



small business
development

Department:
Small Business Development
REPUBLIC OF SOUTH AFRICA

Co-Operatives Development Support Programme (CDSP)



Introduction

In South Africa, co-operatives have not yet gained much popularity. They have only been thought to be only for small-scale farmers, small and developing merchants together with low-income earners in the country. This is the possible explanation why there are many co-operatives operating in agricultural space in South Africa.

There is certainly recognition in South Africa that co-operatives offer an opportunity for impoverished communities to participate more meaningfully in the economy. Co-operatives are a mechanism through which the impoverished communities can organise themselves and draw strength from the group. The dominant hindrance is the unpopularity of the mechanism of co-operatives to many South Africans, how they work and how they can contribute to economic development.

The Department of Small Business Development seeks to assist co-operative enterprises to address the following identified and encountered market failures:

- Lack of participation in the formal economy by co-operatives;
- Lack of effective and professional managerial capacity within the co-operative entities capable of efficiently running and managing both the association and business component of the co-operative so as to minimize tension between the two and thus grow and develop the co-operative;
- Low or non-participation by co-operative enterprises on all other incentive programmes;
- Lack of access to finance;
- Lack of working capital to allow effective market entry; and
- Lack of improved assets value.

About the Co-operatives Development Support Programme

CDSP is a programme of the Department of Small Business Development with an objective to support co-operative enterprises financially and non-financially in partnership with other key strategic stakeholders (DFIs, Municipalities and Private Sector; etc.). The Co-operatives Act, No. 14 of 2005 and Co-operatives Amended Act, No. 6 of 2013, and Strategy provide the legal basis for the development of this programme. The programme is targeted at compliant South African registered co-operatives that possess experience and participate in any of the economic sectors.

CDSP places priority on co-operative enterprises owned by black persons targeting especially those in rural, township and peri-urban areas and prioritizing majority participation of women, youth and persons living with disabilities. The co-operatives must demonstrate potential and/or capacity to produce, manufacture and supply goods and services to public and private sectors on a sustainable basis. In partnership with other institutions, the CDSP programme offers blended financing to eligible co-operatives on a cost-sharing funding of a combination of a grant and loan. The grant funding portion of funding is capped at R2.5 million towards qualifying activities.

The grant support is available for machinery, equipment, infrastructure, commercial vehicles and business development support (BDS) necessary to grow co-operative enterprises to ensure that the co-operative enterprise develop to be more sustainable and competitive.



Eligible Enterprises

Primary Co-Operatives

To be eligible for CDSP, a primary co-operative enterprise must satisfy all the mandatory requirements as set out below:

- Be incorporated and registered in South Africa in terms of the Co-operatives Act, Act no 14 of 2005;
- Be a primary co-operative with a majority black membership;
- Have business activities in any economic sector;
- Adhere to co-operative principles;
- Be biased towards women, youth and persons living with disabilities; and
- Expected to furnish proof of training or experience of all members of a primary co-operative in the areas of co-operative governance, business management and technical training in fulfilment of the agreement entered with CDSP.

Cluster Co-Operatives

- To be eligible for CDSP, a cluster co-operative enterprise must satisfy all the mandatory requirements as set out below:
- Be a registered secondary co-operative in South Africa, registered in terms Cooperatives Act 14 of 2005 (as

amended);

- Be an intermediary entity applying on behalf of the clustered registered primary co-operatives assisting them to achieve the economic objectives pursued through clustering mechanism;
- Applying intermediaries are required to be registered under the Central Supplier Database (CSD) and be fully compliant;
- Intermediaries include, but not limited to, individuals/sole traders, private or public companies, NPOs (non-profit organisations), Community Based Organisations (CBOs), NGOs (non-governmental organisations), and labour/trade unions;
- Applicants and beneficiaries must be taxpayers in good standing and must provide valid tax clearance certificates and/or South African Revenue Service (SARS) pin;
- The tax status of applicants and beneficiaries as well as suppliers will be verified on the National Treasury's Central Suppliers Database (CSD) and SARS during assessment and before any payment is effected; and
- Primary Co-operatives must be South African citizens from previously disadvantaged backgrounds (i.e. disadvantaged persons, black persons, women, youth, persons living with disabilities, persons living in rural areas, townships, and peri-urban areas). Adhere to co-operative principles.



Qualifying Interventions

For blended finance:

- Machinery and equipment tools;
- Specialized tools;
- Operational costs;
- Commercial vehicles directly linked to the core functions of the applicant;
- Infrastructure requirements:
 - Infrastructure requirements for co-operatives will be done in partnership with relevant stakeholders such as municipalities, ESKOM, etc;
 - Where projects require municipal services (e.g. electricity, roads, etc.) the co-operative will be required to, where possible, introduce their projects to be included in the IDP of their municipality and project plans of other stakeholders; and
 - In case where the applicant could not secure municipal support by integrating the project to the IDP, DSBD in partnership with the applicant will endeavour to introduce the project to the municipality. DSBD will fund the project once approval to integrate the project into the IDP has been secured with the respective municipality.
- Product or Service Development;
- Business Development Support;
- Market development (research, pricing techniques and packaging);

- Information and Communication Technology (ICT) linked to co-operative development activities; and
- The Adjudication Committee may consider for support, at its discretion, any other costs related to the activities applied for.

For feasibility study studies:

- Operational costs that include, among others, project personnel, researchers etc.;
- Specialist technical, scientific, consultation and/or contracting personnel;
- Running costs and overheads (e.g. printing, fax and telephone up to a maximum of ten percent (10%) of the total budget;
- Intellectual Property Rights (IPR): IPR for the project must comply with project relevant provisions of the National Intellectual Property Management Office (NIPMO) and project relevant legislations such as Copyright Act, 1978 (Act No. 98 of 1978), Designs Act, 1993 (Act No. 195 of 1993), Intellectual Property Laws Amendment Act, 2013, and Intellectual Property Law Rationalisation Act, 1996 (Act No. 107 of 1996).
- Costs of registration and litigation of patents; and
- Costs for registration of patents.

General conditions and noneligible activities

Applicants that are receiving grant funding from other government departments or agencies will not qualify for the similar expenditure and/or activities under this programme and such costs will be excluded when determining the cost-sharing contributions.

- The partner must provide a written confirmation of a contribution to the financial requirements of the partnership in line with the business plan;
- The co-operative must engage with DSBD before submitting an application;
- After approval the co-operative should enter into a legal agreement with DSBD agreeing to the terms and conditions for approval. The agreement should be signed no later than thirty (30) calendar days by all parties upon receipt of the approval letter; and
- Failure to conclude the legal agreement within thirty (30) calendar days of receiving the approval letter will lead to the termination and/or cancellation of the approval.

The following are excluded:

- Basic and applied research;
- Costs incurred and/or assets acquired prior to approval of a complete proposal submitted to DSBD;
- Bonus payments;
- Costs associated with tendering and tendering documentation;
- Any illicit business activities;
- Liquor and cigarette (purchasing of stock);
- Gambling related activities;
- Non-business related infrastructure/or activities;
- Vehicles for personal use;
- Projects/activities that are initiated by an applicant before or during submission of a request for CDSP funding. Thus CDSP will not reimburse sunk costs;
- Any other cost that the Adjudication Committee, in its sole discretion, deems as non-qualifying;
- While nothing prohibits State employees from being members of co-operatives, such co-operatives will not be funded.

Grant Support

The grant approval will be based on projections for the first year at application stage whereas approval for subsequent year(s) will be accepted in principle and be reviewed on an annual basis subject to actual performance in the preceding year(s) against agreed milestones.

The programme offers a cost-sharing blended funding in line with funding matrix towards approved intervention where DSBD contributes up to 50% towards the total approved amount capped at R2,5 million and the balance covered by a loan towards the total approved financing amount. Qualifying co-operatives will be funded through a combination of debt funding (at pricing that is risk-profile dependent, using sefa's risk rating and pricing model) and a conditional grant from DSBD (tied to specific developmental impact outcomes). In terms of weighting, the grant portion will make up to 50% of the debt amount, determined using a Development Impact Scorecard.

The partner(s) contribution to the project can be in the following form:

- Cash transferred to the primary bank account of the partner's established special purpose vehicle or the set-up cost centre for the sole purpose of the strategic-partnership;
- Machinery and equipment (valued and a plan in place for the transfer or post-use of the assets by the small businesses at the end of the partnership);
- Commercial vehicles (valued and a plan in place for the transfer or post-use of the commercial vehicles by the small business at the end of the partnership);
- For feasibility studies, the grant will be disbursed according to agreed milestones between DSBD and the applicant over a maximum period of a year;
- The milestones payments will be subjected to the satisfactory progress on the preceding milestones and the use of funds as per the expenditure/cost plan thereof,



- Payments shall be made directly into the bank account of the approved applicant only in the name and address of the account holder must be the same as that of the applicant; and
- Exception to clause 8.4.2 can be made for large entities in that DSBD may consider making payments directly to the Research Partner's banking account during the contracting stage.

For blended finance:

The proposal should be submitted in the form of an application form obtainable from DSBD website and will cover the following key aspects:

- Executive summary outlining the objectives of the project;
- An enterprise/supplier development strategy and unique aspects;
- The business model detailing the target market and services;
- The marketing plan outlining how the target market will be defined and reached;
- Include intake and sustainability and/or exit strategies of supported small businesses from the programme;
- Details of resources required to deliver on the services and control systems in place;
- Financial information outlining the funding structure, sources of funding and financial forecasts for the project;

- Process for monitoring and evaluating performance of the suppliers; and
- The proposal must demonstrate technical skills and experience of human resources from the partner dedicated to the partnership.

For feasibility studies:

The proposal should be submitted in the form of an official application form obtainable from DSBD website and will cover the following key aspects:

- Project description to include the problem statement, research activities, outputs and intended end outcomes;
- Project location and brief economic profile of that particular locality;
- The project intention should be to innovate with an intention to address the triple challenge (poverty, unemployment and inequality) through a particular commercial activity;
- Alignment to the DSBD objectives and priorities of government;
- Linkages of the proposed project to the Local Economic Development Strategy and/or Integrated Development Plan of the municipality;
- Financial requirements;
- Timeframe and milestones; and
- Human resource capacity and relevant experience of the Team Leader in particular.

Application procedure

01



Co-operative must be 100% owned by South African Citizens

02



Priority will be given to co-operatives owned by Women, Youth and Persons living with Disabilities

03



Priority will be given to co-operatives based in rural, townships, and peri-urban areas

Application Pack:

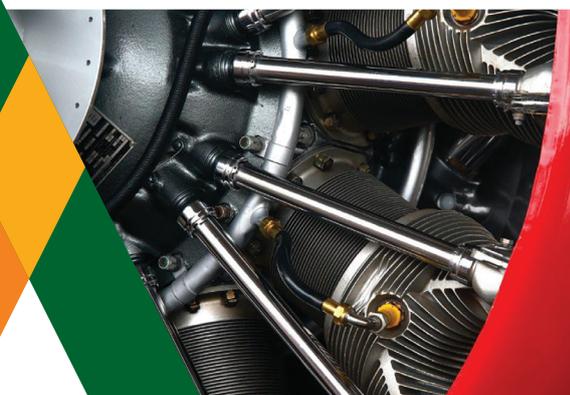
- Proof of Registration on the National SMME Database: <https://smmesa.gov.za>
- Complete the simplified online application form available from www.dsbd.gov.za
- Proof of registration and compliance with SARS;
- CIPC Registration Documents (e.g. Constitution, CR-10) ;
- FICA documents (e.g. Municipal accounts, letter from traditional authority);
- Three (3) competing and comparable quotations;
- Lease Agreement or Permission to Occupy (P.T.O);
- CVs and certified ID Copies of Directors/founding members;
- Three (3) Months Bank Statements;
- Detailed Business Plan;
- Three (3) year cash flow projections;
- Latest Annual Financial Statements or Management Accounts not older than three (3) months from date of application in the case of expansion;
- Relevant Industry Certification – where applicable;
- Details of the loan facility; and
- To prevent “double dipping” the applicant must submit a sworn affidavit regarding support received from the State in the five-year period preceding the application.

Pre and post-approval site visits

- The DSBD will undertake telephonic interviews and site visit(s) prior to submitting applications to the Adjudication Committee, to verify the existence of the applicant's business and/or viability of the business plan and complete a site visit or interview report;
- The DSBD will conduct a post investment site visit to verify implementation of approved activity/activities; and
- Supported co-operatives may also be inspected to verify their status and capacity to supply and supporting documents can be requested as part of this inspection:
 - Bank Statements;
 - Tax Clearance Certificate or SARS pin (good standing); and
 - Proven track record of supplying and/or references.
- A post implementation inspection of deliverables will be conducted at the premises of the approved applicant any time after fourteen (14) days from the date of payment.

Non-financial Support Services

- Access to finance only forms part of the solution to challenges facing co-operatives. The extension of meaningful development support is critical to the survival and growth of cooperatives.
- Seda, through its ICT Incubation Centres or Branch Network, will assist co-operatives with:
 - Pre-formation (i.e. registration, business planning, etc.)
 - Different training interventions (i.e. corporate governance, business and financial management, marketing etc.)
 - DSBD application packaging and submission



REACH OUT



**small business
development**
Department:
Small Business Development
REPUBLIC OF SOUTH AFRICA

Department of Small Business Development

77 Meintjies Street Sunnyside Pretoria 0001

(+27) 861 843 384 | info@dsbd.gov.za

 @dsbd_sa  Department of Small Business Development



Small Enterprise Development Agency

The Fields, Office Block A, 1066 Burnett Street Hatfield
0833 Pretoria

+27 12 441 1000 | info@seda.gov.za

 @seda_dsbd  Small Enterprise Development Agency



Small Enterprise Finance Agency

Byls Bridge Office Park, Cnr Olievenhoutbosch Street & Jean Avenue,
Building 14, Block D, 11 Byls Bridge Boulevard, Highveld Extension 73

+27 12 748 9600 | helpline@sefa.gov.za

 @therealsefa  The Small Enterprise Finance Agency