

**`Concept Document**  
**Daveyton Bus Shed**  
**Co-operative Sustainable Local Manufacturing Hive**

## **1. Background**

The implementation of the Industrial Hives project is managed by the Ekurhuleni LED department. The LED department received just over 2000 applications from interested people.

The first step was to provide information for the beneficiaries to make an informed decision; workshops were held during November, December 2003 and in January 2004. As a second step there was a skills verification process during January, February and March. The third step was the selection of beneficiaries based on age, mix of skills and experience and the interests by participants.

A project team was also established in the LED Department led by the Co-operative and Policy Alternative Center (COPAC), supported by Rutek and LED department staff. This team has ensured the finalization of beneficiaries and the planning for groundwork and start-up of the co-operative industrial hives. The first project was initiated in Daveyton.

Three ground work workshops were held over 5 days, facilitated by COPAC, which focused on the following:

- Education on the co-operative concept;
- A concept design with a focus on sustainable local manufacturing and micro-finance;
- A Business Plan and Participatory Feasibility assessment;

The general objectives of the groundwork workshops were as follows:

- To understand the contextual aspects of poverty and its challenges;
- To develop a collective response or answer to poverty;
- Clarify the needs of participants that are necessary for survival and basic existence;
- Design a model of sustainable local manufacturing for the Daveyton Bus Shed;
- Develop an appropriate business plan;
- Contribute to implementing the LED Policy of the Metro;

## **2. Location of the Co-operative Industrial Hive**

The co-operative industrial hive would be located in the Daveyton bus shed. There is space for the following:

- Internally – 3 production units, a room for the micro-finance co-operative, a board room and storage facilities;
- Externally – space for 4 production units, parking space for about 20 cars and space for a container or two for storage;

In total there is space for 7 production units or co-operative enterprises.

## **3. Sustainable Local Manufacturing**

The industrial hive model being designed for the Daveyton bus shed is based on the idea of sustainable local manufacturing. The starting point of sustainable local manufacturing is a critique of mass production technologies that have been the basis of industrial growth societies for just over a century. The critique is as follows:

- Mass production uses up lots of resources and raw materials which come from poor countries in the world, consequently these countries are being exploited because they do not have a manufacturing sector in their economies - they become exporters of primary products to the rich countries i.e., raw materials;
- It uses non renewable energy such as electricity from coal. It also uses nuclear power which is dangerous, produces radioactive waste and is not necessarily cost effective;
- It also alienates workers depriving them of time to develop by making them subordinate to the technology and they have to work long hours in factories and other production facilities;
- As mass production technologies become more robotised and automated it also leads to retrenchments and as these technologies develop, more people get replaced by machines. Hence the high rates of unemployment; 42% in the case of SA. In the end unemployment is becoming permanent and old ways of managing the economy to create jobs are no longer working;

- Mass production technologies also cause environmental degradation. Air pollution is so extreme in certain countries that they experience acid rain. They destroy life in the rivers and oceans and worse still are the main reasons for global warming, climate change, ozone depletion and the general destruction of the environment;
- These technologies have been the reason for two world wars in the 20<sup>th</sup> century. Mass production has led to overproduction and many companies together with their governments have fought to capture markets. The rivalry, competition and expansion led to war. Underpinning this has been the formation of a global military industrial complex which results in the proliferation of weapons of war and mass destruction.

In the end the technology path of a society is not given. Western industrial societies had a choice of either mass production or small craft based technologies, suitable for communities, neighbourhoods and villages. Many chose the former and destroyed local craft production capacities and technologies. This even happened in many Third World countries eager to catch up industrially. Technology is not neutral in that it tends to serve only certain interests. In the world we live in the big companies that control the market will determine the kind of research to be conducted and ultimately the technology to be produced. This in essence, and despite competition, does not result in best technology being produced. Microsoft has superior advantage in the software industry and thus research power but it still does not provide the best software solutions.

In South Africa today the new democratic government has placed a great deal of emphasis on small and medium enterprises. The idea is to develop small scale light and intermediate manufacturing capacity. This is an opportunity for Sustainable Local Manufacturing. What is sustainable local manufacturing?

Sustainable Local Manufacturing is about the following:

- decentralized or local manufacturing for community or social need;
- it's about appropriate technology, that fits the situation and scale of the community- the technology choice must be context specific;
- It must be about livelihoods and autonomous work – “worker owners” would be self employed and will generate an income using their capabilities, assets and local opportunities;
- It would utilize as much as is feasible of local resources – such as raw material, labour, finance and land and buildings, waste materials and technology;

- It must mobilize the demand side through community mobilization;
- It must have at its core multi-use technologies that are flexible and which can produce more than one product;
- Because it is social need driven it will lead to peace;
- It would ensure people live and work in the same space;

In the world there are numerous examples like Mondragon in Spain, Kerala in India and Bophelong Labour and Technology Industrial Hive Co-operative.

#### 4. Micro-Finance

Formal micro-finance exists between commercial banking and informal financial service activity. Most low income communities and families do not have the necessary collateral to access loans from commercial banks (and are therefore deemed to be “high risk”) or they borrow from informal financial service providers and end up trapped in debt and dependency. Over the past decade micro-finance approaches and schemes have increasingly become linked to poverty reduction and sustainable development for local community development.

Today, numerous examples exist in the world building on simple Rotating Credit and Savings Associations (ROCSAs) to sophisticated and formalized “poor” peoples banks, credit unions and village banks. These micro-finance institutions have shown that poor people can save and repay credit. In addition, poor people are able to use these small amounts of credit to meet housing needs, income generation needs and consumption needs. In the end, most of these micro-finance institutions have proved that poor people can be given credit at low risk and low cost.

In order to understand the role of micro-finance in poverty eradication and as an alternative to informal financial services and commercial banks it is important to understand how mainstream development finance has worked and failed the poor majority.

Chart 1 (below) outlines the different features between formal banking channels and micro-finance channels. In contrast to formal banking, micro-credit is characterized by small size, shorter loan duration, emphasis on thrift, and the absence of collateral security and informal procedures. In the absence of collateral security and formal documents there can be little legal recourse against defaulters. Peer group pressure, however, has proven even more effective than loan repayment mechanisms in the formal banking system. While the banking system is a purely commercial organization; the lower tiers in the micro-finance system are social organizations and motivated by non-economic objectives.

Chart 1 Comparison of Micro-finance and Formal Banking

Characteristic	Micro-finance	Formal banking
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<b><i>Size of Loan</i></b>	Small/tiny size of credit	Medium/large credit
<b><i>Duration of Loan</i></b>	Short duration	Medium and long duration
<b><i>Saving</i></b>	Emphasis on savings as well as loan	Focus on loan only
<b><i>Screening and Monitoring</i></b>	Group formation and informal methods	Formal Procedures
<b><i>Enforcement of repayment</i></b>	Peer pressure and weekly repayment	Collateral and Legal pressures for repayment
<b><i>Nature of Organization</i></b>	Social organizational form	Commercial organizational form
<b><i>Motivation</i></b>	Self-help motivated	Profit motivated
<b><i>Outreach</i></b>	Access to poor without collateral (all members)	Access limited

The alternative micro-finance model that would be developed in the industrial hive is a **Savings and Credit Co-operatives (SACCOs)**

In South Africa credit unions first emerged in the early eighties and where part of initiatives spawned by Catholic parishes in the Western Cape. By the nineties this urban based movement has grown in South Africa and is formalised under an umbrella organisation of Savings and Credit Co-operatives (SACCOs) known as SACCOL.

Both the Savings and Credit Co-operatives (or SACCOs) and Village Financial Services Co-operatives operate through exemptions from the Banks Act of 1990.

Through a Government Gazette (Vol 354, No 16167, December 1994) the South African Reserve Bank recognises SACCOL as the representative of Savings and Credit Unions in South Africa. SACCOs, on condition they abide by the SACCOL constitution and SACCO statutes, receive an exemption from the Banks Act of 1990. According to SACCOL the thrust of the exemption is fourfold :

- (1) every SACCO must have a defined common bond of association like a village, town or city or workplace or occupation or religion;
- (2) if it has an asset size less than 1 million it must be audited by an accountant and if it is over a million you need an external audit;
- (3) SACCOs are not to be involved as a pension fund organisation and setting up an insurance product;
- (4) SACCOs cannot be larger than R9.9 Mn in total asset size<sup>1</sup>;

The broad theoretical model of Savings and Credit Co-operatives (or SACCOs) is grounded in the following principles :

- ❑ it is owned and governed by members, who have shares in the co-operative and who have the same common bond: working for the same employer, belonging to the same church, labour union, social fraternity or living/working in the same community;
- ❑ membership is open to all in the common group and members vote and elect a board, to make overall management decisions, and also elect a supervisory committee to perform the function of an internal audit;
- ❑ Members save their money in the co-operative and make loans to each other at reasonable rates of interest. Interest is charged on loans, to cover the interest cost on savings and the cost of administration;
- ❑ SACCOs affiliate to SACCOL , an umbrella body that provides them with a host of services and training support.

Any person can become a member of a SACCO provided they fall within the common bond of the SACCO. To become a member of a SACCO a person has to pay a R30-00 joining fee and thereafter a share, priced normally at R100-00, has to be purchased. The purchase of shares cannot exceed more than 20% of all shares held by total membership. The other rights and obligations of a members are governed by the statute of the SACCO but in the main membership entitles a person to vote in a SACCO and also use the services of the SACCO.

The main benefits to membership are the following :

- ❑ As a user-owner a member shares in the profits made according to patronage;
- ❑ A savings interest rate is always set above the inflation rate to protect the value of the money saved;
- ❑ Loan insurance is provided which limits the risk of the co-operative;
- ❑ Loans are provided easily but have to be repaid through stop order deductions.

All members of a SACCO have one vote and this they use to elect a Board of Directors, consisting of between 9 –15 members. From within a Board an Executive Committee is constituted. The Board also appoints a Credit Committee and an Educational Committee. Alongside the Board the members elect a Supervisory committee which is merely a watchdog institution. The Supervisory Committee also appoints an auditor, that ensures the funds of the SACCO are managed properly. Each SACCO also has a statute which confers certain powers on the Board and which enables them to make policy and decide on the implementation thereof through the various committees.

At an operational level or on a day-to-day basis, the SACCO might initially be managed by a volunteer clerk, but as the SACCO expands the Board might decide to hire a manager.

The SACCO model developed for the hive would be developmental as opposed to consumption based. In other words, savings and loans would be geared around sustainable local economic development objectives and would include finance for

co-operative enterprise development, education, eco-technologies, housing and products produced in the hive.

## **5. Objectives**

The main objectives identified for the co-operative industrial hive include the following:

- Vocational training and skills development of co-operative members;
- Maintenance and management of the hive;
- Livelihood creation;
- Poverty eradication;
- Meeting social needs;
- Promoting autonomous work;
- Build development and venture capital through the credit union for expansion and local economic development projects;
- Promote sustainable local manufacturing for local need;
- Contribute to building a sustainable local economy;
- Building a local co-operative movement;

## **5. Co-operative Principles**

### **Principles**

The co-operatives will both work with the values **and** principles adopted by the International Co-operative Alliance. These values and principles would be adapted to suit the needs and aspirations of the co-operatives.

### **Values**

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

### **Principles**

The co-operative principles are guidelines by which co-operatives put their values into practice.

#### **1st PRINCIPLE: VOLUNTARY AND OPEN MEMBERSHIP**

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

#### **2nd PRINCIPLE: DEMOCRATIC MEMBER CONTROL**

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women

serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are organized in a democratic manner.

### **3rd PRINCIPLE MEMBER ECONOMIC PARTICIPATION**

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

### **4th PRINCIPLE: AUTONOMY AND INDEPENDENCE**

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

### **5th PRINCIPLE: EDUCATION, TRAINING AND INFORMATION**

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public--particularly young people and opinion leaders--about the nature and benefits of co-operation.

### **6th PRINCIPLE: CO-OPERATION AMONG CO-OPERATIVES**

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

### **7th PRINCIPLE: CONCERN FOR COMMUNITY**

While focusing on member needs, co-operatives work for the sustainable development of their communities through policies accepted by their members.

## **6. Business Options**

Initially the beneficiaries drew up a list of about 13 business/production unit choices. These were prioritised by the beneficiaries into:

- (1) Furniture production and coffin making;
- (2) A bakery – producing bread and other products like rolls, pies, cakes etc;
- (3) Meat processing – to produce sausages, patties, cold meats etc;
- (4) Dairy products – cheese, amasi, butter, ice cream, yoghurt, cream and chocolate;
- (5) Toilet paper – rolls, clean wipes, serviettes, nappies, pads etc;

## 7. Participatory Feasibility Assessment

### *Competition*

- Coffins/ furniture: many competitors, hive can beat them because they will produce better quality and design. But competition also comes from highly skilled immigrants.
- Bakery: 7 main intense competitors but there price is high and competitive and there quality is average.
- Meat processing: No competitors in terms of processing, but there is competition in selling the finished product.
- Toilet paper: no competition in the area
- Dairy related products : Pick n Pay, Swiss, Nestle', OLA

### *Requirements to make the option succeed*

- Coffins/ furniture: training, quality products, hard work, marketing-customer care, reasonable price, commitment
- Bakery: Price and quality are important, marketing, price can be overcome if there is high volume output, ingredients (more healthy option) and shelf life, timing and transport are needed and other products, opportunities of public holidays, right technologies that are multi tasks and produces high volumes, 24000 households in community.
- Meat processing: Low prices and good quality products
- Dairy products: the know how and multi-use technology, quality and price;
- Toilet rolls: regular and consistent production, planned supply of inputs and technology maintenance

### *Opportunities*

Opportunities for furniture making and coffins: need to target under takers and furniture stores. Is there a need? 4 million is spent every month on furniture in the area

Opportunities for meat processing : can get meat cheaper in Delmas and Springs. Can make retail shops such as Pick n Pay our customers since they are not manufacturers, tuck shops, local supermarkets and others.

Opportunities for dairy products: Can source milk cheap from suppliers around High community consumption of products i.e established retail. Use of existing retail infrastructure

Opportunities for bakery: 2 existing community projects have failed. The market is big despite the existence of competition. Local production which brings down transport costs. Also feeding schemes in the government sector need to be targeted, hospitals, crèches, police stations;

Opportunities for toilet rolls: daily consumption and market exists;

***Main risks associated with options***

Coffins/ furniture: failed marketing, competitors beat you price and quality, lack of equipment, raw materials are high in price, and lack of training.

Bakery: too much competition, go wrong in sourcing their ingredients in terms of supply, transport, time management goes wrong, records need to be kept, marketing, division and greed.

Meat processing: poor quality, poor hygiene

Dairy Related products: seasonal factors, quality of product, stiff competition, these are perishable goods, demand factors, mad cow disease, health and food standards

***Ways to minimize the risk***

- Proper planning.
- Ongoing training.
- Diversification of product range and mix;
- Multi-use technologies
- Offer delivery service to customers, using bicycles and motor bikes
- Mobilise community demand;
- Have clear strategies and income generating plans.
- Ongoing hygiene inspections and
- Engage the SABS to develop and maintain standards;
- Bring in Gaumac wants the operation have taken of
- Link with the wider co-operative movement

## **8. Institutional Options**

Within the ground work workshops the design of the Cooperative Sustainable Local Manufacturing Hive two broad institutional options are possible:

- set up one giant cooperative – with the 5 business options, a shop and the SACCO
- set up 5 production co-operatives, the SACCO and a co-operative shop

**Pros:**

One coop;

- specialization and pooling of capacity
- one collective leadership
- it's also new to the people
- efficient use of resources
- Greater accountability.

Many coops;

- learn from mistakes
- more competition for success
- easily controllable
- discipline
- solidarity between coops

**Cons:**

One coop;

- personal interest of board members
- poor marketing
- miss use of resources
- information
- no demand

Many coops;

- failure means the resources are completely wasted
- resource constraints
- poor performance
- lack of information
- No demand