**Date: 05 March 2019**

To: Parliament of the Republic of South Africa

Att: Ms. N.R. Bhengu, MP

Chairperson: Portfolio Committee on Small Business Development

**Re: SANACO report to parliament**

1. **Background**

SANACO is guided by the developmental targets contained in the United Nations Sustainable Development Goals (SDGs), the Africa 2063 agenda and the National Development Plan (NDP). The cooperatives movement has a critical role to play on realizing the goals advanced in these three most critical documents.

The focus of SANACO in the past five years has been on skills development of cooperative members to increase the chances of sustainability of cooperatives. This is in line with goal number 4 of the SDGs (quality education), goal number 5 (Gender quality), goal number 7 (affordable clean energy), goal number 8 (decent work and economic growth), goal 11 (sustainable cities and communities), goal number 12 (responsible consumption and production), goal number 13 (Climate action), goal number 17 partnerships for the goals.

The first aspiration of the Africa 2063 agenda talks about “A prosperous Africa, based on inclusive growth and sustainable development” This resonates SANACO programmes and activities the past decade of its existence.

SANACO has identified relevant and key goals of government contained in the NDP. Chapter 6 of the NDP talks about “inclusive rural economy and chapter talks about economy and employment. SANACO has mounted its programmatic interventions on addressing these tow critical goals of the NDP.

SANACO is about the future of poorest of the poor of our country. SANACO is a solution to challenges of poverty and unemployment that confront South Africa. Foreign nationals use consumer and wholesale coop approach hence they are very successful. SANACO can help address the challenge of youth unemployment through training and skills development.

Parliament has a duty to lobby the relevant department to fund SANACO. It is painful to see money returned to National Treasury from the department responsible for cooperatives in your presence as parliamentarians. We are challenging all of you to visit our cooperatives and see the great work cooperatives are doing. We are giving hope to our people. Government cannot employ everyone, it is important for government to create a conducive environment for business to thrive. Our people should participate in the production of food and agro-processing. We should be creative and do work for ourselves. We talk about Proudly South Africa, but we don’t implement that.

1. **Introduction**

This report will cover responses to questions posed by the portfolio committee in the previous session. SANACO will also provide an insight in additional questions posed by the committee.

The report will also cover the contribution of SANACO globally which positions the country in the cooperative space. In addressing the 88% failure rare, SANACO proposes concrete steps that can be taken to mitigate that challenge.

A push for cooperatives to supply chain stores has resulted in the exploitation of cooperatives and it is clearly outlined in this report. SANACO has enjoyed the overwhelming support and partnerships established with local and district Municipalities across the country.

SANACO clarifies the issue of the SIU investigation on the COGTA officials. This delicate matter has been used to drive a smear campaign against the officials of SANACO. A factual account is provided in this report on this matter.

A sample of successful cooperatives have been provided to the committee. This will be coupled with the sector approach plan that SANACO is using to strengthen the cooperatives movement.

The final part of the report is concrete recommendations to wards the Cooperatives Summit in South Africa. Amongst other things SANACO recommends a focus on the Cooperative Act No. 06 of 2013 that will ushered soon in South Africa. The other firm recommendation is on the new guidelines on the Cooperative Incentive Scheme (CIS). It is SANACO’s view that the two aspects needs urgent agent attention and cooperatives must start a conversation around these two topical topics in the cooperative space.

1. **SANACO visit to Mondragon**

The President of SANACO undertook a tour to Mondragon, Spain from the 04-10 March 2018. It was a good exposure and lesson for cooperatives in South Africa and it provides an opportunity to use Spaniards model in developing cooperatives in the country.

The lessons that were learned from Mondragon Corporation include and not limited to how South Africa can move towards the industrialization of cooperatives. The Spaniards also have very good models on service cooperatives.

The Spanish government has an ability to support and strengthen the movement without meddling in the affairs of the movement. This is a lesson to be learned in the South African context. Mondragon Corporation supports cooperatives at grassroots level. In line with principle number 6 of cooperatives, cooperation amongst cooperatives, cooperatives in Spain support each other. The lesson learned is that we should create a enabling environment for cooperatives to support each other. Those cooperatives that have the technical and management expertise should support those that lack those skills.

Mondragon Corporation has developed a mechanism to work with government to develop legislations and policies that supports cooperatives in Spain. There is a clear separation of powers and roles between government and the cooperatives movement. The Spaniards have internalized and understand the autonomy of cooperatives whilst providing support to cooperatives for the growth and development of the country.

1. **Addressing 88% failure rate of cooperatives**

SANACO is of the view that a quantitative research needs to be undertaken whi will be a joint effort between the cooperative movement and the Department of Small Business Development. The research will be able to unearth the status of cooperatives in South Africa. Currently the data available is sketchy and unreliable.

The autonomy and independence of cooperatives is compromised by some of the government officials who want to own cooperatives. Autonomy and independence of cooperatives should be maintained at all cost. The intervention or support of government should be aimed at sustainability of cooperatives.

There is a need to raise awareness with the supply chain divisions in all spheres of government to priorotise cooperatives on procurement. This will allow cooperatives to grow and play a critical role in supply of goods and services to government.

There is a need to build strong and viable financial services cooperatives. By extension, these cooperatives in the long run will be able to provide loans to its members thus reducing dependency on government. The financial sector has been left in the few mainstream banks in South Africa and they have now become oligopolies. They even make it difficult for new entrants in the market.

The cooperatives movement should focus on establishing consumer cooperatives that will provide an opportunity for bulk buying. This will help in reducing the price of goods and services.

1. **The role of SANACO in Alliance Africa**

SANACO has been playing a central role in both Alliance Africa and the International Cooperative Alliance. SANACO is currently participating in critical forums for dialogue created by the Alliance Africa. In the 2018 fiscal year, SANACO attended the Africa Alliance strategic plan that was held in Tanzania attended by SANACO General Manager. The Alliance Youth Network held a Cooperative Youth Conference from 29-31 October 2018. SANACO was represented in that conference by Lawrence Monyahi. The conference focused on case studies of the School Credit and Savings Cooperative. The President of SANACO attended the 12th Africa Co-operative Ministerial Conference and 13th Regional Assembly, held from 2-7th September 2018, at Nicon Luxury Hotel in Abuja, Nigeria.

1. **Number of cooperatives supplying the chain stores**

There have been up-swing in and the down-turn in the number of cooperatives supplying the chain stores. One of the biggest challenge is the price these chain stores are willing to pay to cooperatives. E.g. a chain store purchase a cabbage from a cooperative at R5.00, they put it on a shelf and charge R10.00. These chain stores then make 100% profit with the cooperative carrying all the production costs. It is against this background that an alternative market needs to be created outside the chain stores.

1. **The relationship between SANACO and Municipalities**

SANACO has cemented its strong ties with different Municipalities throughout the country. SANACO structures at Municipal level engage with the local and district Municipalities to form strategic partnerships. Cooperatives are invited in the LED forums of Municipalities and therefore participate in shaping LED strategies of Municipalities.

1. **COGTA Proclamation**

The minutes of the committee were wrongly captured. The SIU investigation was on COGTA officials on the tender awarded to SANACO. The Presidency issued a proclamation (Regulation Gazette No. 10112), Vol. 584, Pretorial issued on the 06 February 2014, proclamation No. 37304. The proclamation clearly state that it was against COGTA. SANACO cooperated fully with the SIU investigation. The Special Investigation Unit (SIU) issued its 2017 Interim report. The report state that a final report was submitted to the Presidency on the 12 September 2017. SANACO therefore recommend that parliament through the portfolio committee should use its fiduciary authority to request the report from the Presidency for further clarity on the matter. The report was not made available to SANACO because the proclamation was not against SANACO but against COGTA. See attached both the proclamation.

1. **SANACO cooperatives development status**

Cooperatives that are affiliated to SANACO have are at different stages of development. The cooperatives have been catagorised into three, successful cooperatives; average performing and successful cooperatives; and struggling or failing cooperatives. Given the cooperatives affiliated to SANACO, our database show 40% success rate of primary cooperatives. See attached the spreadsheet (sampling the successful and average performing cooperative).

1. **SANACO Sector approach plan**

The 2018 ICD celebration was coupled with a colloquium. The colloquium declared 2019 as year to build strong economic sectors. SANACO has started in Gauteng to consolidate the textile industry. It has brought together 250 cooperatives in the textile industry. As part of ensuring sustainability, some of these cooperatives have been linked with Productivity SA to strengthen their productivity whilst minimizing waste. This approach will be applied in all the sectors.

1. **2019 Cooperative Summit**

The summit is a strategic platform to raise awareness on the amendments of the Cooperatives Act No. 14 of 2005. This should provide a platform to cooperatives across the country to deliberate and brace themselves for the Cooperatives At No. 6 of 2013. Which amongst key amendment areas include the introduction of the Apex cooperative as a fourth tire, the establishment of the Cooperatives Development Agency and the Cooperatives Tribunal.

The summit should also put emphasis on concrete steps to be taken by both the Department of Small Business Development and the cooperatives movement to facilitate the process of supporting cooperatives to comply with the registrar of cooperatives. One of the gaps in South Africa is that the majority of the cooperatives are not sending reports to the CIPC. The long-term effect is that government will not have a basis for developing a cooperative friendly legislation. It is therefore critical that an amicable solution is developed to curb this damning concern.

Build-up events should be held in all the nine provinces to afford as many cooperatives as possible an opportunity to contribute into the broader summit resolutions. This will assist in building the critical mass of the views of cooperatives at different spheres.

One of the focal point of the summit should be to share good practices on the sustainable and operational cooperatives. This will assist in providing a footprint that can be used by other cooperatives across the country.

The Department of Small Business Development (DSBD) should give cooperatives an insight on the new Cooperative Incentive Scheme guideline. The change on the guideline is with effect from 1 April 2019.

Yours faithfully



Mr. Nndwakhulu Lawrence Bale

President of SANACO