Co-Operatives

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Co-operatives

A 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.

A co-operative society is defined as a business owned and controlled equally by the people who uses its services or work for it.

Characteristics:
• Cannot be established by a single person
• Mutual or common need or purpose
• Goals are met more economically through co-operative
• Mutual benefit for all members of co-operative
Co-operative Act

• promote the development of sustainable co-operatives that comply with co-operative principles, thereby increasing the number and variety of economic enterprises 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 co-operatives in terms of this Act;
Type of Co-operatives

- **Primary co-operative**: defined as a co-operative whose objective is to provide employment or services to its members and to facilitate community development formed by a minimum of:
  - five natural persons, or
  - two juristic persons, or
  - a combination of any five persons whether natural or juristic

- **Secondary co-operative**: defined as a co-operative formed by two or more primary co-operatives to provide sectoral services to its members, and may include juristic persons
  - a minimum of two or more primary co-operatives in the case of a secondary co-operative
  - a minimum of two or more operational primary co-operatives in the case of a secondary co-operative
Type of Co-operatives

- **Tertiary co-operative**: defined as a sectoral or multi-sectoral co-operative whose members are secondary co-operatives and whose objectives are to advocate and engage organs of state, private sector and stakeholders on behalf of its members in line with its sectoral or geographical mandate:
  - a minimum of two or more secondary co-operatives in the case of tertiary secondary co-operative
  - a minimum of two or more operational secondary co-operatives in the case of tertiary secondary co-operative
Principle of co-operatives
Principle of co-operatives

A co-operative complies with co-operative principles if-

• membership is open to persons who can use services and accept responsibilities
  • restricted by the constitution if reasonable and not unfair discrimination

• voting rights:
  • primary co-operative - each member has only one vote
  • secondary co-operative - members have more than one vote but limited to a maximum of fifteen percent
  • tertiary co-operative - members have more than one

• members provide the capital required

• return paid is limited to the maximum percentage fixed by the constitution

• at 5% of the surplus is set aside as a reserve and is not divisible amongst its members

• it provides education and training to its members and employees
Co-operative – South African Concept

Agricultural co-operative optimised the principles of supply chain management - groups of farmers form co-operatives to supply inputs or provide processing and marketing services. The farmers deposit their crops in the co-operative to process, market and distribute its products to improve their income and economic position.

Establishment of:
• Agricultural co-operatives
• Banks – financial support
• Agricultural university – research and training
• Agricultural schools - training

Cooperative Service

• Four basic Agricultural Cooperatives:
  – Marketing
  – Purchasing
  – Providing services
  – Providing credit
• Marketing Cooperatives: benefit consumers as well as producers. (Grade and Quality)
• Purchasing Cooperatives
  – Effect savings for member patrons
  – Produce the type and quality of supplies best adapted to the members farms and needs
  – Provide related services that meet the needs of member patrons
• Credit Cooperatives- farmers borrow from local credit cooperatives
Co-operative – South African Concept

This may be achieved by one or more of the following:

• **Improved bargaining power**: Combining the volume of several members leverages their position when dealing with other businesses.

• **Reduced purchasing power**: Volume purchasing reduces the purchasing price of needed supplies. Earnings of the co-operative returned to individual members lower their net costs.

• **Obtaining market access or broadening market opportunities**: Value is added to products by processing or offering larger quantities of an assured type and quality to attract more buyers.

• **Improve products or service quality**: Member satisfaction is achieved by adding value to the products and competition the co-operatives provide, and improved facilities, equipment and services.

• **Obtaining products or services otherwise unavailable**: Agricultural co-operatives often provide services or products that would not attract other private businesses.

• **Reduce cost/increase income**: Reducing the co-operative's operating costs, increasing the amount of earnings available for distribution to members to boost their income.
Co-operative – South African Concept

Agricultural co-operative were established with the objective of providing services to the farmers to improve their financial and business sustainability.

Services of co-operative:
• Quality assurance – manage grade & quality
• Share of the profits based on the product input
• Facilitates purchase of inputs for farming
• Facilitates access to finance

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Co-operative - Support

Strategic principles

National Departments will be responsible to formulate sector-based legislation/policies/strategies/support programmes aimed at enhancing the growth of a specific sector aligned with the National Cooperatives Strategy.

Provinces will be responsible to formulate provincial coops strategies with support programmes aimed at enhancing the growth of cooperatives in the province aligned with the National Cooperatives Strategy. Support for the CDA and Cooperative Tribunal.

District & local Municipalities will be responsible to develop Cooperatives Implementation Plans to be integrated in the IDP’s & LED. Support for the CDA and Cooperative Tribunal.

- Khula,
- NEF,
- NPI,
- SEDA,
- IDC,
- SAQI,
- SABS,
- CSIR,
- PIC,
- DBSA,
- SALGA, and
- SETA’s,
Alternative Co-operatives

Business co-operatives in other sectors are encourage by government as an alternate to the formation of companies or other forms as its it part of the strategy to:

- stimulate economic growth
- create employment opportunities
- promote economic participation
- support BBBEE strategies into sectors
- promote formalization of informal businesses
Registration of Co-operatives

1. Requirements:
   • Primary co-operative – minimum of five persons
   • Secondary co-operative – minimum of 2 primary co-operative members
   • Tertiary co-operative – minimum of 2 secondary co-operative members

2. Pre-registration meeting:
   • Approval of the constitution
   • Approval of appointed directors

3. Pre-incorporation contracts
   • Person is personally liable
   • Ratified by co-operative – co-operative is liable
Co-operative’s Capital Structure

Entrance fees

Membership fees

Members’ loan

Capital structure

Members’ fund

Shares

Form of Capital: Capital Structure

Debt Capital

Equity Capital

Funds

CO-OPERATIVES - BUSINESS ENTITIES
Shares for Membership

- Constitution – re: shares
  - Minimum shares issued to each member
  - Nominal value of shares
  - Whether shares are fully paid up or not and conditions under which shares are to be paid
  - Circumstances under which additional shares may be issued to members
  - Maximum percentage of share capital a member may hold (excluding secondary and tertiary co-operatives)
  - Circumstance under which the shares of a member may be redeemed
Members’ Fund

• Fund for members:
  • Contributions made by the member to that fund;
  • Any amount set aside for future payment to members including:
    • Interest on an amount paid upon the member's shares;
    • Any patronage return allocated to the member;
    • Any amount paid to the member after reducing share capital
    • Any other money due to the member, the payment of which is deferred.

• Credit in members’ funds accounts:
  • May be applied for any purpose permitted by the constitution except for writing off of losses;
  • Must be paid to the member as agreed on
  • May bear interest at a rate fixed agreed on
  • May be set off against a debt owed by the member
Membership - Withdrawal

1. Limited liability:
   • Members have a limited liability
   • Protected in terms of the corporate veil
   • Liable for shares not fully paid up

2. Withdrawal of membership:
   • Require a liquidity test before executing repayment to member
   • Request to defer repayment for a maximum of two years
   • Member is not released from any debt or obligation to the co-operative
Membership – Below Minimum Requirement

• Co-operative’s membership is below the minimum:
  • Re-instated to meet the requirement within six months
  • Failure to re-instate its membership:
    • Co-operative is deemed to be de-registered in terms of this Act
    • Co-operative must convert into another legal entity, in accordance with the provisions of Chapter 8
    • Co-operative should be wound up in accordance with the provisions of Chapter 9

• Continue to operate if it does not comply:
  • Members may be held personally liable for any loss or damage which may occur as a result of any subsequent activities of the co-operative
Patronage Proportion - Dividends

• Dividend distribution:
  • Distribution dividends from the surplus after the transfer to the reserve fund
  • Proportionate based on the percentage of shares held or the level of business with the co-operative
  • Proportion is based on level of business:
    • Quality, quality and value of transactions
    • Nature and type of services
    • Nature of transactions

• Utilisation of dividends distributed:
  • Settle shares not paid up
  • Acquire additional shares
Loans & Security for Members

• Conditions for granting loans & security:
  • Must not grant loans if it negatively affect the liquidity of the co-operative
  • Increases the financial, solvency and liquidity risk of the co-operative after the granting of the loan

• Granting of loans:
  • In the ordinary course of business – financing co-operative
  • On account of expenditures incurred on behalf of the co-operative
  • Assist them to establish their business – transacting with the co-operative
  • If the financial assistance is available to all members on substantially the same terms.
Reserve Fund of Co-operative

• Reserve fund:
  • Any sustainability and continuity
  • Transfer at least five per cent of the surplus
  • Indivisible amongst its members
  • Used the funds in accordance as contemplated in the constitution.
  • Reserve is monitored for compliance by the registrar through the audited annual financial statements
Financial Statements – Co-operative

• Audit of financial statements:
  • Act requires the financial statements of co-operatives to be audited
  • If the co-operative cannot afford the audit fee, it can apply to be exempted in terms of s55

• Criteria for exemption:
  • Audits costs may materially affect its financial sustainability
  • Co-operative maintained adequate financial records
  • Co-operative is able to prepare annual financial statements
  • Interests of members are adequately protected
Financial Statements – Co-operative

- Exempted financial statements:
  - Exempted for a period of longer than one year but not exceeding three years
  - Prepared by a suitably qualified person other than an auditor
  - Directors is required to prepare annual financial statements for submission to an annual general meeting and to submit a copy to the registrar within 15 days of the annual general meeting
  - If annual general meeting fails to approve the financial statements, directors are required to comply with the provisions of section 48(6)(b) in the same manner as would apply to audited financial statements.
  - Registrar may stipulate conditions to an exemption granted in terms of this section
Financial Statements – Co-operative

• Accounting records:
  • Maintenance of accounting records is the responsibility of management
  • Share which are not fully paid should be recognized via a members loan account – appropriate note
  • For patronage proportion allocation it is appropriate to maintain segmental accounting records

• Financial statements:
  • Comply with IFRS or IFRS for SME’s
  • Members’ fund account should be recognized as part of equity
  • Reserve account should be recognized as an investment – cash set aside for sustain the business
Tax – Co-operatives

• Taxation of co-operatives:
  • Tax regulations for businesses apply
  • Co-operatives cannot be registered as PBO/NPO
  • Register as SBC and Turnover Tax

• Taxation for members:
  • Tax regulations for individuals apply
  • Patronage apportioned distributions is regarded as a dividend distribution
Conversion of Co-operative

• General meeting approval:
  • Directors must submit proposal to general meeting
  • Proposal must include:
    • Compliance with the relevant provisions of this Act
    • Interests of creditors will be protected (section 64)

• Protection of creditors:
  • Written notice of at least three months of the proposal is given to each known creditor – claim of above R 1,000
  • Any creditors who have demanded payment have been paid in full or will be paid before the conversion
  • No creditor will be prejudiced by the conversion

• Transfers:
  • All members of co-operative becomes shareholders of company
  • All assets, rights, liabilities and obligations becomes that of the new entity
Conversion to Co-operative

• General meeting approval:
  • Directors must submit proposal to general meeting
  • Statement of the Chairman of the general meeting:
    • Compliance with meeting protocol/procedures
    • Resolution was passed
    • Amendments to the MOI to the constitution
    • Approval of financial statements
    • Protection of the interests of creditors

• Conversion:
  • Constitution complies with the Co-operative Act
  • Assets, rights, liabilities and obligations vest with the co-operative
Amalgamation of Co-operatives

- **Conversion of members’ interest:**
  - Basis of converting shares of the individual co-operatives into the amalgamated one (conversion rate)
  - If the shares are not fully converted:
    - Cash amount received
    - Cash and shares to be received
  - Continuation of the members’ interest in the members’ fund
  - Application of any surplus or loss resulting from the amalgamating co-operatives

- **After the amalgamation:**
  - Liquidity, solvency and sustainability operations
Division of Co-operative

• Division of co-operative:
  • Basis on which members are separated
  • Basis of allocating assets, rights, liability and obligations
  • Business of each co-operative
  • Protection of the interest of creditors

• After the division:
  • Liquidity, solvency and sustainability operations
Winding-up of Co-operative

- **Winding-up:**
  - Voluntary by members
    - 75% of the members
  - By court
    - Application by any person
    - Debt cannot be paid
    - Sustainability/viability of business
  - By Minister
    - Registration period expired
    - Registered fraudulently
    - Not trade for at least two years
    - Not comply with constitution or Act
Winding-up of Co-operative

• Claims against co-operative:
  • Creditors other than members’ claim against fund
  • Claims of creditors
    • Provide proof and details
    • Lodge claim within 90 days of the appointment of liquidator (30 day extension)
    • Liquidator has right to accept or reject
    • Creditor’s right to appeal – 30 days from notification
  • Member’s claim against fund
    • Right to waive claim
Judicial Management of Co-operative

• Grounds for judicial management:
  • Mismanagement results in co-operative:
    • Not being able to settle its debts
    • Not becoming a viable business
    • Reasonable probability it will be a viable business

• Method of judicial management:
  • Voluntary by members
  • By the courts
    • Business rescue – business will be viable
  • By the Minister
    • Critical to pursue the strategic objectives of government