



## POLICY BRIEF 01

# Towards a Modernised Policy Framework for Cooperative Enterprises

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## Introduction

On 15 November 2019, the Department of Small Business Development, in collaboration with the EDSE Programme, held a technical experts' Round Table in Pretoria. The Round Table identified the key challenges facing co-operative enterprises and ways to make them more competitive in the market. Participants included senior government officials, the former chairperson of the portfolio committee on small enterprises, members of cooperatives and cooperative policy experts.

The seven principles of cooperatives, as included in South African law, were restated by the discussants as being critical to ensure that cooperatives align to the global movement. These are: voluntary and open membership; democratic member control; member economic participation; autonomy & independence; education, training & information; co-operation among cooperatives and concern for community.

## Key Recommendations



**Government must provide for the functions** of the Cooperative Development Agency (CDA), the Cooperative Tribunal and for a Cooperative Advisory Council. The CDA will operate as intended, a one-stop shop for financial and non-financial services to cooperatives.



**DSBD should facilitate the establishment** of a Cooperative Training Academy and cooperatives, and practitioners as well as government officials with cooperative responsibilities should attend.



**Differentiated support** products for different cooperative types should be developed and the differences between cooperatives and other enterprise types should be recognised.



**A collaborative marketplace** for cooperatives, buyers and service providers should be established.



**Consideration should be given to a tax exemption** - with a sunset clause - to cooperatives operating as going concerns.



**The Cooperatives Development Fund** should be established to ensure that cooperatives can benefit from and contribute to it.



**Feasibility of two new financial instruments** - an insurance fund for cooperatives' non-performance, and a readiness fund to take successful cooperatives to next stage development - should be assessed.



The feasibility of the establishment of a **differentiated payment system** for cooperatives should be explored.



**Government financial mechanisms** need to address the specialised needs of cooperatives



**Cooperatives to foster the value** is self-help, self-responsibility, democracy, equality, equity and solidarity.



## Social Cohesion as a Key Pillar

There was emphasis on the role cooperatives could play as vehicles for social and economic inclusion and cohesion in South Africa as it has been envisioned by the ANC-led government. This would be done through bringing together communities to work on projects that alleviated poverty. However, in the same vein, the workshop underscored the importance of cooperatives as profit making enterprises and not only social entities.



## Lack of Policy Implementation

The current status of cooperatives came under scrutiny. There was a general frustration that the legal framework for cooperatives was appropriate but has not been implemented. The frustration centred around the lack of implementation and political will towards co-operatives. It is perceived that government view cooperatives as social enterprises run by the poor. Various actors in the cooperatives movement stressed that the most successful cooperatives were run by people in the higher living standards measure (LSM). The participants motivated to implement the institutional arrangements in the Cooperative Act 14 (2005) as amended (Act 6, 2013) which provided for a (Ministerial) Cooperative Advisory Council that would provide expert counsel to the Minister for Small Business and her administration and that a network of champions for cooperatives be established.



## Market Access

The lack of knowledge and pervasive information asymmetries created a barrier to the market for cooperatives which is a critical issue for many small enterprises which often produce goods without conducting a market analysis. Where cooperatives have product and the capacity to penetrate the market, they still have challenges in terms of meeting market demands such as the various standards, including but not exclusively sanitary and phyto-sanitary standards. Cooperatives would be greatly be assisted by accessing incubators where they can learn how to deal with market demands, become more competitive and enter supply chains that they may be excluded from through such market entry barriers. The meeting agreed that the establishment of a modernised marketplace was a critical issue and would be greatly enhanced through the use of digital technologies, but driven by a bottom-up approach. Guarantees in the form of insurance could assist to change perceptions in the market place and provide assurances on services and quality.



## Financing

A second critical barrier to the development of cooperatives is the capitalisation of cooperatives. Two innovative financing models were suggested a) an insurance policy and b) a readiness fund that would support cooperatives in their early operational phases.

- The proposed insurance instrument for cooperatives is aimed at providing private sector clients with a security for compensation in the event that a product or service is not successfully delivered by a cooperative enterprise,
- The readiness fund for cooperatives was to allow for the "last mile"-type applications for cooperatives, such as technology or accounting packages.

Suggestions were also advanced that the Cooperative Development Fund provided for in the Cooperative Act, as amended, should be established and that cooperative members and enterprises should also contribute to the fund. Consideration was also given to a Business Rescue Fund that would facilitate workers to take over the private companies in which they work, that were being declared insolvent. The feasibility of using an alternative payment system for cooperatives was discussed. An initial cost-benefit analysis should be undertaken to determine whether this should be pursued.



## Capacity Development

The development of a Cooperatives Training Academy is the responsibility of the Department of Higher Education & Training, but this is not viewed as a priority by DHET. DSBD should facilitate engagement with DHET on this Academy. Comprehensive training standards for cooperatives are urgently needed to ensure consistency in training programmes.

In conclusion, the DSBD was urged to implement existing legislation. Cooperatives were encouraged to be more self and co-organised, collaborative with each other to give effect to the critical element of the tiered approach, and improve the standards of their products in order to meet market needs. Financing, market access and training were identified as the three key areas where government could take a lead to assist cooperatives to be included in the mainstream economy. The role of the DSBD in enhancing a cooperatives ecosystem was emphasised. Co-operators need to be their own champions through the principle of self-reliance.