**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**17.Mr H C CKrüger (DA) to ask the Minister of Small Business Development:**

**(1) Whether she has found that the current co-operative business model used by her department has been successful in the creation of jobs; if so, how many jobs were created by cooperatives using the specified model in the 2015-16 financial year; if not,**

**(2) Whether her department is working on a model that will work in the South African context; if not, why not; if so, what are the relevant details?”**

**NW20E**

**REPLY:**

1. The current model involving the Cooperatives Incentive Scheme (CIS) that provide grant funding to the cooperatives without being integrated closely with non-financial support or post investment support has had mixed results on the development of cooperatives in South Africa.
   1. On the one hand, it contributed to the sustainability of jobs through the provision of financial support coupled with training that have been provided to cooperatives. Thus, via the CIS 246cooperatives were supported resulting in the Department creating and sustaining 1542 jobs to the tune of R75 million.
   2. Using various non-financial support instruments, the Small Enterprise Development Agency (SEDA) supported a total of 118 cooperatives resulting in 6239 jobs sustained.
   3. In addition, the Small Enterprise Finance Agency (SEFA), which applies a cooperatives value-chain model, has supported cooperatives in all sectors of the economy including sub-sectors such as waste recycling, greenhouse and poultry farming that play critical roles in restructuring local economies, creating jobs, and increasing disposable income available to communities.
   4. Furthermore, SEFA developed financing package programmes in partnership with municipalities and/or other strategic partners to support cooperatives. Such partnerships were entered into with the Dr Kenneth Kaunda District Municipality (Waste Recycling Project) worth R35.1 million which created 63 jobs (target 320 jobs), Chris Hani District Cooperative Development Centre - Greenhouses project (broiler production) worth R9.5 million which is expected to create 127 jobs and Super-Grand–Poultry Farming project for R20 million – which created 12 Jobs.
   5. On the other hand, the CIS model provides grant funding for certain business transactions particularly involving cooperatives in the rural and township settings whereby the challenges for development are proving to be difficult has had limited success. Most of the beneficiaries find it hard to sustain their cooperatives given that their entrepreneurial skills are low and they rely on hand to mouth operations to sustain themselves and find it difficult to engage in self-income generating activities, which requires medium to long term horizon to achieve incomes that could also sustain them.
   6. Thus, for success to be achieved the new Integrated development model must involve both financial and non-financial support deployed to work closely together on each transaction to ensure success.
2. In providing impetus to the development and promotion of Cooperatives in South Africa, the Department of Small Business Development (Department) is formulating and piloting various cooperative models by kick-starting the process with the task of reviewing the Integrated Strategy on the Development and Promotion of Cooperatives adopted by Cabinet in 2012, whose output will be the final adoption of the two models that proved to be effective in developing cooperatives in the country. The one-stop-shop model involving the Cooperatives Development Agency (CDA) will be utilised to bring about this integrated support involving pairing non-financial with financial support to effect cooperatives development. This will be coupled with the provision of demand-side support measures (i.e. public and private procurement opportunities) and for cooperatives products and services and developing cooperatives networks in the form of shared services, user cooperatives, secondary cooperatives whose *raison detre* is to provide various support services aimed at enhancing the sustainability of primary cooperatives. In other words, the model will aim to address the following considerations, namely, ‘what works’, ‘for whom it works’, ‘why it works’, ‘how it works’ with the view to replicate and ensure cooperatives sustainability. Where the programme and projects of the model are found not to be working to optimally benefit the beneficiary cooperatives, adjustments will be made accordingly. The model(s) adopted will be designed to enable them to be open to contextually respond to relevant prototypes that are responsive to the nuanced needs of the various sectorial beneficiary cooperatives.
   1. The first cooperatives model that the Department is piloting contains four strategic pillars that will be utilised to promote and develop cooperatives in the country’s economy. The first and second pillars involve the provision, on a massive scale, of non-financial and financial support services to cooperatives, which will be implemented through the CDA in partnership with national government departments, provincial governments and district municipalities. While various support programmes will be utilised to support cooperatives financially, cooperatives will also be encouraged to develop their own financial systems, through the formation of cooperative banks, as envisaged in the Co-operative Banks Act, No. 40 of 2007.The CDA is one of the institutions that will beestablished under the Cooperatives Amendment Act, No 6 of 2013 and operate under the direct supervision of the Minister of Small Business Development.
   2. The third strategic pillar involves ‘creating demand for cooperatives’ products and services through leveraging the 30% public sector procurement opportunities designated by government to benefit cooperatives and small enterprises. Transversal agreements will be entered into between the Department and various national governmentdepartments, provincial governments and municipalities with the purpose to leverage opportunities from these entities. The Department will also leverage private sector procurement opportunities arising from B-BBEE legislation and regulations.
   3. The fourth strategic pillar involves improving the sustainability of cooperatives through the formation of enterprise networks and provision of business infrastructure support. The Enterprise Networks Programme (ENP) aims to promote the vertical and horizontal integration of cooperatives, resulting in the creation of shared services platforms, user cooperatives and secondary sector cooperatives that are designed to support the growth of primary cooperatives. The ENP will also be implemented through the envisaged CDA. Incubation support and after care will also play a meaningful role in enhancing the sustainability of cooperatives.
   4. The fifth and last pillar aims at increasing the supply of financial support services to cooperatives. As with the other pillars, this pillar will be implemented through the CDA. This strategy posits an integrated approach that provides adequate and relevant support and delivery mechanisms that cover the entire collective entrepreneurship and cooperatives life cycle from pre-formation; survivalist; micro, small to medium; growth and expansion; and turnaround of ailing cooperatives.
   5. In a nutshell, all support programmes for cooperatives throughout the economy will be increased and streamlined under a single, identifiable, one-stop-shop (CDA) dedicated to cooperatives development. It is the aim of this model to ensure the establishment of a CDA that will have provincial and district branches to aid in the implementation of the one-stop shop model. The one-stop shop model ensures an integrated and seamless support to all the targeted cooperatives which increases the probability of success and sustainability of the entities.
3. The core thrust of this model underpinned by the integrated strategic approach will be the provision of support across the entire value chain of support services covering the entire spectrum from pre-formation support, non-financial support (i.e. technical and management training, business development support, market intelligence, access to technology, etc.), financial and post-investment support (i.e. mentorship or hand-holding, shared services support platforms, incubation and access to market support, etc.). In addition, the model also posits the provision of the following support, namely, the on-going profiling of cooperatives, communication outreach, improving access information, conduct research, strengthening the monitoring and evaluation of impact of support services.
4. The second co-operative model entails developing new generation cooperatives. In the past, the focus was to solely support the development of traditional cooperatives, a shift in emphasis will now be to develop new generation cooperatives. A New Generation Co-operative (NGC) is a relatively new type of cooperative used primarily in the value-added processing of agricultural commodities. The NGC is not a specific legal structure. Rather, the term New Generation Cooperative is used to describe how a firm operates. It primarily describes the relationship between the firm and its members and how the firm is financed. Unlike traditional cooperatives, in which start-up expenses are minimal and growth is financed through members' retained earnings, permanent equity to fund NGC start-up and growth is financed through the sale of delivery rights. These delivery rights represent a member's right to deliver a specific amount of commodities to the cooperative. Members benefit in proportion to their use, and nearly all NGCs are democratically controlled through one member/one vote.
5. There are six primary characteristics of New Generation Cooperatives:
   1. **Defined membership.** Frequently, NGCs are referred to as closed cooperatives. The number of members in an NGC depends upon the proposed capacity of the cooperative's operations. One of the key features of the NGC is its ability to control supply or access to the cooperative's operations. In other types of cooperatives, members can enter and exit as they please, and cooperatives operating without marketing contracts with their members have no way to guarantee a specific operating capacity at any one time. By limiting membership to those members who purchase the right to supply the cooperative, the NGC is able to ensure a steady supply of the agricultural inputs required for running operations at the most efficient level possible. In an NGC, the membership is generally not permanently closed. If the cooperative decides to expand production, for example, it could seek equity from producers outside the initial membership.
   2. **Delivery rights: a right and an obligation to deliver.** Once members contribute equity towards the NGC, they receive the right and obligation to deliver a specific quantity of the commodity each year. This means if producers have purchased the right to deliver 5,000 bushels of corn each year, they must deliver 5,000 bushels-no more, no less. If they cannot deliver that amount or if the commodity does not meet the quality standards set forth in the marketing agreement, the cooperative may have the right to buy the commodity on the producers' behalf and charge for the difference in price.
   3. **Upfront equity required from producers.** Adding value to agricultural commodities can be capital-intensive. Before lending money to a project, banks and other lending institutions will require producers to raise part of the project cost. Often, this means producers must raise 50 percent or more of the total project cost. If the project is estimated to cost R1million, for example, producers will need to raise R500,000 or more. Although it may be possible to find private investors to reach the required equity level, producers are often the sole source of equity. As a way to tie members' use to the total project equity required, the total amount to be raised is broken into smaller units. These units are tied to the amount of product required to be delivered. A market feasibility study will help determine the most economically efficient size for the processing facility. Once you know the amount of commodities the plant will require each year, you should then determine how to allocate this total amount into shares. For example, if the most efficient size plant requires one million bushels of soybeans a year, you should divide one million into a specific number of shares. To determine the specific number of shares, you should set minimum and maximum amounts of delivery rights to be purchased. To determine this, you need to balance two issues: how many producers do you want involved in the business and what is financially viable for you and other producers to commit. For example**:** assume on the R1 million project above, producers need to raise R500 000. If one million bushels a year are required to run the plant at the most efficient level, you could divide the number of bushels into a minimum delivery right purchase of 5,000 bushels and a maximum of 50,000 bushels. Thus, the cooperative could have as many as 200 members or as few as 20 members.
   4. **Delivery rights are transferable and may fluctuate in value.** The delivery right is similar to a share of corporate stock because it represents a firm's permanent equity. As with a share of corporate stock, the value of your delivery right will depend on your firm's profitability. If an NGC is successful and provides value for its members, the delivery right may appreciate in value. If the NGC does not provide value to its members, the value of the delivery right may decrease. Unlike stock in a public corporation, however, the delivery right has a very limited resale or trading market. To comply with antitrust laws, tax, and registration law, NGC constitutions limit transfer to other producers and usually require the board of directors to approve any transfer.
   5. **Marketing agreement entered into between member and cooperative.** Upon purchasing delivery rights, members are required to sign a marketing contract outlining the duties of both the members and the cooperative toward each other with respect to the delivery, quality, and quantity of producers' commodities. These contracts are usually evergreen contracts, meaning they are for specified periods of time (from one to five years). They are renewed automatically unless either party gives notice to the other within a window of time specified in the marketing agreement. The market agreement often specifies the high quality standards required of members' commodities, especially in cooperatives producing consumer-level goods. The marketing agreement outlines the specific quality required to be delivered, how quality will be measured, and the producer's rights and obligations if the quality standard is not met.
   6. **Members and their NGC share three primary legal relationships:** Members must purchase a share of common stock or other membership share to enable them to vote in all decisions set forth in the constitution. Members also purchase delivery rights, which are both a right and an obligation to deliver. The delivery rights are evidenced by legal documentation and are usually transferable upon approval from the board of directors. Finally, members must sign a marketing agreement when purchasing delivery rights and voting stock. The marketing agreement defines the rights and obligations of both the member and cooperative toward each other with respect to the delivery of commodities from the member to the cooperative.
   7. As a result, members must pay money to the cooperative for both the voting stock (usually very minimal) and the delivery rights (amount varies on project size, minimum and maximum purchase requirements, and the specific amount of commodity to be delivered by the member). Members are required to deliver the specified quality and quantity of commodities at pre-specified intervals for the length of the marketing agreement (which is usually, through evergreen contracts, perpetual in nature). The cooperative, in turn, is required to pay members a pre-specified price for the commodities delivered (usually a formula price based on spot market prices at a specified exchange, with additions or subtractions based on quality). The cooperative also is required to return any profits to members on a pre-specified schedule determined by the board of directors. Depending on operating cash requirements, the timeline for returning profits could be immediately. Due to securities law issues, cooperatives are not actively involved in the transfer of delivery rights. The cooperative usually requires approval from the board of directors before any transfer is complete, and sometimes an outside broker handles the actual transfer of delivery rights.
6. The new generation cooperatives deal with all those risk areas that rendered the traditional cooperatives vulnerable, weak and unsustainable. These involved providing a closed market through membership ensuring members operate within the ambit of the cooperatives and cannot easily transfer its trading rights to other entity. By allowing equity ownership structure new generation cooperative can easily raise external capital which was not easy for the traditional cooperative whose democratic ownership structure made it possible to attract foreign equity owners in the traditional cooperatives. Sustainability of primary agricultural cooperatives will be guaranteed with the promotion of the utilisation of the new generation cooperative model.
7. The core beneficiaries of the two models are poor households, youth, women and men. The two models are to focus on developing cooperatives in rural and township areas in critical sectors such as agriculture, construction, retail/consumer cooperatives, Cooperatives Financial Institution (CFI), Arts and Craft, Textile, and Informal Sectors of the economy. This does not mean other sectors are excluded, it only means that these will be given priority.

The new models, which among others, place a considerable emphasis on community development,are envisaged to be rolled-out effectively during the 2017/18 financial year. The envisaged outcome with respect to the implementation of the models will be an increase in the number and sustainability of cooperatives, which will, in return, contribute to employment creation and poverty reduction thus assist government to move closer to fulfilling the socio-economic goals set out in the National Development Plan.