prominent. As can be seen in the pie chart below, the North-West and Western Cape & Northern Cape dominate the industry with 21% and 20% share of total broilers and layers respectively.
Figure 2-6: Total Birds by Province

Source: South African Poultry Association, 2011

The bar chart below illustrates the differential between layer and broiler numbers by province. It shows that the areas which produce large quantities of broiler meat are not necessarily the areas which produce a large number of eggs. The smallest difference between the two exists in Gauteng where a total of 6 961 969 broiler birds and a total of 6 004 853 layer birds were found.

The spread of layer birds for the production of eggs is more consistent across the provinces. Broiler producers however show a greater concentration in specific areas with the North-West dominating production.

Figure 2-7: Bird Numbers by Province
Research Report: Addressing the Needs, Opportunities and Challenges of Cooperatives and Collectively Owned Enterprises in the Poultry and Related Industries

The table below illustrates the specific figures for each province.

<table>
<thead>
<tr>
<th>PROVINCE</th>
<th>TOTAL BROILER BIRDS</th>
<th>% OF BROILERS</th>
<th>TOTAL LAYER BIRDS</th>
<th>% OF LAYERS</th>
<th>TOTAL BIRDS</th>
<th>% OF TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>EASTERN CAPE</td>
<td>6 875 045</td>
<td>6%</td>
<td>898 926</td>
<td>3%</td>
<td>7 773 971</td>
<td>6%</td>
</tr>
<tr>
<td>FREESTATE</td>
<td>5 657 563</td>
<td>5%</td>
<td>4 675 812</td>
<td>18%</td>
<td>10 333 375</td>
<td>8%</td>
</tr>
<tr>
<td>GAUTENG</td>
<td>6 961 969</td>
<td>6%</td>
<td>6 004 853</td>
<td>23%</td>
<td>12 966 822</td>
<td>10%</td>
</tr>
<tr>
<td>kwazulu-natal</td>
<td>16 216 891</td>
<td>15%</td>
<td>4 089 376</td>
<td>16%</td>
<td>20 306 267</td>
<td>15%</td>
</tr>
<tr>
<td>LIMPOPO</td>
<td>2 557 200</td>
<td>2%</td>
<td>1 542 903</td>
<td>6%</td>
<td>4 100 103</td>
<td>3%</td>
</tr>
<tr>
<td>mpumalanga</td>
<td>21 575 970</td>
<td>20%</td>
<td>1 273 319</td>
<td>5%</td>
<td>22 849 289</td>
<td>17%</td>
</tr>
<tr>
<td>north west</td>
<td>26 943 651</td>
<td>25%</td>
<td>2 583 712</td>
<td>10%</td>
<td>29 527 363</td>
<td>22%</td>
</tr>
<tr>
<td>western cape</td>
<td>22 775 800</td>
<td>21%</td>
<td>5 268 019</td>
<td>20%</td>
<td>28 043 819</td>
<td>21%</td>
</tr>
</tbody>
</table>

The next section highlights a few of the socio-economic aspects involved in the poultry industry. The aim of this is to assess not only whether there is scope in the market for cooperatives but also whether there is social benefit associated with this and whether there are sufficient support mechanisms enabling entry into the market.

2.7. Potential

The poultry industry is increasingly relevant in terms of socio-economic development, especially among previously disadvantaged South Africans. The relative affordability of poultry makes it an important source of protein for millions of low-income South Africans, thus contributing to the zero hunger ambition of the government.

Small-scale farmers are common in the industry; as was shown in the ownership section; 49% of egg production is accounted for by SMME’s. However, ownership is not the only factor to consider. A large number of small-scale poultry producers conduct business informally. This contributes to employment and productivity of the sector but is largely unaccounted for. SAPA reports that an estimated 1554 small-scale farmers from previously disadvantaged communities have been established.
Health trends have led to an increased demand for poultry as opposed to other meat products. Consumption of mutton and beef has declined while poultry and egg consumption continues to rise.

The broiler industry is highly capital intensive and requires a long planning cycle in order to produce. This limits entrants into broiler production. Large companies dominate the poultry industry, and are able to provide required infrastructure for poultry value addition while the emerging sector requires assistance in value addition.

Cooperatives may be able to support in supply chain functions, specifically feed production (soya bean and maize), hatcheries (day-old chicks), and abattoirs (slaughtering, dressing/packaging, wholesaling and retailing). Broiler production is dominated by a few large producers. Small-scale farmers are not able to compete with the bulk costs or quality the large producers can meet. However, scope lies in the many support functions, in rural areas where there is limited access to retailers and in the value chain outside of production.

A potential constraint to the growth of the domestic poultry industry is the emergence of strong international competition and insufficient tariffs to protect the local industry from the cheaper imports. If local poultry continues to be substituted by imported poultry the growth of the industry may continue to decline.

Implications for the Cooperatives in the Poultry Industry:
- The high numbers of small-scale farmers indicates that there is scope for small organisations such as cooperatives to function within the industry
- Health trends indicate a potential increase in the demand for poultry
- Support functions and functions up and downstream in the value chain may also present opportunity for cooperatives

2.8. Support

There are a number of agencies which provide support to cooperatives, in various forms, as part of their mandate. The literature review in chapter three provides information around the formation of some of these support functions. For example, the 1996 National Small Business Act gave rise to SEDA.

The table below identifies organisations which provide support to cooperatives. It also details the purpose and function, main services, target group (often broader than cooperatives), and restrictions and fees.
Table 2-4: Organisations offering support to cooperatives in the poultry industry

<table>
<thead>
<tr>
<th>Support Organisation</th>
<th>Acronym where applicable</th>
<th>TYPE OF SUPPORT PROVIDED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Labour / entrepreneurship</td>
</tr>
<tr>
<td>1 Small Enterprise Development Agency</td>
<td>SEDA</td>
<td>x</td>
</tr>
<tr>
<td>2 Developing Poultry Farmers Organisation – a division of SAPA</td>
<td>DPFO</td>
<td>x</td>
</tr>
<tr>
<td>3 Land and Agriculture Development Bank of South Africa</td>
<td>Land Bank</td>
<td>x</td>
</tr>
<tr>
<td>4 National Youth Development Agency</td>
<td>NYDA</td>
<td>x</td>
</tr>
<tr>
<td>5 Youth and Graduate Entrepreneurship</td>
<td>Y-Age</td>
<td>x</td>
</tr>
<tr>
<td>6 South African Micro-Finance Apex Fund</td>
<td>SAMAF</td>
<td>x</td>
</tr>
<tr>
<td>7 Black Business Supplier Development Programme</td>
<td>BBSDP</td>
<td>x</td>
</tr>
<tr>
<td>8 Cooperatives Incentive Scheme</td>
<td>N/A</td>
<td>x</td>
</tr>
<tr>
<td>9 National Empowerment Fund</td>
<td>NEF</td>
<td>x</td>
</tr>
<tr>
<td>10 Thembani International Guarantee Fund</td>
<td>N/A</td>
<td>x</td>
</tr>
</tbody>
</table>
As can be seen from Table 2-4 above, a large number of support organisations for SMME’s who operate in the agricultural and poultry sector exist. The exposure of cooperative members to these organisations is unknown. Questions around the ability of cooperatives in the poultry industry to access these services will be discussed in the research section of this report.
2.9. Synthesis

The above information has highlighted some of the key factors affecting the poultry industry and provided a snapshot of the performance of the industry. The poultry industry has shown consistent growth and from this perspective presents a good market for entry by cooperatives.

Limiting factors include the increase in imports and the barriers to entry created by the dominance of the industry by large producers. There is a large amount of scope in support functions and along the value chain for cooperatives to enter.

There are many support organisations in place that are able to provide financial assistance to cooperatives. Most cooperatives are, however, likely unaware of these opportunities. SEDA and the Developing Poultry Farmers Association (DPFO) are the primary organisations offering support specific to cooperatives in the poultry industry. Our study will investigate this support and provide SEDA with further information on how to support cooperatives more effectively.

The next chapter provides a review of the legislation and policies which are pertinent to cooperatives in the poultry industry.
Chapter Three: Literature Review
3. Literature Review

3.1. Introduction

This chapter has a dual aim: to firstly provide an overview of relevant policies and legislation applicable to cooperatives to which SEDA’s assessment of cooperatives in the poultry industry needs to be aligned, and secondly to provide a development framework for the establishment and growth of cooperatives consisting of both small and medium enterprises. The literature review provides the national strategic direction of cooperatives in South Africa, where the provincial policy review indicates the direction and available actions of government in the province in terms of cooperative development. This serves to establish a consistent and conducive set of measures to promote viable cooperative development, support and integration. The interventions and recommendations provided in this study would also need to be integrated with the legislation and policies discussed in this section.

3.2. Legislation

A number of legislative documents is discussed in this sub-section, and is inclusive of the following:

- National Small Business Act (1996)
- Cooperatives Act (No 15 of 2005)
- Cooperative Amendment Bill (Section 75)

The implications of each legislative document are also provided alongside each review.


The White Paper on Small Businesses identifies different types of small businesses alongside the challenges and possible interventions faced by each kind of business. In 1996 the White Paper was enacted by government as the National Small Business Act, in which informal businesses are classified under micro-enterprises, specifically survivalist operations, which are not registered and are seldom regulated.

The act informs of government’s intention to improve the small (inclusive of micro-enterprise) business environment by employing the necessary resources. From the act, two entities were formed, namely the National Small Business Council and Ntsika Enterprise Promotion Agency. Through the aforementioned the interests of small businesses are highlighted at a national level. Among others, the focal points for survivalist enterprises are to enhance entrepreneurial skills and improve literacy levels within.

The main objectives of the National Small Business Act are (Steyn: 2011):
• to create an enabling environment for small enterprises
• facilitate greater education of income, wealth and earning opportunities
• address the legacy of apartheid-based disempowerment of black business
• support the advancement of women in all business sectors
• create long-term jobs
• stimulate sector-focused economic growth
• strengthen cohesion between small enterprises
• level the playing fields between smaller and larger businesses as well as between rural and urban businesses and
• prepare small businesses to comply with the challenges of an internationally competitive economy.

In 2004, the act gave rise to SEDA by merging Ntsika, NAMA Trust, and the Community PPP.

**Implications for SEDA and poultry cooperatives:** The National Small Business Act gave rise to SEDA and in doing so set out a number of objectives which aim to assist the development and competitiveness of small businesses including cooperatives.

### 3.2.2. Cooperatives Act (No 15 of 2005)

The Cooperatives Act was developed to replace the Agricultural Cooperatives Act of 1991, in order to address all cooperatives in all spheres of the economy. The act was developed in order to provide for the formation and registration of cooperatives and deal with other matters associated with the development and operations of cooperative enterprises. According to the cooperatives Act (No 15 of 2005) the act was developed in order to:

• ensure that international cooperative principles are recognised and implemented in the Republic of South Africa
• enable cooperatives to register and acquire a legal status separate from their members
• facilitate the provision of targeted support for emerging cooperatives, particularly those owned by women and black people.

The act also intends to achieve the following: *(Department of Trade and Industry [the dti], 2005:12-13)*

• promote the development of sustainable cooperatives that comply with cooperative principles, thereby increasing the number and variety of economic enterprises (emerging) operating in the formal economy
• encourage persons and groups who subscribe to values of self-reliance and self-help, and who choose to work together in democratically controlled enterprises, to register cooperatives in terms of the Cooperatives Act, 2005
• enable such cooperative enterprises to register and acquire a legal status separate from their members
• promote equity and greater participation by black persons, especially those in rural areas, women, persons with disabilities and youth in the formation of, and management of, cooperatives
• establish a legislative framework that preserves a cooperative as a distinct legal entity
• facilitate the provision of support programmes that target emerging cooperatives, specifically those cooperatives that consist of black persons, women, youth, disabled persons or persons in the rural areas and that promote equity and greater participation by its members
• ensure the design and implementation of the cooperative development support programmes by all the agencies of national departments including but not limited to Khula, National Empowerment Fund (NEF), National Productivity Institute (NPI), Small Enterprise Development Agency (SEDA), Industrial Development Corporation (IDC), South African Qualifications Authority (SAQA), South African Bureau of Standards (SABS), Council of Scientific and Industrial Research (CSIR), Public Investment Corporation (PIC), Development Bank of Southern Africa (DBSA), South African Local Government Authority (SALGA) and Sector Education and Training Authorities (SETA’s), and compliance with uniform norms and standards prescribed by this Cooperatives Act, 2005
• ensure the design and implementation of the cooperative support measures across all spheres of government, including delivery agencies, and adherence to a uniform framework of established norms and standards that reflect fairness, equity, transparency, economy, efficiency, accountability and lawfulness
• facilitate the effective co-ordination and reporting mechanisms across all spheres of government through the central conduit of the dti

**Implications for SEDA and poultry cooperatives:** The Cooperatives Act is the legislation which governs the legal functioning of cooperatives and aims to identify support structures for cooperatives. All cooperatives should be familiar with the legalities surrounding this type of entity and the Cooperatives Act sets out these legalities.

### 3.2.3. Cooperative Amendment Bill: Section 75

The Cooperative Amendment Bill was developed to amend the Cooperatives Act of 2005. The purpose of the Amendment Bill is to:

• to provide for the substitution and addition of certain definitions; to provide for associate membership of cooperatives
• to provide for categories of primary cooperatives
• to provide for national apex cooperatives
• to provide for the annual submission of information to the CIPC
• to amend the accounting practices by providing for audit and independent review of cooperatives
• to provide for the payment of fees by cooperatives for the amalgamation, division, conversion or transfer of cooperatives
• to provide for the voluntary winding-up of a cooperative by special resolution
• to provide for a cooperative to apply for a declaratory order in respect of the liquidation process
• to provide for the registrar or tribunal to order the winding-up of a cooperative
• to substitute the advisory board with the advisory council; to provide for the establishment, functions and powers of the Cooperatives Development Agency
• to provide for the funding and financial management of the agency
• to provide for oversight and executive authority of the agency
• to provide for the establishment, composition and functions of the cooperatives tribunal
• to provide for the substitution of the long title and the preamble

(Cooperatives Amendment Bill, 2012:46)

One of the other important aspects of the Amendment Bill that may have an impact on the cooperatives sector is that the Amendment Bill provides for the establishment of a Cooperatives Development Agency. This agency could assist cooperatives in terms of operating their business and providing support.

### Implications for SEDA and poultry cooperatives

The major implication that it would have on cooperatives in the industry will be in terms of auditing and other regulations, including registration, operations of the cooperative, bookkeeping and annual reporting. One of the other important aspects of the Amendment Bill that will certainly have an impact on cooperatives is that the bill provides for the establishment of a Cooperatives Development Agency. This agency could assist cooperatives in terms of operating their business and providing support.

### 3.2.4. Meat Safety Act, 2000

The Meat Safety Act (MSA) was passed in 2000 as a measure to control and influence the meat industry in terms of its products and standards. The act is aimed at providing measures to promote meat safety and the safety of animal products, to establish and maintain essential national standards in respect of abattoirs; to regulate the importation and exportation of meat; to establish meat safety schemes; and to provide for matters connected therewith. The act also indicates that a veterinarian, within the Department of Agriculture, will be appointed as a national executive officer to ensure that applications and requests under this act are considered and revised.

In addition, the act specifies the functions assigned to provincial executives that are under the jurisdiction of the national executive officer, as well as their revocation conditions. The following rules and regulations are stipulated in the act:

- animals may not be slaughtered at any place other than an abattoir, with the exception of slaughtering animals for cultural or religious purposes
- slaughter facilities must be approved through an application process whereby successful applicants will be issued a certificate of registration by the national executive officer
• abattoirs are requested to comply to a certain standard and are subject to conditions of operation
• meat safety schemes will also be put in place for regulation purposes
• no meat may be imported into South Africa except where specific permits are obtained by the national executive officer
• meat designated for exports are also subject to conditions which include inspection by an abattoir, standards are met, and the appropriate fees have been paid
• all facilities are subject to routine inspections

Implications for SEDA and poultry cooperatives: the Meat Safety Act sets out the minimum standards required for the production of meat; this will be applicable to cooperatives wanting to participate in the broiler meat market. The act is aimed at providing measures to promote meat safety and the safety of animal products, to establish and maintain essential national standards in respect of abattoirs; to regulate the importation and exportation of meat; to establish meat safety schemes; and to provide for matters connected therewith. Some of the standards include:

- animals may only be slaughtered at an abattoir
- slaughter facilities must be approved through an application and inspection process

In addition to the legislation discussed above, the national policies are discussed in the next sub-section.

3.3. National Policy

The following sub-section outlines the key focus areas of the national policies. The main focus of the review of these policies is on identifying the implications of their vision, objectives, and mechanisms on the establishment of cooperatives in the poultry industry. Three national policies were analysed as part of the national policy overview, and include the following:

- Cooperatives Development Policy for South Africa (2004)
- Regulations for Cooperatives (2008)

3.3.1. Cooperatives Development Policy for South Africa, 2004

The Cooperatives Development Policy, 2004, was developed to address the government’s economic policy which promotes the development of emerging economic enterprises. The aim of the policy is also to diversify the enterprises within South Africa, in terms of their ownership, operations, services delivered, location and size. The Cooperative Development Policy makes reference to a specific business entity, namely cooperatives. According to the Cooperative Development Policy, “a (primary) cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.” (The Department of Trade and Industry, 2004:7)
In this sense the Cooperative Development Policy is concerned with the promotion of these emerging cooperative enterprises and supporting them in their development. The enterprises included in this policy are the small, medium, micro and survivalist enterprises. According to the policy “a viable, dynamic, autonomous, self-reliant and self-sustaining cooperative movement can play a major role in the economic, social and cultural development of South Africa, through effective and efficient services extended by cooperative enterprises to their members.”

If this is achieved the cooperative enterprises will be able to contribute to the South African Economy in a number of ways. According to the policy cooperatives could contribute to the following:

- job creation
- income generation
- resource mobilisation
- economic empowerment
- enhancement of sustainable human resource development within the country

The Cooperative Development Policy is relevant for all spheres of cooperatives in any of the economic sectors. In the policy a distinction is made between emerging cooperatives and established cooperatives, and the emerging cooperatives receive more importance than the established cooperatives.

The policy puts emphasis on the emerging cooperatives, which are considered as the cooperatives to be in more need of support. The Cooperative Development Policy therefore aims at promoting the emerging cooperatives such as SMMEs, and creating an enabling environment in which they are able to compete and become sustainable businesses.

**Implications for SEDA and poultry cooperatives:** The Cooperatives Development Policy for South Africa emphasises the development and support of emerging cooperatives, which indicates that emerging cooperatives in the poultry industry could look towards support from this policy. Cooperatives should also focus on job creation, income generation, resource mobilisation, economic empowerment and enhancement of sustainable human resource development within the country, as indicated in this policy.

### 3.3.2. Integrated Strategy on the Development and Promotion of Cooperatives (2010-2020), 2011

The Integrated Strategy on the Development and Promotion of Cooperatives, 2010-2020 (here after referred to as the “strategy”) was developed in 2010 in response to the commitment of the government to the promotion and development of cooperative enterprises within the country over a ten year period (2010-2020). The strategy sets out an implementation framework for the Cooperatives Development Policy and the Cooperatives Act. The strategy targets the existing as well as the emerging cooperative enterprises within South Africa, and speaks to the following market
segments: survivalists, micro and small to medium cooperatives. The vision of the strategy is to be consistent with that of the Cooperative Development Policy (2004) which states:

“To move towards a growing, self-sustainable and integrated cooperative sector, supported by all stakeholders, contributing to economic growth, poverty reduction and employment creation, as well as assisting in bringing about economic transformation and an equitable society in South Africa.” (Department of Trade and Industry [the dti], 2010:10)

The following objectives have been identified in the strategy, which are aligned with the Cooperative Development Policy (2004):

- grow all forms and types of cooperatives
- promote cooperatives as a vehicle to assist in creating decent employment and reducing poverty through income-generating activities
- support cooperatives in developing their human resource capacities and understanding of cooperative principles and values
- strengthen cooperative sustainability
- increase savings and investment
- foster co-operation among cooperatives
- raise the profile of cooperatives as a dynamic and effective business organisation that can be utilised by individuals and communities
- raise the profile of cooperatives as an institution that allows the agglomeration of small-scale economic activities into massive activities
- aggressively promote closed cooperatives
- promote cooperatives as an effective vehicle that contributes to the development of rural and peri-urban areas of the economy

In addition, the strategy also identified four strategic pillars that address the support instruments for cooperatives. Each strategic pillar consists of support programmes designed to respond to the various market segments and to address the challenges that cooperatives are faced with. The four strategic pillars are as follows:

- to increase the supply of non-financial support services to cooperatives
- to create demand for cooperative products and services
- to improve the sustainability of cooperatives
- to increase financial support services to cooperatives

Implications for SEDA and Poultry Cooperatives: although this strategy is primarily focused on the development and promotion of cooperatives, attention is given to other aspects such as financing, creating demand, and the improvement of sustainability. New and existing cooperatives of all sizes are included as part of this strategy and special attention will be given to the sustainability of cooperatives.
3.3.3. Regulations for Cooperatives, 2008

The Department of Trade and Industry (the dti) compiled a user guide for the Regulations for Cooperatives under the Cooperatives Act, 2005. This user guide contains the definitions related to cooperatives; values of a cooperatives; registration process of the cooperatives; rules/regulations for cooperatives; etc. The most important aspect of the user guide is the regulations/ rules that are defined for the cooperatives. The regulations summarised in the Cooperatives User Guide 2008, identify a number of rules surrounding aspects such as registration, constitution, formation of cooperatives, documentation, management/directorship, membership, meetings, financial aspects, shares, loans and de-registration.

Implications for SEDA and Poultry Cooperatives: the 37 rules listed within the Regulations for Cooperatives User Guide 2008, assist cooperatives in starting the business, registering and operating the cooperative. The rules and regulations are very important for any cooperative, especially when it comes to the application process of the grants and identification of entities eligible for these grants. It is very important that cooperatives in the poultry industry integrate these rules (as listed below) into the application process of the cooperative. The rules pertaining to the annual auditing and record keeping of these financial statements are very important to SEDA in terms of monitoring and evaluation of the cooperatives. The records on financial statements, which include the annual income, expenditures, profits etc. of the cooperatives, are of great importance for SEDA to determine whether these cooperatives have been successful or not in the past financial year.

Flowing from the national policies and legislation, the provincial policies are discussed in the next sub-section.

3.4. Provincial Policy

The provincial cooperative development strategies were formed from the national cooperative strategies listed above. These provincial policies form the basis for the establishment of a legislative framework, while simultaneously facilitating the provision of support programmes that target cooperatives specifically and within each province. In addition, the provincial policies also highlight the important role of cooperatives in formalising the informal economy and increasing the participation of previously disadvantaged groups.

A number of cooperative development strategies could be found and analysed for Gauteng, Eastern Cape, Western Cape, Limpopo and KwaZulu Natal, and are listed in Table 3-1 below. The relevant implications for these policies on the establishment of cooperatives are also provided.

Table 3-1: Cooperative Development Strategies per Province

<table>
<thead>
<tr>
<th>PROVINCE</th>
<th>DEPARTMENT</th>
<th>DOCUMENT</th>
<th>IMPLICATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gauteng</td>
<td>Gauteng Department of Economic Development</td>
<td>Gauteng Cooperatives and Implementation Strategy</td>
<td>The provincial strategies and documentation</td>
</tr>
</tbody>
</table>
The provincial policies listed above could be useful in establishing cooperatives in the poultry industry, as a number of cooperatives have been established in various other industries indicted by the provincial policies.

### 3.5. Conclusion

This section analysed the impact of various policies and legislature on national and provincial level by means of a policy review. It should be noted that the review undertaken is not a full review, but rather focused on the challenges and implications relating to this report. In addition, the policies and legislation included in this literature review are not specifically designed for the poultry industry itself; however, the literature review should provide the backdrop and influence the process of establishing cooperatives in the poultry industry.
Chapter Four: Assessment of Cooperatives in the Poultry Industry
4. Assessment of Cooperatives in the Poultry Industry

The purpose of this section is to present the results of investigation into cooperatives in the poultry industry and provide analysis of the findings. This analysis will tie in results from the various stakeholder engagements in order to provide well-rounded research spanning the value chain.

The below assessment of cooperatives and collectively owned enterprises in the poultry industry presents the results of two sets of investigation. The first set of research was in the form of a survey of cooperatives. The second set of results has been obtained through interviews of larger role-players along the value chain and includes producers, retailers and chicken fast food chains.

The survey of cooperatives was conducted in order to gain a greater understanding of the needs, opportunities and challenges faced by these cooperatives. These surveys also provided insight into the specific forms of support cooperatives have received and how this support assisted their businesses. The survey is comprehensive in providing a picture of how cooperatives view their own situation, opportunities and challenges. The interviews conducted with other stakeholders along the value chain and with the Developing Poultry Farmers Organisation (DPFO) provide different perspectives and additional insight into the role of cooperatives and collectively owned enterprises in the industry.

This section also discusses the results of interviews conducted with retailers, restaurants and large producers; all three of which play a significant role in the poultry value chain. Interviews with retailers illustrate the barriers to entry in obtaining large contracts and highlight where opportunities may lie for engagement with these potential customers. Responses provided by chicken fast food chains similarly identify the challenges; and interviews with large producers identify support provided, potential areas for collaboration as well as challenges faced in this collaboration.

The key findings of these interviews are presented below, together with insight into the challenges and opportunities for cooperatives and collectively owned enterprises in working with these significant stakeholders.

4.1. Cooperative Analysis

This sub-section describes the results obtained through surveys of cooperatives conducted within the poultry value chain and highlights the opportunities and challenges which stem from these results. The analysis is further supplemented by information obtained from secondary research sources pertaining to the characteristics of and challenges faced by cooperatives in general, as well as to the poultry industry in particular.
4.1.1. Survey Methodology

The cooperative survey was conducted telephonically and used to interview cooperatives nationwide.

In order to conduct the survey, a database of cooperatives was compiled. The database was created from three separate cooperative databases provided by:

- SEDA
- the Dti Cooperative Incentive Scheme (CIS) survey
- an abattoir in KZN

After narrowing down the list to include only cooperatives that operate along the poultry value chain, a total of 72 cooperatives were identified.

Attempts were made to survey all 72 of the cooperatives. However, many of the poultry cooperatives were either no longer operational or were not contactable. This resulted in a survey sample of 28 operational cooperatives. This represents a survey participation rate of 39%.

The 28 cooperatives identified were surveyed telephonically in either English or in their home language, where necessary. The questionnaire utilised in the survey is provided in Annexure A.

In addition to the above surveys, a further 12 non-operational cooperatives were telephonically interviewed regarding the reasons for the failure/closure of their cooperative. Thus, a total of 40 cooperatives were interviewed. The survey results below include only the results of the operational cooperative. A separate section (see Section 4.2.3 below) is dedicated to highlighting the key issues emphasised by non-operational cooperatives.

4.1.2. Survey Results

This sub-section provides a summary of the responses to the cooperative survey and includes information such as membership, financial concerns, suppliers, customers, support and challenges. From these results, conclusions are drawn on the key challenges and opportunities for cooperatives working in the poultry industry.

The data presented below is compiled from the responses of the 28 operational cooperatives surveyed and does not include data from the 12 non-operational cooperatives interviewed.
The survey results are presented below and identify key challenges and opportunities faced by cooperatives. The assessment identifies the concerns as perceived by cooperatives and touches on additional literature in order to present a holistic analysis.

4.1.2.1.  Background and Business Start-up

The background of the various cooperatives creates a well-rounded picture of the present situation and enables an understanding of how these cooperatives have come to be in their present position. Additionally, a breakdown of the types of businesses which the cooperatives run is illustrative of where in the value chain the majority operate.

The length of time that a cooperative has been operational is one of the key indicators of whether or not the business has been sustainable. While young cooperatives are not necessarily unsuccessful, it is useful to understand the challenges facing cooperatives who have been operating for a longer period of time, as these cooperatives have a greater amount of experience and further understanding of the challenges faced over time.

The cooperatives surveyed in the study began operating anywhere from 15 years ago to as recently as 2012. The graph below illustrates the year the business became operational.

Figure 4-1: Year cooperatives became operational

![Bar chart showing the number of cooperatives by year](chart.png)

Source: Urban-Econ Survey, 2013

Figure 4-1 demonstrates that a fairly even sample was taken where age is considered. The survey results are thus representative of cooperatives who have a wide range of experience. It should be noted that the low number of recent start-ups is a feature of the database used and should not be interpreted as an indicator of the success of cooperatives over time.

In comparison to the results of the survey, Figure 4-2 illustrates the number of poultry cooperatives registered with the CIPC. From the figure it is evident that there are a significant number of active cooperatives who have registered in recent years. Notably, up to 2,815 cooperatives were registered in 2012.
The discrepancy between the CIPC registration figures and the age sample from the survey illustrates the short life span of many of the cooperatives. In any given year there may be a large number of cooperatives registering. However, over time the number of sustainable cooperatives that continue to be operational diminishes.

Figure 4-2: Year of Registration for all active Poultry Cooperatives registered with the CIPC

The form of business run by cooperatives provides an understanding of the business types cooperatives view as feasible. Business type also provides information around the specialised forms of technical support which are most needed.

Many of the cooperatives surveyed comprised different business types or performed a number of different functions. For example, some are breeding, growing and selling broilers, while others deal only with egg laying. The graph below (Figure 4-3) illustrates the number of different business functions reported by each cooperative surveyed.

The highest number of business functions reported by a single cooperative was six, with only one cooperative operating so diversely. The majority of cooperatives (71.4%) are undertaking two or three different business functions.
The most popular area of business for cooperatives surveyed is within the broiler market. Of the 28 cooperatives surveyed, only three do not deal in the production and selling of broilers. Although the majority of cooperatives work in the broiler industry, there is still a level of specialisation between those who grow broilers; those who breed; and those who work solely in the growing of broilers from day-old chicks.

The incidence of business types for all cooperatives surveyed is provided in Figure 4-4 below.
Figure 4-5: Proportion of Cooperative Business Type

Figure 4-5 above includes all responses provided, with the figure representing each business function as a percentage of total responses. There is some overlap between responses with most of the cooperatives who produce broilers also conducting the selling of broilers.

Of the cooperatives surveyed, the majority (85.7%) sell live broilers, and only two of the cooperatives manage an abattoir. This may be partly due to the health standards which exist in the industry and which may prove to be difficult for cooperatives to comply with. An additional factor affecting the low proportion of cooperatives running an abattoir is the level of technical skill required and the expense of obtaining refrigeration equipment and trucks that are required for the operation of an abattoir.

Only two of the 28 cooperatives surveyed operate an egg laying business. This is a very low proportion considering that within the South African market, egg production makes up one fifth of the total profit in the poultry industry.

There are several areas of business in which greater opportunities exist for cooperatives to operate. Only two of the 28 cooperatives surveyed operate an egg laying business. This is a very low proportion, considering that within the South African market egg production makes up one fifth of the total profit in the poultry industry. Additionally, when asked whether broiler or egg production was a better business for developing farmers, a DPFO
representative highlighted that egg production is an easier market for entry by new farmers.

In order to further understand why a particular business type is chosen, the reason for starting a cooperative is indicative. Many cooperatives interviewed reported that they formed their cooperative in order to create jobs to address unemployment. Half of the cooperatives interviewed stated this as one of the reasons for starting up their cooperative, amongst other reasons.

Cooperatives were asked why they had formed their business; out of all the responses, 41% started their business in order to create employment with 47% indicating that they had identified a gap in the market. Thus, more cooperatives have been established due to a gap in the market. However, it should be noted that of the non-operational cooperatives, 100% were established due to a desire to create employment. This may demonstrate that cooperatives who start simply to create employment do not always assess the potential need for their business in the market. Additionally, if a cooperative is formed without market identification, the business may mirror what others are already doing in a market that is saturated. A SEDA representative confirmed that this ‘tomato syndrome’ has been seen amongst small businesses.

Other reasons cited by cooperatives for forming their business included government encouragement or enthusiasm as a result of mentorship by a family member or friend with experience in the industry.

Support for cooperatives is prominent during the start-up phase of the business. A SEDA representative confirmed that many cooperatives request support where they see an opportunity and would appreciate assistance in establishing the business. Based on this, the challenges faced by cooperatives in this initial phase are key in understanding where support is most instrumental, as perceived by cooperatives. The forms of support that cooperatives believe they require further along in the business life cycle are discussed in Section 4.1.2.5 of this report under the heading Support and Challenges.

Table 4-1 below indicates the challenges cooperatives reported facing at the start-up of their business. Participants indicated all of the challenges faced at the start of their business and therefore the percentages below represent the number of responses for each category as a proportion of the total number of responses received.

The Table (4-1) below illustrates that a lack of basic start up equipment was the greatest problem cooperatives experienced during the start of their business. This is closely related to a lack of finances, which was the second largest concern reported by cooperatives.
Table 4-1: Challenges Faced During Co-Operative Start-up

<table>
<thead>
<tr>
<th>CHALLENGE</th>
<th>PERCENTAGE INCIDENCE</th>
<th>CHALLENGE</th>
<th>PERCENTAGE INCIDENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>No basic start up equipment</td>
<td>17.2%</td>
<td>Lack of business skills</td>
<td>5.4%</td>
</tr>
<tr>
<td>Finding money to start the cooperative</td>
<td>15.1%</td>
<td>Access to markets</td>
<td>4.3%</td>
</tr>
<tr>
<td>Lack of technical skills</td>
<td>10.8%</td>
<td>Difficulty in managing the finances</td>
<td>4.3%</td>
</tr>
<tr>
<td>Difficulty in finding premises</td>
<td>9.7%</td>
<td>Difficulty in registering with CIPRO</td>
<td>3.2%</td>
</tr>
<tr>
<td>Access to utilities</td>
<td>8.6%</td>
<td>Access to information and support organisations</td>
<td>2.2%</td>
</tr>
<tr>
<td>Difficulty in compiling a business plan</td>
<td>6.5%</td>
<td>Other</td>
<td>12.9%</td>
</tr>
</tbody>
</table>

*Source: Urban-Econ Survey, 2013*

In one of the survey questions regarding current equipment needs, 79% of respondents stated that their cooperatives do not have the appropriate equipment, tools and machinery to run the business; 27 out of 28 participants gave a lack of finances as the cause for their cooperative’s insufficient equipment, tools and machinery.

Technical skills, location and access to water and electricity also featured prominently as start-up challenges. Access to information and support organisations did not feature as a prominent start-up challenge, with only two cooperatives mentioning this problem. However, it should be noted that many of the cooperatives interviewed were contacted through existing support databases such as SEDA and the dti CIS, and were therefore better informed than some of the other cooperatives regarding support offerings.

As indicated in Table 4-1 above, business and financial skills, including access to markets and legalities around registering the cooperative, each received 3-6% of responses. Many support programmes offer assistance in these areas and many of the cooperatives surveyed have received this type of support at some point during the lifespan of the cooperative as is illustrated in Section 4.1.2.5 Support and Challenges. Thus, there may have been a lack of understanding about the need for business and financial management skills during the start of the cooperative, which has resulted in this challenge being cited in hindsight by cooperatives. Many businesses may not have sought out this type of assistance during start-up if they were not aware that it was a concern. Additionally, the
provision of assistance in these skills may be part of the reason why few respondents noted these as challenges.

As mentioned above, the greatest challenge highlighted by cooperatives during the start-up phase was the lack of equipment, with 57% of all respondents mentioning this as a concern. The Figure below illustrates the specific types of equipment that cooperatives stated they still require. The category that received the most responses was feed/drink equipment for broilers, representing 27% of all responses and being listed as a challenge by 50% of cooperatives. Many cooperatives surveyed mentioned a need for more broiler houses or improved broiler house facilities, including heating, which came across prominently on its own. Lack of temperature control may lead to high mortality rates and difficulty in consistent growing due to fluctuating conditions in the houses.

A number of cooperatives indicated that they would prefer to diversify their businesses through the building of abattoir facilities. Although equipment is required for this, there are also specific health and environmental regulations and this is not as simple as attaining the abattoir equipment. Three respondents mentioned the need for transport vehicles; one of these was aligned with the desire to run and abattoir and thus cooling vans were mentioned as a specific equipment need.

In the “other” category in Figure 4-6 cooperatives mentioned the need for larger premises (although this is not equipment), irrigation equipment and fencing to improve security. Many of the equipment needs mentioned by cooperatives are essential for successful production. Additional broiler houses are needed to increase broiler production; however, items such as heating equipment are basic requirements for successful operation.

In starting a business there are a number of documents which are best practice to have in place to ensure successful establishment and management of an enterprise. These documents set out objectives and strategy within the business, as well as outlining tools to measure progress regarding profits, infrastructure, and people. In order to evaluate the readiness of cooperatives to form and manage their businesses, cooperatives were asked which business documents they had in place at
the time of conducting the survey. Table 4-2 indicates the business tools cooperatives surveyed have in place.

The majority of cooperatives (85%) had a business plan in place. This is a positive indicator that most of the cooperatives had done at least some level of business analysis and planning. The existence of these documents does not, however, provide any indication of their completeness and ability to support business establishment and management. However, of the remaining three documents which indicated business preparedness, 50% or less of cooperatives had these in place.

Table 4-2: Co-Operatives with Business Documentation in Place

<table>
<thead>
<tr>
<th>Document</th>
<th>Percentage of cooperatives that have this in place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written business plan</td>
<td>85%</td>
</tr>
<tr>
<td>Written marketing plan</td>
<td>50%</td>
</tr>
<tr>
<td>Written budget</td>
<td>46%</td>
</tr>
<tr>
<td>Formal training programme</td>
<td>46%</td>
</tr>
</tbody>
</table>

Source: Urban-Econ Survey, 2013

While all of the above documents are important, it is concerning to note that only 46% of respondents have a budget in place. Without a written budget, it is unlikely that a cooperative will be responsible and forward planning with their income. This is further investigated under Section 4.1.2.3: Money Management of this report.

Figure 4-7: Support Received with Preparation of Business Documentation

Source: Urban-Econ Survey, 2013

Many cooperatives received support in business preparation. Figure 4-7 presents the proportion of support received in assistance for each document type. Notable is that although all four document types received similar proportions of support, there is a largely divergent percentage of cooperatives
who have these documents available (refer Table 4-2). This may illustrate one of two things; either that many cooperatives do not update and refer back to documents other than the business plan, or that business plans are sometimes created without support, while other documents are generally created when support is provided.

The figure below shows the organisations that provided support, as a percentage of total responses. Due to the sources used to compile the database, it is not surprising that SEDA is prominent on this list, with 51% of documentation assistance being provided by SEDA.

![Graph showing organisations providing support with business documentation.](image)

*Source: Urban-Econ Survey, 2013*

The National Department of Agriculture (NDA) also provided a large proportion of support to cooperatives with the creation of business documentation. The NDA assisted primarily with training programmes and business plans, while SEDA and the DTI CIS provided help across all four of the categories.

### 4.1.2.2. Membership and Management

The information in the preceding sub-section indicates the level of business preparation and factors important in the initial phases of the cooperative. The current sub-section contains information on the membership numbers of the cooperatives, how the cooperatives rate the business skills within their business and where they perceive more skills to be required.

Cooperative participation indicates the number of people that the particular business is serving. Indicative in this is the level of full-time participation in the cooperative. Results of the survey indicated that the majority of members also work in the cooperative. Only 7% of 61% of the cooperatives had full-time participation from all of their members.
Cooperatives surveyed had 25% or less of their members working in the cooperative, while 61% had full-time participation from all of their members.

The average cooperative comprises of six members. However, larger cooperatives push this average up; almost half of cooperatives have five members. Very few cooperative have additional non-members employed at the cooperative. Almost 60% of cooperatives do not hire any additional people to assist within the business. Where cooperatives do employ additional staff, they generally hire two additional people. This indicates that very few of the cooperatives surveyed are expanding enough to justify additional people and also that very few cooperatives are successful enough to require additional labour.

One of the benefits of a cooperative is the ability to bring together the skills of a number of people. In order to understand where skills are lacking within the cooperative, questions were asked around the skills set of the collective group. The table below (Table 4-3) illustrates the percentage of responses within each skill category. For example, 43% of cooperatives stated that the cooperative’s management skills were ‘good’.

The blocks highlighted in the table below represent the highest voting within each category. The majority of cooperatives placed a fairly high rating on their skills overall, with ‘good’ being the most voted category, with nine of the highest ratings being in this group.

Cooperatives rated themselves the lowest in applying for tenders and computer literacy, with the majority of respondents rating their skills in this category as ‘very poor’. Book keeping/budgeting had fairly even responses across the skills spectrum. Although 29% rated their bookkeeping skills as ‘good’, this was closely followed by the categories of ‘average’ and ‘poor’ with 21% and 25% respectively. Taken together this demonstrates that 64% of responses rated bookkeeping skills as average or below average. This is further supported by the fact that 32% of cooperatives reported financial management as their biggest concern in the management of their cooperative.

The ability of managing the products and services of a cooperative received a relatively even number of responses across the skill rating, with a slightly higher number of people responding that their skills in this category are good. Negotiating discounts for bulk buying is a skill that had a lot of divergence across the categories. Some 48% of cooperatives rated their skills in bulk buying as good, while 22% rated their skills in this area as very poor. This may indicate that there is a large amount of variance in the ways in which cooperatives buy feed, with some of them simply buying from the nearest supplier while others make an effort to find cheaper suppliers and bargain for discounts.
Cooperatives also perceive their skills in managing employees/staff issues as relatively high. A total of 79% of respondents rated these skills as very good or good. This may indicate that amongst these cooperatives there is not a high level of conflict among members. It could also be the result of the low numbers of staff. With most cooperatives having only one or two staff members, if any, there is not a lot of potential for staff issues. Also, with so few staff members it is easy for staff to communicate with cooperative members.

Table 4-3: Cooperatives’ Skills Ratings

<table>
<thead>
<tr>
<th></th>
<th>Very poor</th>
<th>Poor</th>
<th>Average</th>
<th>Good</th>
<th>Very good</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing the cooperative</td>
<td>11%</td>
<td>11%</td>
<td>21%</td>
<td>43%</td>
<td>14%</td>
<td>100%</td>
</tr>
<tr>
<td>Managing employees/staff issues</td>
<td>0%</td>
<td>4%</td>
<td>18%</td>
<td>61%</td>
<td>18%</td>
<td>100%</td>
</tr>
<tr>
<td>Book keeping/budgeting</td>
<td>18%</td>
<td>25%</td>
<td>21%</td>
<td>29%</td>
<td>7%</td>
<td>100%</td>
</tr>
<tr>
<td>Managing credit</td>
<td>11%</td>
<td>32%</td>
<td>21%</td>
<td>26%</td>
<td>11%</td>
<td>100%</td>
</tr>
<tr>
<td>Marketing the cooperatives products/services</td>
<td>7%</td>
<td>25%</td>
<td>21%</td>
<td>43%</td>
<td>4%</td>
<td>100%</td>
</tr>
<tr>
<td>Applying for tenders</td>
<td>84%</td>
<td>5%</td>
<td>0%</td>
<td>11%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Computer literacy</td>
<td>43%</td>
<td>25%</td>
<td>11%</td>
<td>21%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Managing the suppliers</td>
<td>0%</td>
<td>7%</td>
<td>11%</td>
<td>63%</td>
<td>19%</td>
<td>100%</td>
</tr>
<tr>
<td>Technical skills related to the cooperative’s product/service</td>
<td>0%</td>
<td>21%</td>
<td>18%</td>
<td>36%</td>
<td>25%</td>
<td>100%</td>
</tr>
<tr>
<td>Managing customers</td>
<td>4%</td>
<td>0%</td>
<td>18%</td>
<td>61%</td>
<td>18%</td>
<td>100%</td>
</tr>
<tr>
<td>Negotiating discounts for bulk buying</td>
<td>22%</td>
<td>4%</td>
<td>15%</td>
<td>48%</td>
<td>11%</td>
<td>100%</td>
</tr>
<tr>
<td>Product pricing</td>
<td>11%</td>
<td>7%</td>
<td>11%</td>
<td>64%</td>
<td>7%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Urban-Econ Survey, 2013

The table above (4-3) provides insight into how cooperatives rate their own skills. Varying levels of knowledge understanding can be attained as skills develop. A cognitive barrier which makes a person believe that they understand something to a greater degree than is the case in reality is called an illusion of explanatory depth.

In the above Table there may be a problem that many cooperatives are under the influence of the illusion of explanatory depth. This would result in them rating themselves more highly in skills than they are in reality. For example, 63% of cooperatives reported that they were ‘good’ at managing suppliers. However, the majority of cooperatives reported being constrained by high feed costs and
yet did not request assistance in bargaining for discounts on inputs. This illustrates that the table above should be understood within the context of the perspectives of cooperatives as a whole in relation to the rest of their responses.

Financial management was highlighted above as one of the key concerns for cooperatives. It therefore follows that cooperatives would prefer more training in this area. Figure 4-9 below illustrates which skills cooperatives would like to obtain for their members. Financial management is indicated as the area that most cooperatives mentioned wanting further training.

In Table 4-3, above, technical skills were rated relatively highly. Based on this it is surprising that 24% of responses indicated a desire to improve their technical skills. A total of 14 cooperatives provided this as a response, equating to 50% of cooperatives believing that their cooperative could benefit from more training in technical skills. Therefore, although cooperatives are competent in their technical skills at present, they are aware of the benefits of learning more in this area.

Similarly, cooperatives see the benefit of financial management and would like to gain more competence in this skill. However, cooperatives do not necessarily consider management, marketing and other skills as a necessity and therefore do not value these skills accordingly. Some 16% of responses on a question regarding the challenges faced by cooperatives indicate that the cooperatives struggle in managing members and 12% that they struggle with marketing skills. Cooperatives who have not received sufficient business training are unlikely to understand the need for project management skills and marketing skills, despite challenges in managing members and in obtaining new customers.
Around 10% of responses indicated a desire to gain more computer skills. This skill may further enhance a cooperative’s ability to improve their project management, financial and marketing skills. However, this is closely related to access to computer facilities and the internet. If cooperatives cannot afford basic equipment for their farms, there are few that would be able to afford computers and internet connections even if they were trained in these skills. This is a key area of intervention support agencies should be investigating.

4.1.2.3. Money Management and Banking

In order to start a cooperative, a basic amount of start-up capital is usually required. In some cases this is used to furnish the cooperative with equipment, inputs and infrastructure. However, in some cases cooperative members will each bring a contribution of some kind to the cooperative. In the survey conducted it was found that 75% of cooperatives required some form of contribution from its members during the formation of the cooperative. Of the cooperatives that required contributions from their members, 95% required a financial contribution with the other 5% having members contribute equipment to the cooperative.

The previous sub-section illustrated a strong need amongst cooperatives for greater training in financial management. When questioned on whether or not the business keeps records of its finances, 75% responded affirmatively. This is a positive indicator around financial management. However, the level of sophistication of their financial record keeping creates a clearer picture of how beneficial the financial recording method is likely to be. Additionally, although 75% is a relatively large proportion, it indicates that one quarter of cooperatives keep no financial records whatsoever. This is a concern as it should be expected that at a minimum cooperatives should keep records through some form of book or receipt collection.
The majority (85%) of cooperatives who kept financial records did this through bookkeeping. Only one cooperative surveyed used a computer spread sheet to track their spending and earnings. If more cooperatives had made use of spreadsheets it would have been a positive indicator that cooperatives are able to use computer skills to assist their budgeting and to track their spending. Another more sophisticated method was the appointment of an auditor to assist with the existing bookkeeping. The appointment of a financial advisor is, however, a costly exercise and is not viable for many small cooperatives. Other methods used included the use of receipts or the use of books alongside receipts.

Due to the lack of accurate and up to date record keeping it is difficult to gain information from cooperatives about the business turnover, income, expenses and profit overall. Due to this constraint, cooperatives were instead asked how profits are dealt with in the business.

The figure below (Figure 4-10) illustrates how cooperatives deal with profits. Approximately 41% of respondents stated that profits are distributed amongst the members of the cooperative, with 28% reinvesting their profits back into the business. Some 14% of cooperatives indicated that they were not making any profits.

The way in which cooperatives deal with profits indicates a great deal about where they are placing priority within the business. The high number of cooperatives who distribute profits amongst members indicates a lack of long-term planning within the business. It is likely that certain cooperative members are facing harsh financial times and thus need the profit in order to support themselves and their families. However, if money is not reinvested into the business, there is little scope for growth. Positively, 45% of respondents either reinvest the profits or put the money into the bank. This means that almost half of the cooperatives surveyed are creating an investment in the long-term success of their business.

Figure 4-10: Application of Profits in Cooperatives

<table>
<thead>
<tr>
<th>Application of Profits</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribute</td>
<td>41%</td>
</tr>
<tr>
<td>Re-invest</td>
<td>28%</td>
</tr>
<tr>
<td>Save/ Bank</td>
<td>17%</td>
</tr>
<tr>
<td>No profit</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: Urban-Econ Survey, 2013
The decision on profit sharing may be made for any of a number of reasons. When cooperatives were asked how they decide what to do with their profits, most provided a response which indicated that there is no standard in place and very little thought around the process. Most gave answers which were not concerned with the decision making process, but rather a statement of what they have always done and thus continue to do. For example, when asked how they decide on profit sharing, cooperatives answered that profits are divided annually, that money is always shared monthly as salaries, or that the money is reinvested into the business. Less than 20% of respondents indicated a deductive process in thinking about profits; they responded that decisions regarding around profits are made differently depending on the amount of profit earned by the cooperative.

When asked again whether any profits were reinvested into the business, 58% of cooperatives stated that money was reinvested into the cooperative. However, in the question above only 45% stated that money was reinvested (or saved, which is another form of reinvestment). This discrepancy may be representative of a lack of understanding of the financial situation of their cooperative. Asking what is done with profits is an open ended question and allowed cooperatives to provide an honest answer.

When asked whether any money is reinvested, cooperatives know that they should reinvest money and thus say “yes”, even if it is not entirely true. Many cooperatives have received government support in the past and thus when surveys are conducted they are likely to respond to certain questions in a way in which they think government departments would like to hear.

The greatest challenges that cooperatives highlighted in managing their finances are limited income and a lack of training in financial management. The figure (4-11) below shows the percentage of responses concerning various challenges in financial management.

Figure 4-11: Challenges in Financial Management

- Limited income: 39%
- Lacking training on financial management: 32%
- Inconsistent cash flow: 11%
- No financial management system: 7%
- Other: 11%

Source: Urban-Econ Survey, 2013
The need for financial skills is strongly related to the information presented in this graph. Almost all the categories relate to a need for greater financial management, cash flow problems or a lack of project management skills. The ‘other’ category includes lack of trust in members regarding finances and credit problems due to late repayment from customers. Both of these two additional concerns could be lessened with improved systems of financial management and with management of customers.

A closer look at where cooperatives are struggling with expenses creates an improved picture on the causes of financial problems. Table 4-4 below indicates the percentage of responses received for each of the below categories. It is clear from the table that the overwhelming majority of cooperatives stated that feed and transport have the greatest impact on their business.

Table 4-4: Expenses with the greatest impact on cooperatives

<table>
<thead>
<tr>
<th>Expense Item</th>
<th>% Incidence</th>
<th>Expense Item</th>
<th>% Incidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>2%</td>
<td>Transport</td>
<td>39%</td>
</tr>
<tr>
<td>Feed</td>
<td>50%</td>
<td>Advertising and Marketing</td>
<td>0%</td>
</tr>
<tr>
<td>Administration Costs</td>
<td>4%</td>
<td>Security</td>
<td>0%</td>
</tr>
<tr>
<td>Electricity</td>
<td>2%</td>
<td>Medicine</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Urban-Econ Survey, 2013

The high number of cooperatives who reported feed as a major factor in their expenses is indicative of the large proportion of this cost contributing toward expenditure. In his study on the value chain for farmers in the broiler industry, Louw (2011) argues that feed generally contributes to around 70% of the total costs of broiler production. In Section 4.1.2.4: (Customers and Suppliers) below more background into this challenge is given. The high proportion of feed costs to total costs is a strong factor influencing the competitiveness of South African poultry in the international market. Countries such as Brazil are able to source feed at lower costs than farmers in South Africa and this allows them to produce poultry at a lower cost. The price of grain in South Africa is tied to international prices, while in Brazil feed prices can be determined internally due to the high volumes of production.

It has been indicated that cooperatives struggle to transport their goods to the market, this is in part due to a lack of transport. Additionally, when asked about their location, many cooperatives placed themselves as equidistant between two larger towns. This would mean that if the rural market in which they live is saturated, they will have to travel approximately 100 km or further to deliver their products. While this is not the case for all cooperatives surveyed, it may assist in understanding the high percentage of transport concerns. Another factor in this regard may be the distance to an abattoir where cooperatives provide live birds to an abattoir instead of selling to shops or community members.
Financial awareness may also be assessed by determining the use of banking systems. A financially aware business will have a bank account that is able to service their transaction needs and that they use on a regular basis. However, where a cooperative is located in a very rural area, this may be slightly more difficult. Approximately 89% of cooperatives confirmed that they have a bank account. This is a positive indicator, especially given the high proportion of rural cooperatives. However, when asked whether they used the account, only 71% of those cooperatives that have accounts confirmed that they make regular use of the account.

It is important to understand the reasons behind why some cooperatives do not have bank accounts. Half of the cooperatives without accounts stated that when money is received it is spent on inputs and/or distributed, so revenues are not deposited into the bank account. This illustrates the short turnover time in their business and the lack of reserves. If they encounter a situation in which money is not coming in, they will simply not have any funds to purchase more inputs. The remaining 50% either stated that there were not sufficient funds to bank or that a bank account would be more expensive. In the increasingly competitive banking environment there are many banks that offer specialised packages for small businesses. The response that a bank account is too expensive is likely due to a lack of information or due to a lack of diversity in the banking options in their area. For example, if there is only one bank in the rural community and they do not offer accounts for small businesses, then it may be the case that an account is relatively expensive for the developing farmers.

Small business loans offer an alternative to cooperatives relying on government agencies to provide the money and equipment to start their business and also create accountability. However, when asked whether they had applied for loans, 86% of cooperatives said that they had not applied for a loan. Some 14% responded stated that they had applied for loans in the past and of these only half had actually received loans.

Many cooperatives are unable to apply for loans due to a lack of formal documentation and record keeping. While government agencies may provide grants after conducting their own inspection amongst private financial institutions, cooperatives need to take the first steps in ensuring that they are credit worthy.

While a large number of cooperatives maintain some form of financial record keeping in their business, the survey has shown that most cooperatives would benefit from greater financial training. Cooperatives also indicated the desire to attain greater financial training. The inconsistent responses concerning profit and low numbers reinvesting into their cooperatives illustrate that many are running a hand to mouth business and not planning for the long-term financial success of their businesses.
4.1.2.4. Customers and Suppliers

The value chain within the poultry sector presents information on two critical aspects of the business of cooperatives. Firstly, it enables an understanding of where opportunities may lie for cooperatives to participate within the value chain. Secondly, it illustrates the flow of business from basic inputs to the final end product. This second aspect builds on the business of the cooperative and illustrates where other role-players in the value chain interact with the business being investigated.

In the case of the cooperatives identified, most operate broiler businesses and therefore interact with suppliers of inputs and customers for live chickens. Other functions along the value chain include equipment suppliers. These interactions are, however, less frequent. This sub-section presents the results on cooperative interactions and challenges experienced by cooperatives with suppliers and customers.

Table 4-5 below provides a breakdown of the types of customers served by cooperatives surveyed. The majority of cooperatives operate in rural settings, with the nearest town relatively far away. This customer base is also representative of the fact that most cooperatives surveyed run broiler businesses selling live birds. A number of cooperatives serve more than one type of customer and the below figures therefore represent a percentage of the total responses and not a percentage of cooperatives surveyed.

<table>
<thead>
<tr>
<th>ENTITY</th>
<th>PERCENTAGE</th>
<th>ENTITY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Departments/ Agencies</td>
<td>2%</td>
<td>Communities/Individuals</td>
<td>53%</td>
</tr>
<tr>
<td>Municipalities</td>
<td>0%</td>
<td>Small Shops</td>
<td>19%</td>
</tr>
<tr>
<td>Large Companies</td>
<td>0%</td>
<td>Markets</td>
<td>2%</td>
</tr>
<tr>
<td>Small Private Companies</td>
<td>0%</td>
<td>Supermarkets</td>
<td>2%</td>
</tr>
<tr>
<td>Hospitals</td>
<td>2%</td>
<td>Hawkers</td>
<td>4%</td>
</tr>
<tr>
<td>Schools</td>
<td>9%</td>
<td>Abattoir</td>
<td>6%</td>
</tr>
</tbody>
</table>

*Source: Urban-Econ Survey, 2013*

The majority (53%) of cooperatives sell their products to communities or individuals. In some cases this may include hawkers, which others classified as a separate category under ‘other’. Many cooperatives surveyed in the Margate region of Kwa-Zulu Natal were supplying to an abattoir which has now closed down. Thus, the results of the above may have been more evenly distributed between communities/individuals and abattoirs if this survey had been done a few months earlier.

Only a few cooperatives reported selling to government or supermarkets, with none selling to companies. This demonstrates that most of the cooperatives surveyed are operating on a small scale.
basis. In Section 4.3 below, greater analysis is provided around the interaction of cooperatives and small businesses with larger producers in both egg and broiler production.

Within the cooperative structure there are three different forms of cooperatives namely primary, secondary and tertiary. Individuals are direct members in a primary cooperative, a secondary cooperative is made up of primary cooperatives and a tertiary cooperative is made up of primary and secondary cooperatives. Different levels of cooperatives often perform different functions with primary cooperatives operating mainly in production while secondary cooperatives bring together other cooperatives and work in value added services.

Based on the business types and the customers served by the cooperatives surveyed, it is clear that they are mainly primary cooperatives. There may, however, be opportunity for the formation of secondary cooperatives in communities where a number of cooperatives operate. Secondary cooperatives may provide more market access and enable cooperatives to reach a greater number of customers/different types of customers.

When asked whether they worked with other cooperatives, 68% of cooperatives responded that they did not. The benefits of working with other cooperatives include training opportunities, knowledge sharing, bulk buying, shared resources (such as transport), and the ability to supply larger quantities. Based on this it is surprising that a greater number of cooperatives do not partner with other cooperatives. Again, perhaps the presence of a secondary cooperative might assist primary cooperatives in combining their resources and knowledge.

Approximately 17% of cooperatives reported that their interactions with other cooperatives are limited to networking. When asked why they do not work with other cooperatives, 33% said that they have not considered this as an option, and 50% stated that there are either no cooperatives nearby or that the other cooperatives in their area have failed and are not operational. The location of many cooperatives is, therefore, a limiting factor in partnering with other cooperatives.

Figure 4-12 below illustrates some of the challenges faced in gaining customers and securing contracts with larger customers. Some 26% of responses indicated a need to improve their advertising and marketing skills in order to gain more customers. This is partly a reflection of cooperatives experiencing a lack of customers. Some cooperatives wish to improve their advertising and marketing skills in order to become more competitive where there are too many suppliers and not enough consumers to create demand. This is a similar concern to the second item in Figure 4-12 below, namely distance from markets.
Cooperatives stated that the distance from markets is a constraint to gaining customers. This ties in heavily with the strong concerns over lack of transport and transport costs highlighted above. Both of the first two categories relate to gaining sales in the informal market and with a similar customer base to those they are currently serving. Only 13% of responses indicated a desire by cooperatives to attain contracts with larger producers. Insufficient quantities were also mentioned as a constraint; this may also indicate an inability by cooperatives to meet the needs of larger producers.

Figure 4-12: Main Challenges in Securing Customers

![Bar chart showing main challenges in securing customers. Lacking advertising & marketing is the most common challenge with 26%, followed by distance from markets (19%), insufficient quantities of production (16%), inability to meet standards for large... (13%), main customer closed (6%), none (6%), credit issues (6%), other (6%).]

Source: Urban-Econ Survey, 2013

Several cooperatives mentioned concerns with credit. Examples provided include customers not paying on time or delaying payment, which causes financial constraints for the cooperative. This represents both a lack of customer management and is also indicative of the customer base served by these cooperatives.

Figure 4-13 below illustrates the perceptions of cooperatives on supplier challenges. Cost of supplies is highlighted as the biggest problem. This relates to the high cost of feed, which is also mentioned above. Again, the need for cooperatives to re-think their buying practices is highlighted. Yet as is evident above, most cooperatives do not consider the possibility of working with other cooperatives to buy inputs in bulk.
Supplier delays and transport issues are also a concern for cooperatives. Small-scale cooperatives do not have the capacity to buy from large producers and as a result buy from the most easily accessible supplier nearby. A representative from the DPFO indicated that one of the biggest concerns with small farms is a lack of quality feed, which results in poor growth rates in chickens. However, only 4% of responses indicated this as a concern. This may be as a result of lack of information about quality inputs, but also indicates the prioritisation of the cost of feed above any other supplier concern.

4.1.2.5. Support and Challenges

A number of different government agencies provide support to cooperatives. Due to the source of the cooperative database (SEDA and Dti CIS sources), there is a high likelihood that the information on support organisations is not representative of cooperatives on a large scale (over 5000 poultry cooperatives were identified as active by the CIPC). However, the information around how the support has benefitted cooperatives can be taken at face value.

Of the cooperatives sample surveyed, 57% had received some form of support. The figure (4-14) below illustrates the proportion of support provided by the various support agencies, with the most prevalent support in this sample coming from the National Department of Agriculture (NDA), the Dti and SEDA, closely followed by local government. Organisations included in the category of ‘other’ include private companies such as LIBSA and SAPA.
Figure 4-14: Support Provided by Various Organisations

Source: Urban-Econ Survey, 2013

The support indicated in the figure above can range from equipment to training to business mentorship, amongst other things. In the background section of this report (refer to Section 4.2.2.1), the support provided is specifically around business preparation documentation. The support in the above figure (Figure 4-14) indicates a far broader range of support and represents the relevance of support as seen by cooperatives. For example, although many agencies may have provided assistance, cooperatives generally provided the names of the first ones that came to mind.

In order for a government agency to provide assistance to a cooperative, a member(s) will have to approach the agency and request assistance. Information dissemination for government support structures is vital in order to ensure this connection happens. Cooperatives who had received assistance were asked how they came to know about the support programme they benefitted from. The figure below illustrates which means of communication cooperative members used to obtain information about support. The majority (71%) of cooperatives said that information was obtained through word of mouth. This is a very diverse category, however, and may include any number of original sources of information within the community. The fact that many cooperatives view this, in a way, as general knowledge, indicates that support organisations have very successfully informed communities of their services.
Another implication of word of mouth is that positive feedback has most likely been spread by a number of people who were assisted by government. Measures within the community and through local government information networks are particularly effective. Although SEDA provides information through a number of other media sources, the prevalence of word of mouth communication appears to be strongest in these communities. While radio, television and posters provide a good means of disseminating information, it is likely that more information is attained through community discussion which enables explanation of the who’s, how’s and what’s of support.

On the other end of the scale is the question of why certain cooperatives did not receive government support. Half of the cooperatives who had not received support stated that they were unsure how to get help. Responses of uncertainty on where to get help were generally geographically concentrated as was the opposite. This supports the findings on word of mouth above. Where no one was informed about support, very few cooperatives took the initiative to go out and look for support. Whereas in areas where many had attained support it was well known and cooperatives could easily request support.

Table 4-6: Reason Cooperatives have not Received Support

<table>
<thead>
<tr>
<th>Reason provided</th>
<th>Percentage of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of information/unsure how to get help</td>
<td>50%</td>
</tr>
<tr>
<td>Did not meet requirements</td>
<td>10%</td>
</tr>
<tr>
<td>Still awaiting assistance</td>
<td>40%</td>
</tr>
</tbody>
</table>

Source: Urban-Econ Survey, 2013
The remaining 50% of cooperatives who did not receive support were most likely not eligible. Some 10% indicated that they did not meet the requirements, with the remaining 40% ambiguously stating that they were awaiting assistance. These cooperatives may not meet the requirements but remain hopeful, or they may have followed incorrect channels and are thus waiting on support that is unlikely to be received. In either case this response may indicate a lack of clear communication with these cooperatives in order to set expectations.

Support for cooperatives may take many different forms. Table 4-7 below indicates which forms of support cooperatives received. Support in compiling business plans and the provision of equipment were the most frequently provided forms of support that cooperatives received. Further detail around the compiling of business plans is discussed in Section 4.2.2.1 above.

Table 4-7: Forms of support received by cooperatives

<table>
<thead>
<tr>
<th>Assistance</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Plans</td>
<td>26%</td>
</tr>
<tr>
<td>Financial assistance</td>
<td>5%</td>
</tr>
<tr>
<td>Equipment</td>
<td>26%</td>
</tr>
<tr>
<td>Marketing</td>
<td>9%</td>
</tr>
<tr>
<td>Training</td>
<td>14%</td>
</tr>
<tr>
<td>Market access</td>
<td>2%</td>
</tr>
<tr>
<td>Technical advice</td>
<td>12%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Urban-Econ Survey, 2013

Cooperatives also received equipment, training and technical advice as the main forms of support. Given that cooperatives identified a lack of equipment, this indicates that the support provision is addressing concerns which cooperatives identify. Equipment is a very broad category and may range from low cost items to something as large as a chicken house.

The figure (4-16) below illustrates that although government support was provided, in many instances cooperatives do not view the support as sufficient.
Approximately 48% of cooperatives who received assistance indicated that it had benefited them in their business, but mentioned that they would like to receive more support as there are still elements lacking in their business. Of the cooperatives surveyed, 44% had not received any support from external organisations. Positively, 8% of cooperatives had received support and attributed the success of their business to the support that had been provided.

Figure 4-17 below illustrates the types of support cooperatives would like to receive. This relates closely to the challenges cooperatives are facing at present (see below). Financial assistance is identified most often as the type of support cooperatives would like to receive, followed closely by training and equipment. The category ‘other’ above includes assistance with inputs/feed, electricity & water, transport and security.
The analysis that follows examines more closely the current challenges faced by cooperatives. It identifies, per category, where cooperatives identified their main challenges to be and what factors they view as contributing towards the deficiencies they see within their businesses.

Figure 4-18 below shows the responses of cooperatives when asked about their current challenges. The main challenges highlighted by cooperatives are a lack of finances and a lack of equipment. This reinforces the information gathered in the background section (refer to Section 4.1.2.1).

Cooperatives were very responsive regarding their challenges with most cooperatives stating that they do not have sufficient equipment to properly run their business. Due to the high cost of equipment, this is not a surprising challenge. Many poultry producers indicated above that they are not able to reinvest funds into the business. Without any savings it is unlikely that cooperatives are able to save enough money to invest in their businesses. Additionally, equipment is a highly constraining factor on business (and hence profit) growth. This is especially true in the case of broiler production, which constitutes the majority of cooperatives interviewed.

With one broiler house a specific number of birds can be grown at a time. While cooperatives can work towards decreasing mortality rates and thereby marginally increasing profits, without additional chicken houses there is a ceiling on the numbers that can be produced. According to a DPFO representative interviewed, a fully equipped and well-designed chicken coop can cost around R3.8 million. With many cooperatives barely able to pay their own salaries, this is an unattainable piece of equipment.

Figure 4-17: Forms of Support Cooperatives Would Like to Receive

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assistance</td>
<td>27%</td>
</tr>
<tr>
<td>Training</td>
<td>22%</td>
</tr>
<tr>
<td>Equipment</td>
<td>19%</td>
</tr>
<tr>
<td>Marketing &amp; advertising</td>
<td>10%</td>
</tr>
<tr>
<td>Access to premises</td>
<td>7%</td>
</tr>
<tr>
<td>Other</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: Urban-Econ Survey, 2013
Without proper training, however, even the best chicken houses are not successful. Some 9% of cooperatives interviewed stated that they lack training.

The category of “other” above included inappropriate premises, too many competitors, high mortality rates of birds, and a lack of electricity and water. The challenges seen above re-iterate what has been shown in the background and financial management sections above. The greatest concerns perceived by cooperatives are overwhelmingly; equipment, financial assistance, training programs, and transport vehicles.

Cooperatives were asked whether they believe their business is successful or not. While this is a highly subjective question, the responses provide some insights into the cooperatives’ own perception on whether they are sustainable. Some 40% of cooperatives consider their business to be successful. They consider the business to be successful mainly due to the following three factors: a strong customer base, high levels of sales and good quality products. Interestingly, when looking at the positive features of their business, cooperatives mention demand side factors i.e. sales and product quality. However, where cooperatives view their business as unsuccessful, they attribute the failure to internal features.

Figure 4-19 below identifies the factors cooperatives believe are contributing towards an unsuccessful business. The three categories identified are infrastructural deficiencies, operational deficiencies and declining profits.
The operational deficiencies category includes; lack of skills and lack of access to a large enough market. The majority of cooperatives who view their business as unsuccessful, however, attribute this to a need for equipment and infrastructure, as has been highlighted in Figure 4-19 above.

When asked whether or not cooperatives expect their business to grow in the next year, a variety of responses were received. Overall, cooperatives are positive about their growth prospects. Approximately 92% of cooperatives believe that their business will grow in the next year.

However, the reasons for this response are based largely in attitude towards their business and not based on business statistics. For example; 42% indicate that their business would grow because they work hard. Another 25% said that the business would grow if financial assistance was provided. The remaining third of cooperatives provided some business reasoning with some responding that they have improved their stock management, that sales have increased or that the cooperative is diversifying.

This sub-section has provided information both on what forms of support have been received, as well as what forms of support cooperatives would like to receive. Cooperatives provided similar responses regarding the support that they would prefer in their present stage to the support they would have preferred to receive at the inception stage. This illustrates that many of these cooperatives have not been able to resolve the need for equipment or financial management on their own. This is in spite of a number of these cooperatives receiving support in both of these areas. Despite support received, many cooperatives state that although it has been helpful, more support is still needed. While this represents a challenge for cooperatives, it also indicates a lack of initiative in attaining resources for themselves.
4.1.2.6. Other Challenges

In addition to the results presented by the survey, it is important to note that some of the key challenges reported on cooperatives in the poultry industry by a number of additional research sources. These sources provide information on the industry and thus, on the environment in which cooperatives operate.

According to the South African Poultry Association (SAPA), the poultry industry faces problems relating to disease control, lack of funding and sanitation. The broiler industry is enduring a significant margin squeeze brought about by exorbitant increases in raw materials and energy costs. The following challenges are cited by SAPA as being critical to the industry:

- the significant growth in volume of imports into South Africa, which now represents the single biggest supplier of chicken products
- limited disposable income will have a negative effect on per capita consumption growth;
- the continuous threat of poultry diseases
- higher input costs and combating these through efficiencies. There seems little relief from high feed prices, and producers will need to overcome this to remain profitable (SAPA, 2011).

SAPA argues that in evaluating the South African broiler industry, it is useful to keep in mind that the high transport cost of raw materials adds substantially to operational costs incurred by farmers. There are intrinsic disadvantages in South African for poultry production that inhibit the producers. These include:

- low yield and relatively high prices of grains, aggravated by the buffer effect of domestic and international freight and duty
- poultry production at high altitudes
- free movement of (even diseased) culled birds
- relatively unhindered imports of poultry meat from many countries.

A report by Andre Louw, lecturer at the University of Pretoria in the Agricultural Economics, Extension and Rural Development Department contains important information on challenges faced by the poultry industry. The findings express structural shifts in the feed industry, indicating that the impact of the contract growers is extreme, especially where feed manufacturers are part of a holding company chain (Louw et al: 2011).

Restrictive factors currently being faced by the broiler industry role-players in doing business, among others, include issues relating to the infrastructure for feed manufacturers (the cost and competitiveness of doing business). Good infrastructure may assist with optimising the feed industry at higher levels of operation.

As is further extrapolated in the analysis of stakeholders below, significant barriers to entry exist in the value chain. This makes it difficult for new and small entrants to compete with existing market players. These barriers include high capital requirements, relevant experience and track records, the significance of research and biotechnology in the provision of seeds and economies of scale for other inputs such as fertilisers.
According to a report on the broiler industry supply chain (Louw: 2011), various issues are highlighted by growers, which they experienced as immediate challenges to the poultry industry. These include the following:

- quality and consistency of feed and associated raw components
- changes in technology and innovation
- electricity supply, price and availability
- input prices other than the cost of feed (e.g. interest rates, labour, running costs)
- market degradation of poultry markets
- transport and road infrastructure
- disease and the control and containment of outbreaks
- imports and the inability to control the dumping of poultry products in South Africa
- skills levels of management and the team, and the farm structure.

In order to understand the challenges facing developing farmers, this holistic picture is vital. While cooperatives are able to identify the insufficiencies within their own business, the large picture enables greater forward planning. Additionally, in providing advice to developing farmers, feedback on their own business activities alone is not sufficient. A comprehensive understanding of the challenges of the industry enables the ability to harness positive aspects and ensure that businesses are shielded from potential market threats.

Based on the report (Louw: 2011), the following issues and challenges were ranked highly by broiler holding companies as concerns and challenges that they face in the poultry industry:

- managing the price volatility of inputs
- imports of poultry meat
- managing profitability in this dynamic industry
- exchange rate volatility
- availability of good genetic material and parent stocks
- governance structures
- managing waste material and environment impact studies
- infrastructure

The Department of Agriculture organised a National Agricultural Cooperatives Indaba in 2012, to which various stakeholders were invited. At the indaba various issues affecting cooperatives and smallholder farmers were discussed. It was agreed that smallholder farmer’s cooperatives in South Africa do not have a great deal of negotiating power due to a number of reasons including:

- the quantum and value of assets that they possess
- their carrying capacity – both financial and infrastructural
- volume of operations
- lack of market information
- lack of access to formal financing mechanisms in the absence of collateral
Training and development have been found to be key constraints to smallholder cooperatives. Lack of professional and qualified managers is also a challenge facing cooperatives (Department of Agriculture, Forestry and Fisheries, 2012).

Membership in cooperatives is, in many cases, constituted by the elderly who have the will to produce, but lack the necessary skills and modern methods to produce. This continuously weakens management, governance and business skills in cooperatives. Inability to attract young professionals compounds the capacity problems in smallholder cooperatives.

The commission on training and capacity building was facilitated by Ms Kwathi Koka of SEDA. While acknowledging the contribution of training and capacity building in ensuring effective management of smallholder cooperatives, this commission also noted the challenges facing smallholder cooperatives which include the following:

- the low literacy levels of cooperatives members
- age
- lack of management skills
- lack of commitment by cooperatives members

Many of these concerns have been identified from the survey above and are confirmed by this research. A brief identification of the causes for termination of cooperatives (below) also illustrates a prevalence of membership concerns.

4.1.3. Non-Operational Cooperatives

The cooperatives contacted for the survey included both operational and non-operational cooperatives. A total of 40 cooperatives from the database were reachable, with the data from the 28 operational cooperatives being analysed above. The remaining 12 of these cooperatives are no longer operational. The in-operational cooperatives did, however, provide some background on their cooperatives and the main reasons for the failure of their businesses. This allows an alternative perspective on the challenges faced by cooperatives in the poultry industry.

Similarly to what has been identified in the results above, many of the non-operational cooperatives stated that they were not able to get their business off the ground, due to a lack of equipment and infrastructure. Figure 4-20 below identifies the reasons cooperatives provided for the failure of their business.
A feature which is noticeable in these results but did not feature very significantly in the results for operational cooperatives is ‘membership problems’. This category includes failure of the cooperative as a result of uncommitted members but also a lack of management. This is a concern noted in the ‘other challenges’ section above and has been highlighted as a concern by a number of prominent organisations.

The table below illustrates the percentage of non-operational cooperatives that cited each reason for failure as an important factor in the failure of their business.

Lack of equipment and finance are also problems which recurred in the survey results and are thus unsurprising to find occurring here. A lack of skills is a highlighted here far more prominently than was seen above. The table below illustrates that 58% of failed cooperatives cited a lack of skills as a key feature in the failure of their business.

<table>
<thead>
<tr>
<th>Reason for failure</th>
<th>Percentage of cooperatives who reported this</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>25%</td>
</tr>
<tr>
<td>Finance</td>
<td>75%</td>
</tr>
<tr>
<td>Skills</td>
<td>58%</td>
</tr>
<tr>
<td>Membership problems</td>
<td>25%</td>
</tr>
<tr>
<td>Customers</td>
<td>8%</td>
</tr>
</tbody>
</table>

A lack of skills is mentioned as a factor for 25% of failed cooperatives. This includes cooperatives that lost livestock due to insufficient health regulations and a lack of safety on the farm. Environmental, health and safety standards are not highlighted significantly by successful cooperatives. However,
these concerns feature in the analysis of failed cooperatives and, as is shown below, represent a significant barrier to entry for many small producers.

4.2. Analysis of other Stakeholders along the Value Chain

Analysis was conducted on the interactions of cooperatives with large producers, chicken food chains and retailers. This facilitates an improved understanding of the challenges faced by cooperatives, not only internally, but also along the value chain.

4.2.1. Stakeholder Identification

The poultry industry can be broken down into two smaller industries: egg and broiler production. Egg production in South Africa is 51% dominated by large producers. In broiler production, large producers even further dominate productions, accounting for 72% of total domestic production. Large producers were interviewed in both sub-sectors in order to understand the challenges faced in partnering with small producers and also to ascertain whether there is any opportunity along the value chain for cooperatives to participate.

To provide a well-rounded understanding of the demand side of the value chain, interviews with large retailers and with chicken fast food chains were conducted. The stakeholders were identified based on their presence in the marketplace, with the most prominent producers being contacted.

4.2.2. Key Findings

Three large retailers were interviewed on their buying process in order to gain a better understanding of the relationship between retailers and their poultry suppliers.

4.2.2.1. Large Broiler Producers

The broiler market consists of a number of large producers who dominate the market. There are significant barriers to entry in this environment due to the health & safety and environmental regulations concerning the running of an abattoir. Additionally, as is highlighted in the cooperative survey results above, specialised vans and refrigeration equipment is needed in order to supply broilers to market.

Table 4-9 below provides an overview of large broiler producers’ responses when questioned on their interactions with developing farmers. The table provides an indication on whether or not the producer interviewed deals with small-scale farmers. If the producer deals with cooperatives, the table identifies the way in which this interaction takes place and where the producer does not deal with developing farmers, it provides the reason for this.
Table 4-9: Interactions of large broiler producers with developing farmers

<table>
<thead>
<tr>
<th>Business</th>
<th>Work with developing farmers?</th>
<th>Main Function (if yes)/ Reason why (if no)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broiler Producer 1</td>
<td>✗</td>
<td>Need large quantities and only deal with large-scale farmers who can guarantee the quantities they require</td>
</tr>
<tr>
<td>Broiler Producer 2</td>
<td>✓</td>
<td>Supplied with feed and day old chicks and act as contract growers</td>
</tr>
<tr>
<td>Broiler Producer 3</td>
<td>✓</td>
<td>Supplied with feed, assistance with facilities and day old chicks and act as contract growers</td>
</tr>
</tbody>
</table>

Three large broiler producers were interviewed regarding their interaction with developing farmers and potential opportunity for interaction with cooperatives and collectively owned enterprises. They were posed questions around their interaction with and support of developing poultry farmers. Two of these large producers confirmed that they work with developing farmers.

The two broiler producers who work with small-scale farmers facilitate this interaction by providing inputs and technical assistance and the small-scale farmer then acts as a ‘grower’ for these producers. In order to become registered as a contract grower, small-scale farmers need to already have the necessary equipment for the growing of broilers. In addition to this, they must comply with the safety and health regulations of the industry. Once a small-scale farmer applies to be a contract grower the producer will conduct an inspection. If the farmer meets the requirements, the producer will supply technical assistance, medicine, feed and day old chicks. It is then the responsibility of the farmer to rear these birds until the point where they are ready to be slaughtered. Once ready for slaughter, the producer will then purchase the birds back from the small-scale farmer, deducting the costs of inputs provided.

This interaction between large producers and contract growers represents a positive opportunity for poultry cooperatives. Large producers represent a relatively stable source of demand for growers. Many of the poultry cooperatives interviewed commented on concerns with customers. A number of the cooperatives in the Margate region had been providing live birds to a local abattoir which has since closed down. This is a problem for any cooperative that relies on one main customer.
However, in the large producer market there is a great deal more stability and lower likelihood of business failure. They are therefore generally a more reliable customer base than the informal market.

Another great concern of many cooperatives is a lack of finance. Contract growers for large producers are provided with all of the inputs required to grow broilers. If the basic start up equipment is in place then the cooperative will not need to have any additional capital to buy feed and inputs. Additionally, the money paid to growers is pure profit, as the cost of chicks and other inputs is already deducted. This means that there is a decreased amount of financial planning required from the cooperative and if profits are shared instead of reinvested it is not as significant a concern as inputs have already been deducted from the revenue.

“The producer who did not have any interaction with small-scale poultry farmers stated that they were simply not able to offer the volume and reliability which large corporate farms are able to offer. This producer did not have support structures in place to facilitate the development of contract growers and did not have any plans to develop these in the future.”

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The producers who used small-scale contract growers stated that if farmers wished to be considered for contract growing they approached the producer. The information about this support programme is generally disseminated through word of mouth. Once a farmer has approached the large producer, their premises are inspected. An environmental assessment is conducted and premises are inspected for sufficient housing quality, and access to water and electricity. In addition, the farm must be within a reasonable distance to one of the producers’ abattoirs.

While not all large broiler producers make use of small-scale poultry farmers, this represents a good opportunity for those cooperatives who are located near one of the large producers. A potential constraint to this opportunity is the lack of transport, lack of sufficient equipment, suitable premises and stable sources of electricity and water.

4.2.2.2. Large Egg Producers

Egg production is dominated by a number of large producers in the same way as in broiler production. However, what is surprising in egg production is the diversity of business types. Of the four large egg producers contacted, only two of these were large JSE-listed companies. The remaining two were a family owned company and a cooperative respectively.

One of the three egg producers contacted declined the offer to participate in the interview as it was against the privacy policies of their organisation. Table 4-10 below provides an overview of the remaining three large egg producers’ responses when questioned on their interactions with developing farmers. The table provides an indication on whether or not the producer questioned deals with small-scale farmers. If the producer deals with developing farmers, the Table (4-10)
identifies the way in which this interaction takes place. If the producer does not deal with developing farmers it provides the reason for this.

Table 4-10: Interactions of large egg producers with developing farmers

<table>
<thead>
<tr>
<th>Business</th>
<th>Work with developing farmers?</th>
<th>Main Function (if yes)/ Reason why (if no)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egg Producer 1</td>
<td>✓</td>
<td>Independent farmers supply eggs which are packaged under the label of the large producer</td>
</tr>
<tr>
<td>Egg Producer 2</td>
<td>✗</td>
<td>Everything is done internally, from breeding to growing, to laying to packaging. No other farmers or services used.</td>
</tr>
<tr>
<td>Egg Producer 3</td>
<td>✓</td>
<td>The business is a cooperative. Main business does packaging and selling under brand name; many farmers form part of the cooperative and provide eggs.</td>
</tr>
</tbody>
</table>

Of the three egg producers listed above, one is a large-scale cooperative; one a family owned business and the remaining one a listed company. Both egg producers (the large corporate and the cooperative) deal with small-scale farmers.

There is potential for primary cooperatives to work with the large corporate producer in two ways. The first is by producing eggs. In this interaction the large producer provides livestock, limited equipment, and advice to the farmers. Farmers then operate an egg laying farm and sell eggs to the producer. These eggs are packaged and labelled under the brand of the large producer.

The producer highlighted that very few developing farmers are able to meet the standards required to become egg layers. Once a farmer approaches the business wanting to be an egg layer, the producer will conduct an environmental impact assessment on the farm and assess whether the food safety regulations will be upheld. In order to ensure that these standards are attained, farmers generally have to upgrade their facilities and ensure their egg laying farm is well monitored to continue to meet health and safety standards. Many farmers withdraw from the process when they do not meet the standards. They generally do not have the capital to upgrade their facilities and they realise the profit margins are not as high as they had previously imagined. Due to this, very few developing farmers actually interact with the large egg producer, despite the initiative being in place.

Another way in which cooperatives can interact along the value chain with large producers is through the sale of spent hens. The producer sells these hens in large volumes at the laying facilities upon arrangement, or in retail quantities at two outlets. There is potential for cooperatives to run a business selling spent hens, either locally at producer retail sites or...
through distribution from producer laying farms.

The large-scale egg cooperative interviewed was formed with the goal of bringing small-scale egg producers together in order to access the formal retail market in a co-ordinated way. The cooperative conducts the packaging and selling of eggs, while a network of over 40 farms provide eggs to this cooperative. While the cooperative does expand membership over time, there are many standards in place. Thus, more than an opportunity to partner, this cooperative is representative of a successful business model. In many areas where poultry cooperatives are dense, there may be opportunity for a similar initiative in order to gain access to bulk discounts and larger markets.

Egg Producer 2 in Table 4-10 is a private family business. While they are one of the dominant players in the industry, this business remains very inwardly oriented and ensures that all functions along the value chain are owned by their business. Thus, there is not scope for small-scale farmers to interact in the production process. Due to the entire value chain being internal, there is not even scope for cooperatives to sell support services such as manure removal and sale or the selling of spent hens; everything is done by the business itself.

When asked whether broiler farming or egg laying would be superior business options for a new cooperative, a member of the DPFO stated that egg laying may offer better opportunity. The reason behind this being that egg laying is a less risky process and is likely to produce returns more easily. The equipment required is not as specialised and the time to market is not as vital as it is in the broiler farming industry. Thus, although more cooperatives operate in the broiler market, there may be scope for egg laying cooperatives to develop further. Interaction with willing suppliers would provide an easy point of sale and with less advanced equipment and a less delicate process; there is a higher likelihood of success even if profit margins are lower.

4.2.2.3. Retailers

Every large-scale retailer supplies a number of different brands of broiler meat and eggs. A number of large retailers were approached and interviewed on their buying process and potential involvement of developing poultry farmers. Based on the responses, there appear to be greater barriers to entry in obtaining contracts with large retailers than there are to obtaining contracts with large producers. Additionally, there are more opportunities available along the value chain concerning large producers. With large suppliers the product must be ready to go to market and the supplier must provide transport for their saleable product.

The table below indicates whether or not retailers see potential to work with developing farmers. It also highlights constraints identified by the retailers.
Table 4-11: Interactions of Large Retailers with Developing Farmers

<table>
<thead>
<tr>
<th>Business</th>
<th>Work with developing farmers?</th>
<th>Main Function (if yes)/ Reason why (if no)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Retailer 1</td>
<td>✗</td>
<td>Buyers operate per province and suppliers must be able to supply the entire province. Cannot buy from different farmers for different stores as this is not logistically viable.</td>
</tr>
<tr>
<td>Large Retailer 2</td>
<td>✓ and</td>
<td>Independent farmers are encouraged, however, they must be able to supply on a relatively large scale. Relationships exist with suppliers and these are slow to change</td>
</tr>
<tr>
<td>Large Retailer 3</td>
<td>✗</td>
<td>Only have corporate suppliers. Distribution and quantity are problems with smaller farmers.</td>
</tr>
</tbody>
</table>

The above table identifies that of the three producers contacted, two do not work with developing farmers. One retailer does work with independent farmers; however, this relationship has been built over many years and requires a certain level of production to be in place.

Retailer 2 identified in Table 4-11 above provided additional information concerning the business and partnering with developing farmers. The retailer stated that their business is geared towards working with developing farmers. They recommended that cooperatives would be in a better position to do business with the store if they find a niche and supply to that; such as organic chicken and organic eggs, quail, pheasant, etc. The store also stated that they have an Enterprise Development Department that works towards assisting small businesses. There are certain criteria which need to be met and in order to supply to the store, international standards, legislation, and DNA quality testing must be met. Thus, although this business is the most open to buying the products of developing farmers, their quality standards pose a significant barrier to entry.

The remaining two retailers indicated that although they do not discriminate against any particular business type, small-scale farmers are not able to meet the demands they set for suppliers. Retailer 1, identified in Table 4-11 above, stated that suppliers must be able to produce sufficient quantities for all stores in a province.

Retailer 3 reasoned that although they would like to work with developing farmers, two main challenges are faced with this. The first is distribution; small producers do not have the fleets of trucks necessary to deliver their products to all stores in a region. Large numbers of refrigerated trucks are required to deliver broilers. The second concern is quantity; small producers simply cannot meet the demands of an entire region of stores. The store contact person also noted that quality is a concern regarding eggs. Many small-scale egg producers place their eggs in refrigerated storage when in fact this depletes the shelf life of the eggs. Based on these constraints; Retailer 3 currently only has large corporate suppliers on their suppliers list for broilers and eggs.
Based on the above responses from the retailers interviewed, it is difficult for primary cooperatives to penetrate the formal retail market. Opportunity may exit for cooperatives to form secondary or tertiary cooperatives with the purpose of grouping the assets of a number of farms and working towards packaging and labelling products. Most primary cooperatives do not have the resources to afford sufficient equipment for their farm alone. Thus, developing into an abattoir or providing value added functions may be harnessed through the formation of secondary or tertiary cooperatives.

4.2.2.4. Chicken Fast Food Chains

Fast food chains appear to represent the most impenetrable market for developing broiler producers. Many abattoirs serve fast food chains as their primary clients. These chains are provided with the best broilers before the remainder are used for sale in shops. The chicken fast food chains thus demand the highest quality broilers. In addition to this, many fast food stores require a specific cut of broiler meat. This necessitates machinery which very few suppliers have.

The table below illustrates the responses of three chicken fast food chains which were interviewed regarding their buying process.

<table>
<thead>
<tr>
<th>Business</th>
<th>Work with developing farmers?</th>
<th>Reason why not</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chicken Fast Food Chain 1</td>
<td>✗</td>
<td>Set list of suppliers who supply all franchises nationwide. Deal with abattoirs that must be able to supply 4,000-6,000 birds per day.</td>
</tr>
<tr>
<td>Chicken Fast Food Chain 2</td>
<td>✗</td>
<td>Only use two abattoirs that are able to supply the specialised cut. Machinery is required which presents a large barrier to entry for other suppliers.</td>
</tr>
<tr>
<td>Chicken Fast Food Chain 3</td>
<td>✗</td>
<td>Limited list of suppliers who are able to supply a large enough quantity due to the specific requirements. Small-scale producers are not able to meet the specifications.</td>
</tr>
</tbody>
</table>

As can be seen from the above table (4-12), none of the fast food chains interviewed use small-scale producers. The first fast food chain has a centralised distribution centre. All broilers are delivered to head office and from there are shipped nationwide. None of their broiler meat is frozen and due to this, the time for delivery from abattoir to head office and from head office outwards is integral.

In order to qualify as a supplying abattoir, 4,000-6,000 birds must be output per day. Bird size is also a challenge with the Fast Food Chain stating that they only accept birds within a predefined weight range, namely 1.05-1.5 kilograms. The main concerns for this chain are, therefore, the time, quality and size of birds and the time from slaughter to delivery at their head office.
The second fast food chain presents a larger barrier to entry for small abattoirs. This concern is also represented by at least one other chain. The type of chicken cooked and sold in their stores requires a specific cut. The chain stated that only two suppliers in South Africa have the equipment necessary to inject and cut as per their specifications. This cut was developed by another multinational producer.

The chain stated that there is one additional supplier who is developing the infrastructure to produce broiler cuts to their standard. The machinery is very expensive, which is why there are so few suppliers in the country that are able to perform this function. Although it is unlikely that any developing farmers will be able to acquire this equipment, there may be scope for them to supply broilers to these abattoirs.

The third fast food chain has similar concerns to the first. The contact person at this company stated that their bird production process is very technical. He stated that small-scale farmers sometimes approach them hoping to supply, but that only 20% of the birds they produce meet requirements. This results in a predicament for the farmer as they have to then find an alternative buyer for the remaining 80% of their stock. In addition to the bird size and quality requirements is a concern regarding delivery. All suppliers deliver birds to one of three depots. Reliable vehicle fleets with refrigeration is required for this. Small-scale abattoirs do not have the capacity to produce the correct quality or quantities and often do not have the necessary vehicles to deliver.

Based on the interviews conducted with fast food outlets it is possible to see that very little opportunity exists for developing cooperatives to supply to these businesses. The barriers to entry in this area of the market are very high due to quality standards, quantities required and distribution. Opportunity to supply to fast food chains is only possible, therefore, if co-operatives are large and relatively successful already.

4.3. Synthesis

This chapter provides an investigation into the opportunities and challenges faced by cooperatives and collectively owned enterprises in the poultry industry. The findings above are the result of research into the experiences of cooperatives, industry players at large and key producers and retailers along the value chain.

Cooperatives were surveyed on a number of elements concerning their business, challenges faced and support. A number of features recurred throughout the results presented above. Many cooperatives face business constraints as a result of a lack of equipment. A factor contributing towards this is the lack of financial management and forward planning. The majority of cooperatives do not illustrate business planning and management skills. This often results in businesses operating hand to mouth with very little, if any, investment into their futures. A number of cooperatives had received support from government agencies in the past. Despite this, cooperatives stated that they require more assistance. While an inward looking analysis of cooperatives is beneficial, a better
indicator of the challenges facing cooperatives must also investigate factors affecting the industry and challenges along the supply chain.

The industry at large presents a number of challenges which affect cooperatives. International competition in the poultry sector results in high grain prices and increasing quantities of poultry imports which compete for demand in the South African market. A number of reports highlight a lack of management amongst cooperatives as a challenge facing their development. Competitive prices in the market, however, is not the main factor preventing cooperatives from gaining contracts with large producers and suppliers.

Interviews conducted with producers, retailers and fast food restaurants provide a more indicative picture of the value chain in which cooperatives operate. Of the three groups, producers present the greatest area of opportunity for business with cooperatives. Challenges for retailers and fast food restaurants include the need for large quantities, transport to depots, and very specific quality specifications. This creates an environment which most cooperatives are not able to enter. A number of large producers, however, offer opportunities for cooperatives.

Producers within the egg and broiler markets present opportunities to purchase from cooperatives. Two producers within the broiler market are even able to provide technical assistance, day old chicks and feed to cooperatives. While some producer’s business model includes owning all functions along the value chain, others offer opportunity for cooperatives in certain functions such as the sale of chicken manure, the cleaning of cages or the selling of spent hens.

In the perspective of the cooperatives, a picture is often painted that solely focuses on the material constraints within their business. The opportunities that exist in the industry are often outside of the conception of the typical broiler farmer. A lack of clustering with cooperatives prevents them from harnessing the opportunities of collaboration in some cases. Cooperatives’ lack of management and financial skills is a large constraint to realising opportunities in the sector.

The chapter to follow will highlight recommendations based on the key challenges and opportunities faced by cooperatives and collectively owned enterprises in the sector.
Chapter Five: Strategic Interventions
5. Strategic Interventions

Following from the challenges and opportunities identified in the preceding analyses, this chapter sets out key recommendations towards improving support for poultry cooperatives and collectively owned enterprises. The recommendations also seek to take advantage of specific development opportunities previously identified. The role that SEDA can play with respect to the recommended interventions is reflected upon, within the context of existing SEDA programmes.

5.1. Current SEDA Programmes

This section provides an overview of the format and type of intervention provided by current SEDA programmes. This sets out the current mandate of SEDA as a framework within which interventions are to be undertaken.

SEDA implements specific support programmes aimed at providing support to cooperatives and collectively owned enterprises. SEDA’s Cooperatives and Community Public Private Partnership (Coops & CPPP) programme assists in the following ways:

- scoping, feasibility studies and mobilisation
- project planning
- enterprise development and access to finance
- business opportunity support services
- mentorship
- skills development, training and education
- business development services

The above forms of assistance are provided both to new and existing cooperatives. Information on these support services is disseminated through a number of means, including radio, information seminars, and posters, amongst others. Through these means and community engagement, SEDA works towards mobilising the community around business development and various forms of assistance are provided in this regard. The aim is for community members to approach SEDA with ideas and for the support relationship to begin at this stage. Prior to providing support, scoping and feasibility assessments are conducted. This is conducted through service providers and regional officers.

The assessment stage will determine if a cooperative meets the criteria to receive assistance and what form of assistance they may need. Cooperatives are rated according to a set of criteria assessed during a site evaluation. Cooperatives who receive a score above 60% on the review criteria are then eligible to receive assistance. The review criteria includes aspects such as markets secured, funding opportunities, critical mass achieved, and necessary equipment/technologies sourced. If this assistance takes the form of training, it is outsourced to service providers who work with the cooperatives.
Service providers are appointed to assist with the provision of training, as well as certain other forms of support. Different forms of support are provided depending on the size of the cooperative. For example, assistance with inputs is only provided to large-scale cooperatives.

In certain cases a service provider provides mentorship to the cooperatives for a period of six months to a year. SEDA noted that despite this support, cooperatives in many cases fail to succeed. However, if there is no mentorship whatsoever, the chances of failure are higher.

Monitoring is provided by SEDA itself. Monitoring is required several times annually and is done when the employee in charge of the area is able to visit and assess. Managers were previously divided per sector; however, this has changed. Managers now operate regionally in order to ensure improved access to and monitoring of projects.

### 5.2. Recommended Interventions

The recommended interventions for improving support to poultry cooperatives touch on six broad categories of constraint or intervention, namely:

- the lack of equipment faced by many cooperatives
- the low levels of skill and the scope for training
- the barriers to entry in gaining market access
- the struggle faced by cooperatives in being competitive in the market
- the possibilities for enhanced communication and information dissemination
- the possible paths of development for egg and broiler cooperatives separately.

#### 5.2.1. Addressing Deficiencies in Skills Development Support

The analysis in Section 4 indicated that cooperatives require additional training in a number of areas. Skill levels are shown to be low in financial, managerial and technical skills. Some of these may also stem from low levels of basic education amongst cooperative members.

In addition to low skill levels, cooperatives struggle with accountability, leadership and management. Industry experts highlighted the concern that a lack of leadership exists within cooperatives. This often results in poor or no planning, as no single member is accountable and ready to take on the challenges of long-term planning.

Recommendations to deal with skills and leadership include:

- Develop a comprehensive support approach:

  In order to address the problems of skill and leadership, it is important that a comprehensive support approach be internally formulated, to ensure that all cooperatives are taken through a best-practice development path. **It is, therefore, recommended that SEDA**
**develop and adopt a structured support model** that will ensure an integrated approach towards supporting cooperatives. Figure 5-1 below illustrates a high level view of the proposed support model.

**Figure 5-1: Proposed Support Model**

Within the framework of this model, it is necessary that cooperative support be provided on an individual basis, based on the needs of individual cooperatives. This approach should include an in depth assessment of the business and its members in order to gain clarity on their skills, resources and motivations. Based on this information, individualised development paths should be formulated for each cooperative. **A support guidance manual setting out the best practice development path of a business should be created**, based on which tailored development plans could be compiled for each cooperative. The establishment of customised individual training and development plans for cooperatives through this method would improve agency and ensure that the training that cooperatives receive is in line with their specific needs and capacities. A greater sense of agency by cooperative members for their business plans and goals creates greater autonomy and will work towards decreasing the dependency of cooperatives.

As is highlighted in the case study below (refer section 5.1.2), conditionalities placed on support improve the success rate of interventions. The last three steps in the process diagram above illustrate how this would function in the recommended support approach. Cooperatives should be made aware of the expectations from the outset and involved in the setting of expectations for their business progress. It is then possible to evaluate cooperatives based on criteria that they have themselves set out. If they do not comply with the standards set out for assistance, the support should be halted until cooperatives are able to prove that they are making use of the training and support provided. This will prevent dependency, as cooperatives have to prove that they are capable of growing on their own from a base of support, before they are eligible to receive any further assistance.
It is recommended that this support model is further developed within SEDA in order to formulate a strategic method for supporting cooperatives on an individual and conditional basis.

- **Develop a graduated system of support:**

Each cooperative starts from a different point, resource and knowledge wise. Thus, each has different training needs and requires unique development to attain the necessary skills. Due to this, customised, individual training and development paths are recommended.

  - **Graduated development:** As discussed above, it is recommended that each cooperative seeking support be assisted in the creation of their own unique development plan, based on a graduated and conditional development approach. This means that cooperatives are provided with additional support upon showing the necessary integration of learned business principles and the applicable application of support previously received. Figure 5-2 below illustrates this process.

The above Figure illustrates some of the areas to be monitored and assessed in tracking development progress. The most integral parts of this plan are the self-evaluation and individualised assessment of cooperatives. A roadmap is thereby created per cooperative. This enables them to grow in the way they envisage and also ensures that there are clear goals to be measured. This also improves the enforceability of the conditional assistance, as it enables easy measuring of compliance or non-compliance with the standards set. Additionally, this model encourages accountability and ownership by cooperatives. Individualised plans ensure the most productive use of funds possible as money is not wasted; funds will no longer be used simply to tick off a box on a cut-and-paste type of plan. This
structured process will ensure full development and assistance provision when needed.

This form of training and support will also assist cooperatives to see the benefit in the assistance they are receiving. It was discovered through the survey that many cooperatives had business plans in place, but did not make use of these in their operations. This was partially as a result of cooperatives not understanding the value of a business plan.

Through a set time for development and increased accountability for the training and assistance, the graduated development programme will be able to end after a specified length of time. Cooperatives should be encouraged to gradually increase support to each other, rather than mentors, and to further develop through collaboration. This will enhance business competitiveness in the long run, as discussed in section 5.2.4.

- **Conditional training provision**: Linked to the graduated development approach, it is recommended that training be provided in line with a step-up approach, whereby cooperatives can graduate to higher levels of assistance upon completion of a lower level of training and only when cooperatives have shown that they are making use of the skills learnt during prior training sessions. For example, if training on business plans is provided, a cooperative may only receive additional training if they show that they can then manage their own documents and continue to follow the best practices learned. From the service provider/support agency’s perspective, this allows for the productive application of limited resources towards training. It also creates a greater culture of accountability among cooperatives, reducing repeated requests for assistance already provided.

Conditional provision of training is further enhanced if greater choice is given to cooperatives in the training they receive (within a framework of best-practice training requirements and in line with their individual training and development paths). This allows them to retain agency, while ensuring that cooperatives are appropriately equipped to manage their businesses.

- **Establish technical partnerships and mentorship**:

  - **Technical training partnership**: The provision of training programmes involves a number of different elements; training takes on different forms and serves many different purposes. Cooperatives may receive academic style training in business documentation while they may also require practical training concerning the technical aspects of their business. Certain of these training elements require expert knowledge of the industry and day-to-day challenges in an industry. A critical feature of the training provided should be the involvement of a long-term **technical training partner** who is able to work with cooperatives and provide sound ‘best practice’ and
practical advice on all aspects of financial and operational management, planning and marketing. A long-term technical skills partnership with a service provider, endorsed by SAPA, would ensure that cooperatives are getting relevant and up-to-date skills in the industry. The Developing Poultry Farmers Organisation may also be willing to assist SEDA in attaining such partnerships.

- **Create a database of recognised service providers:** While there are a myriad of service providers that offer a range of training and support services in general, the tender process currently used in selecting service providers does not guarantee that experts in the poultry field are selected. This results in training not being customised to the specific challenges presented in the poultry industry. It is, therefore, recommended that a database of preferred service providers be established, based on an appropriate screening and qualification procedure. The inclusion of a poultry expert, such as SAPA or DPFO, in the evaluation and selection of service providers to be included in the database, is also recommended. Through this process, the quality and consistency of training received by cooperatives can be improved.

- **Additional types of training required:** Cooperatives have in the past struggled with attaining customers. Market access is discussed below, however, marketing training and the necessity and methods of actively seeing out new clients need to be emphasised in training. In addition to this, increased financial training will provide greater understanding of the importance of long-term planning and investment and would work toward cooperatives making the best use of their limited resources.

- **Mentorship:** In order to ensure that cooperatives are able to make the best possible use of the training and equipment provided to them, a mentorship programme is essential. While this already exists in some of the SEDA interventions, this recommendation specifically concerns the way in which this mentorship is provided, as well as the type of mentors involved. Mentors should be committed to assisting cooperatives, with one mentor being allocated to a cooperative throughout their development path. The function of the mentor would be to guide cooperatives through the graduated development approach discussed above and to assist with challenges faced in the day-to-day operations of the cooperative.

The benefit of mentors guiding cooperatives through a development plan can be further enhanced through the use of industry experts. As per the recommendation above, if mentors are sourced based on a database created with the endorsement of SAPA, it will ensure that current best practice is applied. It is also recommended that these mentors involve persons with practical experience in business management. Background to the industry as a whole and the challenges facing poultry farmers will also enable mentors to assist cooperatives in forming partnerships. For example, this may assist them in sourcing grain more cheaply.
One way to address a lack of initiative amongst cooperative members is to improve agency for business development. This will decrease dependency on governments as cooperative members will be held accountable. The recommendation concerning mentorship and conditional support will assist in increasing agency and ownership. This can be further bolstered through community mentorship. It was found in the survey that many of the successful cooperatives had a friend or relative who acted as a mentor. This person often assisted with both technical and business advice. Cooperatives are less likely to become dependent on a community mentor than they are of becoming dependent on government support. The identification and facilitation or relationship building of community mentors is thus recommended to improve cooperative agency and development. These mentors can be successful cooperative members previously supported by SEDA, who are then asked to mentor new cooperatives.

5.2.2. Improving Equipment Provision

Throughout the findings of the cooperatives survey it was highlighted that cooperatives are struggling with a lack of equipment. This has three major effects; the first is a high mortality rate amongst birds due to improper heating/cooling and badly kept chicken housing. The second is an inability to grow their business, and the third is the limitation that this places on market access.

Cooperatives also illustrated a lack of long-term financial planning. Cooperatives that are unable/unwilling to undertake long-term investments will not be able to save enough capital to purchase equipment. To address the issues surrounding availability of equipment, the following recommendations are made:

- Improve equipment provision to cooperatives that are feasible for success:

  Improved provision of equipment to farmers is recommended through the following means:

  - **Stringent criteria for cooperatives to be considered for support:** At present cooperatives are evaluated on a number of criteria set out by SEDA. Cooperatives are rated according to certain criteria and if they obtain a score over 60% they are recommended for CPPP adoption. While this set of criteria is relatively comprehensive, a number of the outcomes are vague and do not reflect a qualitative interpretation of the situation. The percentages given may be subjective; for example: ‘markets secured’ may be scored low or high depending on how the assessor views the potential market for the cooperative. Additionally, the presence of certain business documents is assessed rather than the use or understanding of that documentation. Revision of the site evaluation form is recommended in order to ensure that cooperatives who exhibit entrepreneurial qualities and ability to drive their business are considered. The identification of entrepreneurial inclination is discussed in section 5.2.5 below. While many cooperatives may have the necessary
outcomes in place to receive assistance, market access and a holistic interpretation of the business leadership and likelihood for success should be taken into account. Creation of criteria relevant to each business type would be beneficial in order to assess success factors critical to that particular business type. These criteria should be evaluated by a service provider recognised by SAPA or by the DPFO.

o **Conditional equipment provision programme:** In order to provide cooperatives with appropriate assistance, without creating a situation of greater dependency on support, it is suggested that a conditional equipment provision programme be implemented. A conditional equipment provision programme works on the premise that certain criteria need to be met by a cooperative before the next phase of equipment is provided. The case study (see info box) provides a similar example from Bangladesh.

- **Redistribution of unutilised, under-utilised or poorly maintained equipment:**

  This recommendation involves two parts. The first is locating unused or under-utilised equipment and farming grounds. The second involves providing this equipment to cooperatives in a conditional equipment provision programme, as described above. This will ensure that cooperatives are provided with much needed equipment, but will also provide a mechanism through which SEDA can reclaim the equipment if the conditions of its provision are not met.

- **Training on proper use of equipment:**

  It has been illustrated that many cooperatives do not make optimal use of the equipment that they have at their disposal. Where equipment is provided to cooperatives, it is imperative that comprehensive and practical training be provided from the outset. Additional training should also be provided to cooperatives that already have equipment, but that are not reaching the full potential this equipment provides them.
INFO BOX: IMPACT Case Study, Bangladesh

The Economic Empowerment of the Poorest (EEP) challenge fund supports a demand-driven conditional cash transfer project called Improving Markets and Poverty Alleviation through Cash Transfer (IMPACT). IMPACT seeks to enable agricultural and enterprise investment for the extreme poor by satisfying primary needs through cash transfers.

Part of the challenge addressed in this study was the psychological barrier faced by those in poverty. Many individuals in poverty rely on hand-outs and think that they are unable to escape their situation. Through a ‘menu’ of options that a recipient could choose from, they were able to make a choice about the type of projects they would undertake to improve their own situation. This gave individuals a sense of agency concerning their future. In addition to this, they were told that if they did not use the cash as was stipulated by the choice they had made, they would not receive any further cash transfers. This created a strong sense of responsibility amongst recipients, which resulted in the outcome of decreasing dependency as recipients felt that they were in control of their own future.

Example transfers from the IMPACT project transfer menu

<table>
<thead>
<tr>
<th>Area</th>
<th>Activity</th>
<th>Transfer</th>
<th>Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>De-worming</td>
<td>300 BDT</td>
<td>The whole household completes a de-worming course of ts.</td>
</tr>
<tr>
<td>Health</td>
<td>Visit to doctor</td>
<td>500 BDT</td>
<td>Doctor is visited.</td>
</tr>
<tr>
<td>Education</td>
<td>One-off cost of text books.</td>
<td>500 BDT (per child)</td>
<td>Buys text books and stays in school.</td>
</tr>
<tr>
<td>Livelihood enablement</td>
<td>Off season-stipend for unproductive individuals (60+, disabled).</td>
<td>400 BDT/month (3 month lump sum) (per individual)</td>
<td>Cash is spent on food and maintenance of unproductive household members.</td>
</tr>
<tr>
<td>Livelihood enablement</td>
<td>Cash for field crops.</td>
<td>3,000 (per transfer)</td>
<td>Some visible investment. Attendance of training.</td>
</tr>
<tr>
<td>Livelihood enablement</td>
<td>Non-agricultural enterprise investment.</td>
<td>2,000 (per transfer)</td>
<td>Some visible investment in productive enterprise.</td>
</tr>
<tr>
<td>Livelihood enablement</td>
<td>Relief/reconstruction in case of disaster (elephant stampede, flood).</td>
<td>1000-2000 BDT</td>
<td>Cash is spent on recovery and reconstruction.</td>
</tr>
</tbody>
</table>

The study notes that poverty is as much a psychological as an environmental problem. While it may be possible for educated individuals to envisage means of poverty alleviation and business development for poverty stricken South Africans, it is not as easy to understand how to escape the particular situation they are in. Due to this there is a large need for individuals to take ownership of their situation and means of improving that situation.

Thus, the project was successful through two factors. Firstly, by imposing conditionalities, beneficiaries used the money for its intended purpose so that they could obtain further capital. And secondly, through allowing participants choice of the intervention they wanted to receive; “Rather than satisfying needs imposed from the outside, this individualised approach meant that people felt that they could address the needs that they felt most needed addressing”.

Results from this project included 60.9% of participants graduating out of extreme poverty and 81.3% of participants now reporting their agricultural investment as their primary source of income (up from 0%).
5.2.3. Improving Cooperative Competitiveness and Market Access

One of the key concerns of cooperatives and developing poultry farmers in general is their inability to access a substantial market for their products. This was also highlighted by the CEO of SAPA, as well as the DPFO. The challenge of poor market access stems largely from the lack of competitiveness of these small businesses, the inability of cooperatives to produce large enough quantities at a specific quality level, as well as low levels of collaboration between cooperatives. A lack of clustering also limits the chances of extending the local poultry value chain through the development of processing activities, such as an abattoir.

The following recommendations address the key concerns raised by cooperatives around competitiveness and market access:

- **Encourage cooperatives to partner with other cooperatives:**

  Many cooperatives do not understand the potential opportunities that arise from cooperation, how cooperation can be beneficial to their business, or how to go about building such relationships. One of the challenges here is a lack of leadership in forging partnerships. Cooperatives should therefore be encouraged to work with other cooperatives through a number of enabling measures. One such measure is to ensure that training of cooperatives includes information on how to work with other cooperatives and what the benefits may be. Cooperatives should be informed of specific ways in which they can cooperate with one another in fulfilling various shared functions.

  SEDA could also play a role in identifying opportunities for cooperation and in facilitating the establishment of cooperation networks. In this regard, the hosting of networking events or meetings in communities with a high number of cooperatives will assist in partnership creation, by providing a forum for cooperatives to meet, to discuss common challenges and to forge productive partnerships. Cooperatives may partner together for any number of functions, including shared use of transportation vehicles, shared purchasing of equipment, bulk buying of inputs, sharing of knowledge and skills, etc. These networking events could also be utilised for awareness creation and education around the different ways cooperatives can partner together, as discussed above. Collaborations between cooperatives will work towards improving market access through improvements in both the quality and quantities required by the market.

- **Encourage clustering and the formation of secondary cooperatives:**

  Developing cooperatives are greatly at the mercy of the market in which they find themselves. This is especially the case if they are far removed from primary off-set markets or do not have access to appropriate and affordable transport. Proximity and/or access to suppliers and customers are vital. Accordingly, it is recommended that in areas with high development potential for poultry production, or where a number of existing poultry cooperatives are present, the concept of clustering be promoted. Clustering offers a number of agglomeration
benefits, such as enhancing access to larger customers or processors, as well as improved collaboration and sharing of knowledge and resources among cooperatives (as discussed above).

The need for clustering has been specifically highlighted by the DPFO for broiler growers. If broiler growers are not clustered near an abattoir, the cooperatives are likely to be limited in their business activities to the selling of live birds only. Thus, when feasibility studies are done, cooperatives that have access to market in an area where there is scope for additional producers should be encouraged.

Linked to clustering is the potential for the development of secondary cooperatives. Secondary cooperatives are made up of a number of primary cooperatives. These can be used to perform value added functions that could be shared by primary cooperatives, such as marketing, packaging, labelling, etc. They can also be used to manage bulk buying activities for inputs. Secondary cooperatives are a beneficial way for cooperatives to work together to improve market access. In the same information sessions, training and networking events described above, cooperatives should be informed of the potential for secondary cooperatives and SEDA should, where viable, assist in the establishment thereof. This may also enhance the leadership structures involved in collaboration, because there will be clear structures in place and not simply verbal agreements between cooperatives.

- **Facilitate partnerships with large producers:**

  The research chapter above illustrated scope for developing broiler farmers to work with large broiler producers. This opportunity could be enhanced through SEDA’s assistance. Large producers could be contacted to determine the specific minimum requirements cooperatives would need to adhere to for such partnerships. SEDA would then be able to encourage and support cooperatives in meeting those requirements before facilitating an introduction between the producer and the cooperative. Where a potentially successful partnership can be forged, the producer would take over the provision of technical support and would also provide feed, day old chicks, and transport for broilers to their abattoir.

- **Encourage product diversification:**

  Interviews with large producers and with industry experts indicated saturation in the broiler market in many instances. Without the necessary clustering or transport or large community
demand, cooperatives do not find sufficient customers for their live broilers. One large producer stated that increased diversity of product offering would enable them to make use of developing farmers. It is thus recommended that SEDA assess different forms of diversification amongst developing farmers. This could include the growth of organic chicken, organic eggs, quail, pheasant, etc. This would enable developing farmers to produce a niche product and supply to that.

5.2.4. Enhancing Information and Communication

Many of the cooperatives surveyed had heard of the various government support systems through word of mouth. This indicates fairly good, but informal information dissemination in the communities. Furthermore, many cooperatives reported their desire to receive assistance, but being unsure how to attain it. A large number of cooperatives also reported that they were ‘waiting’ to receive assistance, with little communication from the support agencies on progress and success of the applications. This illustrates potential to improve information provision and communication methods.

The following is recommended to assist with these concerns:

- Clear communication and expectation setting by SEDA:
  - Marketing of support and services: To improve the information received by cooperatives and potential cooperative members it is accurate and properly representative of the support offered by SEDA, it may be beneficial to enhance the marketing of support and services. This will encourage less word-of-mouth information dissemination as primary sources of information from SEDA will be directly provided by SEDA itself.

  - Expectation management: In order to properly manage expectations, cooperatives must be made fully aware of the type assistance SEDA can offer; the criteria used to evaluate applications for assistance; and the time frames in which they can expect to receive assistance or receive feedback if they are awaiting information on assistance. Strong lines of feedback should be provided regarding assistance. This can include feedback on financial or support applications. Additionally, verbal transfer of information may lead to inconsistent information. This emphasises the importance of expectation setting. Contact details for SEDA should be provided so that cooperatives have a means of checking up on their applications. A number to which a ‘please call me’ can be sent would make this easier for cooperatives. The scheduling of evaluation and monitoring sessions in advance would enable the cooperative to gain a better understanding of when they will next be receiving feedback on their progress.
• **Database of cooperatives supported by SEDA:**

At present SEDA does not have a central database with information on cooperatives receiving support. This makes it difficult to monitor cooperative support and also poses a challenge concerning collaboration with other support organisations. Hence, it is recommended that a single master database is created and kept up-to-date. This database should contain contact information for the cooperatives as well as information about the support received and the history of the cooperatives relationship with SEDA. This will improve the tracking of the impact of support provided to cooperatives.

• **Enhance working relationships and communication channels with other support organisations:**

Cooperatives are assisted by a number of different organisations, such as the Department of Agriculture and the Dti, with duplication of assistance often occurring. For example, a number of different organisations may assist a cooperative in completing a business plan. It is, therefore, recommended that relationships with other support organisations be strengthened and that the focus areas of intervention be clarified. In this way, cooperatives seeking assistance can be directed towards the most appropriate support vehicle.

Through coordination with other support agencies SEDA will be able to provide information beyond the scope of their support. For example, cooperatives could be informed and put in contact with relevant agents from organisations offering different types of support. Building relationships with organisations who offer financial assistance, etc. will also help in providing cooperatives with information around the requirements to apply.

Duplication of effort and overlap in support could also be eliminated by introducing the development of a comprehensive government database of cooperatives (this may be facilitated through CIPC) and the keeping of records on the forms of assistance cooperatives have received from various agencies (refer also Section 5.2.4). Additionally, individualised training and development plans may be reflected on this database. If a centralised database is not possible, agencies should aim to communicate with officers of various organisations in the area. Improved communication amongst support agencies will improve the allocation of assistance and the provision of complementary support; avoid duplication and ensure more productive use of funds.

5.2.5. **Entrepreneurial Development**

The survey analysis in the previous chapter revealed that many cooperatives start their businesses due to a desire to create employment. In these cases, the business/product type is generally decided upon based on businesses that have already been established in in the area and that appear to be successful. The decision, therefore, often does not involve much consideration about business type based on development opportunities, gaps in the market or the competitive advantages of the
Research Report: Addressing the Needs, Opportunities and Challenges of Cooperatives and Collectively Owned Enterprises in the Poultry and Related Industries

region. Industry experts also highlighted a lack of leadership amongst cooperatives and the challenge of insufficient management capability. This often hinders the growth of cooperatives as a lack of strong leadership creates stagnation and a lack of vision for the long term. Greater encouragement of individuals who have leadership experience and drive would improve this problem.

The following recommendations address these entrepreneurial challenges:

- **Encourage entrepreneurship and leadership:**

  Entrepreneurship is a key contributor to enterprise development and makes significant contributions to job creation. Through entrepreneurial prowess new and innovative businesses are created and the capacity of people to improve their standard of living is enhanced.

  - **Leadership development:** Due to a lack of strong management many cooperatives struggle with a lack of commitment from members and a lack of direction in their business. One of the factors which encourage success in new business is the presence of a strong and common purpose amongst the members. Due to this, leadership should be emphasised and encouraged. Unfortunately, industry experts have highlighted that cooperatives often do not have strong leaders. In order to encourage the establishment of new businesses and the expansion of existing small cooperatives and businesses, the provision of leadership and entrepreneurial development programmes could assist in identifying and nurturing good leaders and business people. It is recommended that a leadership programme be developed specifically for cooperatives should be provided to cooperatives who apply. This will ensure that leadership is taken seriously and that the program is well regarded. Additionally, it will encourage word of mouth on the programme and instil pride in those cooperative members who have attended the training. In the programme identified leaders are educated on how to effectively manage cooperatives, provide strategic leadership and identify new opportunities for development and expansion.

  - **Spotting entrepreneurial talent:** While entrepreneurship can be taught, there are people who have a greater inclination towards it inherently. It is, therefore, recommended that individuals wanting to start businesses or cooperatives be screened to determine their entrepreneurial inclination. Individuals displaying good entrepreneurial and leadership traits should also be taken up into the entrepreneurship development programme, through which this latent potential can be nurtured and developed. Once graduated from the programme, these individuals can be further supported in establishing new enterprise, in line with an individual training and development plan (as described above).
• **Encourage establishment of businesses that take advantage of market gaps:**

Many cooperatives begin simply by mimicking other businesses in the area, without taking into consideration market demand. While in the case of broiler production this may allow for beneficial clustering, it does not always lead to the creation of businesses with enough demand. The DPFO highlighted that for new poultry cooperatives, egg laying is a less risky business. Therefore, where new entrants are interested in starting a poultry business, the establishment of egg laying could be promoted as a potential opportunity for development where demand for broilers is low. The demand for egg laying in the area would also have to be assessed, however, egg laying presents less transport challenges as eggs do not require refrigeration.

The survey also revealed lack of access to transport as a key constraint in accessing markets. An opportunity may therefore exist to form a business that provides transport to other cooperatives in a specific area where transport is a challenge.

### 5.3. Conclusion

This chapter provides strategic interventions focused on the opportunities and challenges identified during the course of the research. Key focus areas are training, market access, information and communication, equipment and entrepreneurial development. Improved collaboration by SEDA with a number of key organisations in the industry will greatly assist with these interventions. SAPA and the DPFO are playing a strong role in the development of the industry and of small scale farmers within the industry. Increased leveraging of these forms of support will enable improvements in skill and information dissemination.

Opportunities exist through growth in the leadership potential of cooperatives. Many of the concerns faced in the industry are a function of poor leadership and accountability. Conditional equipment provision programmes will encourage initiative and management within cooperatives through encouraging agency and ownership of decisions. The development of the support model outlined in Section 5.2.1 is therefore of high strategic priority. Through the further development of this model, SEDA will enable cooperatives to better assist themselves and become weaned off government support, thereby gaining agency.
References

- South African Poultry Association, Industry Profile, 2011. Obtained online at {http://www.sapoultry.co.za/industry_profile.php}

- Steyn, Ibrahim (2011) Exploring the legal context of informal trade in South Africa; A desktop study commissioned by the Ecumenical Service for Socio-Economic Transformation (ESSET), University of Johannesburg.


Annexure A
**Poultry Cooperatives Research Questionnaire**

Urban-Econ Development Economists was appointed by the Small Enterprise Development Agency (SEDA) to compile a set of guidelines and recommend interventions aimed at promoting the development of cooperatives and collectively owned enterprise in poultry and related industries. The purpose of this questionnaire is to identify the needs, opportunities and challenges faced by cooperatives in the poultry sector.

All information provided will remain confidential and will only be used in combined form to compile a research report for SEDA.

### SECTION A: CONTACT DETAILS

**FOR OFFICE USE:**

<table>
<thead>
<tr>
<th>A1</th>
<th>Name of the cooperative</th>
</tr>
</thead>
<tbody>
<tr>
<td>A2</td>
<td>Contact Person: Name and Surname</td>
</tr>
<tr>
<td>A3</td>
<td>Cell number</td>
</tr>
<tr>
<td>A4</td>
<td>Landline</td>
</tr>
<tr>
<td>A5</td>
<td>Email address:</td>
</tr>
</tbody>
</table>

### QUESTIONS TO COOPERATIVES:

<table>
<thead>
<tr>
<th>A6</th>
<th>On what date did this cooperative start</th>
</tr>
</thead>
<tbody>
<tr>
<td>A7</td>
<td>Location of cooperative (Tick one)</td>
</tr>
<tr>
<td></td>
<td>Rural</td>
</tr>
<tr>
<td></td>
<td>Urban</td>
</tr>
<tr>
<td>A8</td>
<td>What is the nearest town to the cooperative?</td>
</tr>
<tr>
<td>A9</td>
<td>What type of business does the cooperative do?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Abattoir</th>
<th>Gizzards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Breeding of broilers</td>
<td>Hatching and selling of day old chicks</td>
</tr>
<tr>
<td>Breeding of laying hens</td>
<td>Heads, beaks, feet</td>
</tr>
<tr>
<td>Cage cleaning</td>
<td>Production of broilers (grow birds from day old and sell when ready for slaughter)</td>
</tr>
<tr>
<td>Cage construction</td>
<td></td>
</tr>
<tr>
<td>Chicken Manure</td>
<td>Selling of Broilers</td>
</tr>
<tr>
<td>Egg Laying (Egg production)</td>
<td>Selling of eggs</td>
</tr>
<tr>
<td>Export</td>
<td>Selling of laying hens</td>
</tr>
<tr>
<td>Feathers</td>
<td>Selling of Spent Hens</td>
</tr>
<tr>
<td>Feed Farming</td>
<td>Transport</td>
</tr>
<tr>
<td>Other (specify):</td>
<td></td>
</tr>
</tbody>
</table>

| A10 | What type of structure/property does the cooperative operate from? |
SECTION B: BACKGROUND OF THE COOPERATIVE

B1. Why did this cooperative start/ what opportunity did you see?

B2. When you started this cooperative what were the challenges that were faced?
(Allow for descriptions: tick below ONLY where applicable, if the respondent mentions)

| Difficulty in compiling a business plan | Difficulty in managing the finances |
| Finding money to start the cooperative | No basic start up equipment |
| Lack of technical skills | Difficulty in registering with CIPRO |
| Difficulty in finding premises | Lack of business skills |
| Access to information and support organisations | OTHER: SPECIFY |

Describe:

B3. Does the cooperative have the appropriate equipment, tools and machinery to properly operate the cooperative?

| YES | NO |

B4. What additional equipment do you still need to help you do your work better?

B5. What are the main challenges in getting the required equipment or machinery?

B6. Which of the following does the cooperative currently have?

<table>
<thead>
<tr>
<th>Does your co-op have the following?</th>
<th>Y/N</th>
<th>Did you get assistance with this from a government support agency? Who?</th>
</tr>
</thead>
<tbody>
<tr>
<td>B6.1 Written business plan</td>
<td>B6.2</td>
<td></td>
</tr>
<tr>
<td>B6.3 Written marketing plan</td>
<td>B6.4</td>
<td></td>
</tr>
<tr>
<td>B6.5 Written budget</td>
<td>B6.6</td>
<td></td>
</tr>
<tr>
<td>B6.7 Formal training programme</td>
<td>B6.8</td>
<td></td>
</tr>
</tbody>
</table>
SECTION C: COOPERATIVE EMPLOYEES AND MEMBERS

C1 How many members does this cooperative have?

C2 How many members work in the co-op on a full-time basis?

C3 How many other employees (non-members) work in the cooperative

C4. Please rate the skills within the cooperative in dealing with the following things:

<table>
<thead>
<tr>
<th></th>
<th>Very poor</th>
<th>Poor</th>
<th>Average</th>
<th>Good</th>
<th>Very good</th>
</tr>
</thead>
<tbody>
<tr>
<td>C4.1</td>
<td>Managing the cooperative</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C4.2</td>
<td>Managing employees/staff issues</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C4.3</td>
<td>Book keeping/budgeting</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C4.4</td>
<td>Managing credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C4.5</td>
<td>Marketing the cooperatives products/services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C4.6</td>
<td>Applying for tenders</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C4.7</td>
<td>Computer literacy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C4.8</td>
<td>Managing the suppliers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C4.9</td>
<td>Technical skills related to the cooperative's product/service</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C4.10</td>
<td>Managing customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C4.11</td>
<td>Negotiating discounts for bulk buying</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C4.12</td>
<td>Product pricing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

C5. What are the main skills the cooperative would like to obtain for its members/employees?

C6. What are the main challenges experienced in managing the cooperative?
## SECTION D: MONEY MANAGEMENT AND BANKING

**D1. Do cooperative members need to make contributions to be a member of the cooperative?**

<table>
<thead>
<tr>
<th>YES</th>
<th>D1.2 What type of contribution?</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO</td>
<td>D1.3 Why not?</td>
</tr>
</tbody>
</table>

**D2. Do members keep financial records or accounts for this cooperative?**

<table>
<thead>
<tr>
<th>YES</th>
<th>D2.1 How?</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO</td>
<td>D2.2 Why not?</td>
</tr>
</tbody>
</table>

**D3. When you have profits in the cooperative, what do you do with the money?**

**D4. How do you decide what should happen with the profits?**

**D5. Are any of the profits reinvested into the cooperative?**

<table>
<thead>
<tr>
<th>YES</th>
<th>D5.2 How much (%)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO</td>
<td>D5.3 Why not?</td>
</tr>
</tbody>
</table>

**D6. What are the biggest challenges with management of the cooperative’s finances?**

---
D7.1 Which areas of expense have the biggest impact on the operations of the cooperative?

<table>
<thead>
<tr>
<th>Tick</th>
<th>Tick</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>Transport</td>
</tr>
<tr>
<td>Feed</td>
<td>Advertising and Marketing</td>
</tr>
<tr>
<td>Administration costs</td>
<td>Security</td>
</tr>
</tbody>
</table>

D7.2 Please explain the main challenges around input expenditure:

---

D8. Does the cooperative have a bank account?

<table>
<thead>
<tr>
<th>Yes</th>
<th>D8.1. What type of account?</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>D8.2. Do you use the account?</td>
</tr>
<tr>
<td></td>
<td>D8.3. Is this account appropriate for your needs?</td>
</tr>
<tr>
<td></td>
<td>D8.4. Why not?</td>
</tr>
</tbody>
</table>

---

D9. Has the cooperative applied for any loans?

| YES / NO | Additional Comments: |

D10. Was the loan approved?

| YES / NO | D10.2 If no, Why? |

D11. Is the cooperative able to repay the loan?

| YES / NO | Additional Comments: |
SECTION E: CUSTOMERS AND SUPPLIERS

E1. Which of the following are your main markets or customers?

<table>
<thead>
<tr>
<th>ENTITY</th>
<th>TICK</th>
<th>ENTITY</th>
<th>TICK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government departments/agencies</td>
<td></td>
<td>Communities/Individuals</td>
<td></td>
</tr>
<tr>
<td>Municipalities</td>
<td></td>
<td>Small Shops</td>
<td></td>
</tr>
<tr>
<td>Large companies</td>
<td></td>
<td>Markets</td>
<td></td>
</tr>
<tr>
<td>Small private companies</td>
<td></td>
<td>Supermarkets</td>
<td></td>
</tr>
<tr>
<td>Hospitals</td>
<td></td>
<td>Other (specify):</td>
<td></td>
</tr>
<tr>
<td>Schools</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

E2. What are your main challenges in getting customers /securing contracts?

E3. What are your main challenges with suppliers?

E4. Does your cooperative work with other cooperatives?

<table>
<thead>
<tr>
<th>Yes</th>
<th>E4.2 If Yes, what problems are experienced when working with cooperatives?</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>E4.3 Why not?</td>
</tr>
</tbody>
</table>
**SECTION F: CURRENT CHALLENGES & SUPPORT**

F1. What are the main challenges the cooperative is currently experiencing?

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

F2.1 In your opinion, is this cooperative successful?

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

F2.2 Why do you say so?

F3. Has the cooperative received assistance from any government agency?

<table>
<thead>
<tr>
<th>YES</th>
<th>F3.2 If yes, which organisation/s gave you support (e.g. SEDA, local government, etc.)?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F3.3 If yes, how did you find out about the agency and its support services?</td>
</tr>
<tr>
<td>NO</td>
<td>F3.4 If no, why not?</td>
</tr>
</tbody>
</table>
F4. (ONLY ASK IF ANSWER WAS YES ON PREVIOUS QUESTION)
F4.1 Which part of the business did the support organisation help you with?

<table>
<thead>
<tr>
<th>TICK</th>
<th>Describe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Plans</td>
<td>F4.2</td>
</tr>
<tr>
<td>Financial assistance</td>
<td>F4.3</td>
</tr>
<tr>
<td>Equipment</td>
<td>F4.4</td>
</tr>
<tr>
<td>Marketing</td>
<td>F4.5</td>
</tr>
<tr>
<td>Training</td>
<td>F4.6</td>
</tr>
<tr>
<td>Market access</td>
<td>F4.7</td>
</tr>
<tr>
<td>Technical advice</td>
<td>F4.8</td>
</tr>
<tr>
<td>Other</td>
<td>F4.9</td>
</tr>
</tbody>
</table>

F5. Do you think this assistance has benefitted the cooperative? (Please explain)

F6. What other forms of support would you like to receive?

F7.1. Do you expect the business to grow in the next year?

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

F7.2 Why do you say so?
THANK YOU FOR PARTICIPATING IN THIS SURVEY

Please send the completed questionnaire to Leila Arnold (leila@urban-econ.com) or FAX to 012 342 8688

For more information about the study, please contact:

**URBAN-ECON DEVELOPMENT ECONOMISTS**

Tel: (012) 342-8686  
Fax: (012) 342-8688  

Contact Person: Leila Arnold  
leila@urban-econ.com
## Annexure B

<table>
<thead>
<tr>
<th>Support Organisation</th>
<th>Purpose and Function</th>
<th>Main Services</th>
<th>Target Groups</th>
<th>Restrictions and Fees</th>
</tr>
</thead>
</table>
| 1) Small Enterprise Development Agency (SEDA) | SEDA’s mandate is to create a standard national delivery network for SMME support. Their objectives are to improve access to finance, reduce regulatory barriers, expand market opportunities and provide training, information and advice. | SEDA has a branch in each District which provide:  
- Access to information and advice on sectors, gaps in the market, tenders, financing options and other available support  
- Business linkages and referrals  
- Skills training in marketing, quality control, exporting, human resources, bookkeeping and financial management  
- Funding for marketing materials  
- Mentorship programmes  
- Advice on legal and regulatory issues  
- Specific advice for cooperative enterprise development  
- All SMMEs including cooperatives and expansion in both the formal and informal sector | Most services are free of charge  
- An assessment of the business’s needs is done to establish which support is necessary  
- SMMEs pay 10% to 40% of the cost of marketing materials |
| 2) Developing Poultry Farmers Organisation (DPFO) – a division of SAPA | To cater for the needs and requirements of emerging/developing poultry farmers. |  
- Capacity building and advocacy  
- Information about securing funds  
- Production training; transportation, marketing and others  
- Attending seminars and courses  
- Access published literature, journals and circulars dealing with the current trends pertaining to the developing poultry sector  
- Negotiation of discount on inputs on behalf of members | Emerging/developing Poultry Farmers | Annual membership fee of R114 |
<table>
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</table>
| 3) Land and Agriculture Development Bank of South Africa (Land Bank) | The Land Bank is a development finance institution promoting growth and reform of the agriculture sector by increasing access to land, supporting rural farmers and raising rural incomes. | • **Special Mortgage Bonds**: Finances land purchases by emerging farmers  
• **Installment Sale Finance**: Finances moveable farming assets and equipment as well as livestock  
• **Establishment Loan**: Finances equipment, structures and implements for farmers of perennial crops  
• **Short Term Seasonal Loans**: Finances short-term needs in the agriculture production cycle | • Established and emerging farmers | • Preference is given to previously disadvantaged individuals |
| 4) National Youth Development Agency (NYDA) | The NYDA seeks to increase the economic participation of young people through education, skills development, information services, career guidance and access to finance. | • **NYDA Small, Medium Enterprise (SME) funding**: Provides small business funding from R100,000 to R5 million  
• **NYDA Microfinance**: Provides micro loans of R1,000 to R10,000 with terms structured according to individual needs  
• **Business Consulting Services Voucher Programme**: Provides technical assistance and managerial support  
• **Business Opportunity Support Service**: Identifies BEE opportunities for youth owned companies in public and private sector procurement  
• **Volunteer Enterprise Mentorship**: Facilitates the transfer of business skills and knowledge by corporate volunteers and post-graduates | • Supports South African youth; ages 18 to 35 | • SMME funding is exclusively for youths from previously disadvantaged backgrounds  
• Priority for youth from previously disadvantaged backgrounds for all other services  
• R200 fee for the Business Consulting Services Voucher Programme |
### Support Organisation

<table>
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<tr>
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</table>
| 5) Y-Age (Youth and Graduate Entrepreneurship) | Y-Age was established in 2011 and provides training, funding and mentorship to youth entrepreneurs. Currently operating in Gauteng, Y-Age plans to expand into a national organisation in 2012. | - **Funding**: A combined grant/loan for entrepreneurs with an existing business or business idea  
- **Training**: Offer a series of courses on business management, marketing, bookkeeping and other skills  
- **Mentorship**: Ongoing mentorship for small businesses | • Supports South African youth aged 18-35 | • Available to Gauteng youth  
• No fees for mentorship and training  
• Must attend training prior to receiving finance |
| 6) South African Micro-Finance Apex Fund (SAMAF) | SAMAF is a wholesale funding institution that works through Financial Service Cooperatives (FSCs) and Micro-Finance Institutions (MFIs) to deliver financial and non-financial services. | - **Micro-enterprise Loans**: A combination of grants and loans to finance the start-up, growth and expansion of micro and small businesses with a total income of not more than R3,500 per month  
- **SAMAF Fund**: To enhance the institutional capacity of FSCs and MFIs through partial subsidization of their operation costs and the development of reporting systems, policies and procedures  
- **SAMAF Savings Mobilization**: Assists existing unregistered cooperatives, savings groups and clubs to formally register and improve their overall capacity  
- **SAMAF Technical Support**: Assists FSCs and MFIs with financial management | • Supports survivalist entrepreneurs and the working poor | • Preference given to individuals from previously disadvantaged backgrounds and the organisations that represent them  
• FSCs, MFIs and cooperatives must be registered with a minimum number of members to receive funding |
| 7) Black Business Supplier Development Programme (BBSDP) | The BBSDP offers cost-sharing grants to black-owned SMEs to increase their competitiveness, sustainability and job creation. | • Provides grants of up to R1 million  
  ▪ Up to R800,000 for tools, machinery and equipment on a 50:50 cost-sharing basis  
  ▪ Up to R200,000 for business development and training to improve | • Black-owned small businesses | • Companies must be established, majority black-owned and managed and have turnover of R250,000 to |
<table>
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<tbody>
<tr>
<td>8) Cooperatives Incentive Scheme</td>
<td>Provides 90:10 cost-sharing grants for registered cooperatives to improve their viability and competitiveness.</td>
<td>corporate governance, management, marketing, productivity and technology on a 80:20 cost sharing basis</td>
<td>Cooperatives with a majority black ownership</td>
<td>R35 million per year</td>
</tr>
</tbody>
</table>
| 9) National Empowerment Fund (NEF)           | The NEF advances B-B BEE through transformation and funding solutions to increase the economic participation of black owned businesses and entrepreneurs. | • **The Imbewu Fund:**  
  ▪ Entrepreneurship Finance: Risk capital and mentorship  
  ▪ Procurement Finance: Provides working capital to complete procurement contracts  
  ▪ Franchise Finance: Provides equity shortfall for the establishment of a South African franchise  
  • **Rural and Community Development:** Aims to increase ownership and management by workers, cooperatives and other collectives  
  • **Non-Financial Business Support:** Provides ongoing support including funding advice, planning, management skills, mentorship programmes, legal services and strategies for businesses in distress  
  • **Strategic Projects Funds:** Provides venture capital finance within identified growth sectors | Supports black owned businesses and entrepreneurs                                      | Supports black owned businesses and entrepreneurs                                      | Available to established formal businesses with over 51% black ownership                                      | No fees for mentorship and business support services                                      |
<table>
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</table>
| 10) Thembani International Guarantee Fund | Thembani International facilitates access to credit for community groups via a credit guarantee scheme, linking partner organisations to financial institutions and helping them leverage credit. | • **Guarantee Funds**: Provide commercial banks with assurance that they will cover part of the losses if the loan recipient defaults  
• **Business Support**: Identifies viable business ventures, assists with business proposals and provides referrals to commercial banks | • Entrepreneurs and groups from poor and marginalized communities | • No fees for business support |
| 11) South African Institute for Entrepreneurship (SAIE) | The SAIE develops innovative business skills materials for educators, trainers and community organisations to use in the education and development of local youth and entrepreneurs. | • **Business Ventures (School Entrepreneurship)**: Provides educators in grades 2-12 with training and materials to teach their students about business and entrepreneurial skills  
• **Best Game**: Skills development tool to train entrepreneurs in business plans, money management, marketing, business basics and identification of opportunities  
• **Agri-Planner**: Trains agricultural educators on the delivery of business skills courses and land management to emerging farmers | • South African Entrepreneurs | • All courses are free, however they depend on donations from SAIEs partners |
| 12) Grofin | Grofin is a private multi-national organisation that provides finance and support to small and medium enterprises in all sectors. | • Loans of R500,000 to R10 million  
• Mentorship and advice:  
  ▪ Inception Support: Aid with applications and business plans  
  ▪ Mentorship: Business advice throughout duration of the loan  
  ▪ Post-Finance Support: To ensure business sustainability | • Supports start-ups and expansions | • One-time fee for mentorship and support negotiated according to the client’s needs |
<table>
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</thead>
</table>
| 13) Vuka Mentorship Programme                            | The Vuka Mentorship Programme provides established corporations with an opportunity to finance the mentorship of emerging small businesses in their supply chain and simultaneously contribute to their B-B BEE mandate. | • **Create a Solid Business Idea:** Provides mass training for large groups of low-skilled survivalist and micro-entrepreneurs  
• **Implement a Solid Business Idea Programme:** Educates informal businesses about the benefits of conducting business lawfully and assists with their formalisation  
• **Grow Your Business Programme:** Assesses small businesses to identify challenges and develop a mentorship plan to address these challenges  
• **Business Incubation Programme:** Mentors emerging companies in the first few years of business | • Entrepreneurs, emerging and established small businesses | • Participating small businesses must be 50% black owned                        |
| 14) South African Women Entrepreneurs Network (SAWEN)     | SAWEN is a networking forum for individuals and organisations that are committed to the promotion and advancement of women entrepreneurs. | • Provide networking and showcasing opportunities through conferences and exhibitions  
• Present speakers on development topics, capacity building and training  
• Provide opportunities for women to combine their services and increase their capacity to meet large orders | • Women with existing and emerging micro and small businesses | • Annual membership fee is R250                                              |
| 15) Development Bank South Africa (DBSA)                  | The Development Bank of Southern Africa (DBSA) is a Development Finance Institution wholly owned by the government of South Africa and focuses on large infrastructure projects within the public and private | **Facilitate SMMEs through:**  
• Development Fund  
• Jobs Fund  
• Accelerated School Infrastructure Development Initiative (ASIDI)  
• DBSA SMME development initiatives  
• Rural Economic Development Initiative (REDI) | • Any SMMEs | none                                                                           |

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Research Report: Addressing the Needs, Opportunities and Challenges of Cooperatives and Collectively Owned Enterprises in the Poultry and Related Industries
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</thead>
</table>
| 16) Eastern Cape Development Corporation | The Eastern Cape Development Corporation (ECDC) is a dynamic economic development agency in the Eastern Cape. Their priorities are to facilitate and support private sector development in the Eastern Cape through:  
- Supporting existing business  
- Creating opportunities for new business  
- Growing and sustaining existing markets and developing new markets  
- Improving access to enterprise finance | Our priorities are to facilitate and support private sector development in the Eastern Cape through:  
- Supporting existing business  
- Creating opportunities for new business  
- Growing and sustaining existing markets and developing new markets  
- Improving access to enterprise finance  
- Ensuring that skills, infrastructure and policies support business development | • Any businesses | • n/a |
<table>
<thead>
<tr>
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<th>Target Groups</th>
<th>Restrictions and Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>17) Eastern Cape Job Stimulus Fund</td>
<td>The primary mandate of this Stimulus Fund is to incentivise the creation of new Jobs located within the Eastern Cape by attracting sector specific, catalytic investments which stimulate sustainable new jobs across the value chain.</td>
<td>The objective of the EC Jobs Stimulus Fund is to incentivise the saving, retention and creation of sustainable jobs located within the Eastern Cape by attracting sector specific, catalytic investments which stimulate economic growth and provide jobs.</td>
<td>Any business operating within the geographical boundaries of the Eastern Cape Province; Any business which, at the time, has not yet begun its operations but has secured all necessary funding and facilities required to operate as a going concern; Companies with South African and / or non-South African shareholders; Tax, legislative compliant and solvent companies.</td>
<td>Jobs must be created within a 15 month time period from 1st July 2012 to 15th October 2013</td>
</tr>
<tr>
<td>18) Imvaba–EC Provincial Cooperative Development Fund</td>
<td>The primary mandate of this Fund is to support and empower cooperatives in the Eastern</td>
<td>The main focus of the fund will be to promote the viability of the cooperative enterprise in the province. It will serve as a revolving fund</td>
<td>Cooperatives in the mining and services sectors</td>
<td>Depending on the type of cooperative to be established</td>
</tr>
<tr>
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</tr>
<tr>
<td>Cape.</td>
<td>for the support of Primary Cooperatives involved in Manufacturing and Services Sectors. The fund has been structured as part loan finance and part developmental (start-up capital) to enhance the competitiveness of the cooperative enterprises in the province. The targeted Sectors include Agri-business (agro-processing), Tourism, ICT, Chemicals, Textile and Clothing, Timber and Forestry, Metals, Business Processing Out-Sourcing, and Arts and Crafts.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>