

DEVELOPMENT OF COOPERATIVE MICROFINANCE IN THE EASTERN CAPE LEARNING ENCOUNTER 20TH SEPTEMBER 2007

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“The experience of all peoples is that their freedom remains fragile and their rights empty shells unless they bring real improvements to the lives of ordinary people.”
(President Nelson Mandela, Durban, 1 July 1998)

SUMMARY

The objective of the Thina Sinako Programme for LED support, in the Eastern Cape Province, is clear; reduce the number of households living below the poverty line, through the creation of new sustainable jobs and pro poor economic growth. This objective is being addressed through three support areas; Improvement of Local government LED capacity and efficiency, partnerships to capitalize on local competitive advantage and financial institutions to offer better access to finance.

The Financial Innovation Fund, operated within the frame work of the EU Programme to support Local Economic Development in the province, aims at providing support to the financial services providers to design, develop and implement new products and services in order to facilitate an increase in the accessibility to credit and other financial services in the province.

At a national level government programme ASGISA's objectives aims at halving poverty and unemployment by 2014. Government believes that this is not an unrealistic expectation given the steady improvement in the performance on job creation capacity of the economy. *Despite this success unemployment remains high at over 26%*. Government has then set certain targets to ensure that it meets the social objectives adequately; these are, below 15% unemployment and halving poverty by 2014.

The target set to achieve this is 5% annual economic growth rate, up to 2014. The government is also realistic about binding constraints that could frustrate the targets it has set and believes that certain economic imbalances need to be effectively encountered before the ASGISA program objectives are adequately met.

The purpose of this paper is to explore cooperative microfinance development as means to effective broad base empowerment and enterprise development.

Cooperative development has only been successful only in those environments where the people themselves are able to drive and own the sector.

The economic and historical background of the masses in our country constrains efficient and adequate development of this sector. This is further exacerbated by the periodic and still ill informed government interventions. Despite all of this, it still remains the one vehicle that could create opportunities for the masses in South Africa, to enter and exit the second economy, given the successes internally with Afrikaners, and externally with Japan, Spain, Germany, Canada and so on and so on.

Poverty is currently localized owned and understood by people living in the remote, rural and urban peripheral areas. The economic struggle will not be won until it succeeds to build effective partnerships between government, corporate business and the people affected by poverty.

There can be no effective partnership until the people are economically and institutionally organized. People in poor communities have organized themselves in cooperating social and economic formations which can be readily used as infrastructure for economic development. As government we need to acknowledge, learn, respect and support these formations, because they are founded from years of knowing, owning and sustaining the effects of poverty. We should not disrupt these formations as they contain the social and financial capital of these communities and therefore their hard earned contribution and leverage for economic interventions.

We therefore should look at local communities building partnership, from bottom up, through local and democratic institutions. We have learned that the best and the most effective projects we have are those that are locally based and close to the people in poverty. We also acknowledge that local ownership and involvement must be central to our architecture.

Community economics is a study that will also be explored in this document along with community capitalization for economic development. The assumption here being that if poverty is localized then it should follow that development interventions should be localized and this will not be effective unless community economics is fully comprehended

Lastly we know that so much that is possible is within our grasp. Will we have the courage and leadership to reach out and grasp it?

INTRODUCTION

“The government will place more emphasis on the development of the cooperative movement to combine the financial, labour and other resources among our people, rebuilding our communities and engage in sustainable economic growth.”
President Thabo Mbeki: June 1999 Parliamentary Address.

Failures of cooperatives in the past have tarnished this important developmental tool, yet the basic notions that it represents can still be effective. In many countries, cooperatives used to be and still are the major tools for development. However, cooperatives failed in various forms and ways, either by ignorant government officers or by cooperative corrupt leadership.

Where cooperatives were never in the ownership of their members, and have not served as the tool, in most cases, to alleviate their member economic and social situation, they became a synonym for failure.

It is important to emphasize that the cooperative is not a goal in itself, but means to implementing a goal. The true cooperative is probably one of only means which is available to the poor through which they can escape their poverty and go on to develop themselves, their families and their countries.

When individuals recognize that alone they cannot achieve their goals, they are led to give up part of their individualism and to collaborate and cooperate with others who have the same needs and interests. Together they strive to achieve their socio economic goals, forming a self owned economic enterprise called the cooperative, which serves their interests as owners and consumers of goods and services of the cooperative. In this organization members seek to buy the best quality goods for their families at the lowest possible prices or as producers they will seek the highest possible evaluation for their work and produce.

DEFINITIONS VALUES AND PRINCIPLES

Government subscribes to universally accepted definition, values and principles.

Definition includes the following:

- Primary Cooperative; locally based cooperative formation consisting of only members from the same local community.
- Secondary Cooperative; a group of primary cooperatives could come together and form a secondary cooperative for purposes of marketing ,financial services , bulk buying, etc.

- National Sector Cooperatives; Are sector specific and operate at national levels for purposes of regulation, fund raising, training, etc. Members come from the regions and/or provinces
- Apex Cooperative Organizations; These represent the national cooperative movement at national and international levels. Membership comes from different sectors.
- Worker Owned and Client Owned Cooperatives; The common interest could be based on consumption, production and financial services
- Production and Service Cooperatives; Normally formed by farmers and, professionals
- Universal Cooperative; Caters for multi purpose objective, to meet diversified needs of members

Principles and Values can be defined as follows:

- Voluntary membership through a common bond and interests
- Self help and democratic member control
- Member economic participation and equity
- Promotion of member business and social interests
- Autonomy and independence
- Education training and information
- Cooperation among cooperatives
- Social responsibility

A cooperative is therefore an autonomous association of people united voluntarily to meet their common economic, social and cultural needs and aspirations, through a jointly owned and democratically controlled enterprise.

Cooperatives are primarily social and economic entities, which have the potential to be powerful instruments for revitalization of rural and remote local economies. They are not limited to agriculture and related industries, but are in all sectors of national economy

POTENTIAL CONTRIBUTION TO LOCAL ECONOMIC DEVELOPMENT

- People on the ground spontaneously form themselves into cooperating groups to deal with the effects of poverty
- Building of infrastructure that will serve as backbone for rural and remote economy
- Mobilization of community resource for social and financial capital impacting on marketing ,credit capacity , leverage for foreign investment and infrastructure for delivery of government resources
- Broad based outreach and ownership spreading benefits wider and broader, building citizens' faith for their own government delivery.

- Broad base delivery of government delivery and accountability at the point of delivery
- Business investment and job opportunities for participants, otherwise elusive to single individuals.
- Collective bargaining and shared responsibility builds institutional capacity that impacts on wider development issues.
- Shared and effective ownership of business and property impacts on capacity to take responsibility
- Participation in national economy elevates their status to that of full citizenship with patriotic tendencies
- Strengthening access to markets and institutional finance both nationally and internationally
- Legal status enables effective linkages and partnerships with other communities, government and private sector bridging the economic and communication divide and builds confidence within the people to take responsibility for the plight they find themselves in.
- Poverty Alleviation. Informal cooperating formations, such as stokvels, savings groups and burial societies and hawkers, form an integral part of our economy, cooperatives have a role in the transformation of this informal economy into legally protected environment, fully integrated into main stream economy.
- Cooperatives have worked locally to lift agriculture from subsistence farming to the very successful commercial farming of today. They have built the cooperative banking of Germany into the second largest banking sector. They have built the Japanese economy after the second world war to what it is today.

GOVERNMENT ROLE IN COOPERATIVE DEVELOPMENT

- Provision of appropriate and enabling legal framework
- Institutional financial support
- Registration and deregistration
- Legal supervision for compliance

DEVELOPMENT OF COOPERATIVE MICROFINANCE

Terms of Reference

The Objective of reducing the number of households living below the poverty line through the creation of new sustainable jobs and pro poor economic growth, immediately sets the context for poverty alleviation.

Poverty line has been set at R1, 500 per for a family of 6-10 people (R5- R8.30per person per day), for the development of South African Microfinance Apex Fund, 2003-2006. Having defined poverty as lack of or insufficient resources to meet basic needs.

Basic needs are defined as; food, housing, water, land, money, job, education, health, justice, clothing, safety and security, decision making.

In very specific aspects, rural and urban poverty presents distinct diversities which should be considered when implementing social and economic interventions. Whilst urban poverty could present a desperately volatile environment, rural poverty presents a chronic and stable environment.

Cooperative microfinance implicates development of cooperatives as mechanisms for its deployment and propagation. In this case and linked to the objective of the EU LED Support Programme, it further implicates community based financial cooperatives (village banks).

Establishment of Cooperative Microfinance on the basis of facilitating access to finance for economic development, is not sufficient argument enough to make the initiative work. Finance is one of a number of elements for economic development.

The elements are currently fragmented as development initiatives continue to be blind to and ignoring the benefits of an integrated development approach and at worst also ignoring the social and human capital which exists in the target communities, without which development initiatives are doomed to fail.

Microfinance is a characteristic of the second economy. Cooperative microfinance in our case is dealing with loans up to R50, 000. This category is within the environment termed development microfinance, synonymous with social development.

The majority of the Eastern Cape rural population lives in extreme poverty and simply seek to meet basic needs to survive. The cornerstone of addressing this second economy is to start focusing on the role of micro enterprises and their impact on the individual, household and community. Through this intervention, the aim is to assist low-income groups to build assets that will enable them better access to basic services such as health education and food security.

Providing basic financial services to the poor in order to reduce poverty and stimulate economic growth cannot be underestimated. However to implement this strategy into practice is a daunting task as South Africa lacks success stories such as those from India, Bangladesh and Sweden.

The provision of access to a broad range of financial services such as savings, insurance and loans are essential for enabling the poor to engage in productive and income-generating activities, allowing for growth in human and other assets to achieve broad-based economic growth and poverty reduction.

The most important resource in any community is its people, their skills, imagination, initiative and financial potential. A cooperative business will be successful to the extent that it can harness this resource to meet the economic needs of its members.

COOPERATIVE MICROFINANCE AND FINANCIAL COOPERATIVES

Rationale

- Economic Growth of any nation is dependent on the ability of individual communities to meet their own basic needs.
- A community is made up of and dependent upon the collective support of its members, whose skill and interests reflect and complement each other, through a creation of many organizations and professions that reflect those interests
- When communities begin to understand the significance of self reliance, national economics begin to make sense and become manageable.
- The principle of meeting local, regional and national needs, is realized first from local resources. Thereafter the benefits of adding value and the re- circulation of money will be experienced, followed by the role of exports as a means of exchanging values.
- The most important resource of any community is in its people, their skills, imagination, initiative and financial potential.
- The promotion of economic and social development of any community, starts with community identifying its own potential, human and financial. With such knowledge, a community can attain greater confidence in itself and its capacity to meet its own economic needs.
- A community can mobilize and take responsibility for its own financial resources for the generation of greater self reliant economic activity.
- A Financial Cooperative is an infrastructure that will enable a community to mobilize its financial resource, thereby discovering its economic value, which can be leverage for local economic development.
- The reality is that there are plentiful resources of finance for genuine projects. The issue is the management and accountability of these resources at that point of delivery.
- They key principle for community economics is that you can appeal for and demand aid, but investment has to be attracted.

- A community based structure that can link the community to the formal financial and business sector in a commercially viable manner, through which rural and remote communities could gain access to much needed financial services is available through the concept of a financial cooperative. The concept is based on simplified banking systems at a low cost.
- The sustainability of such a community based structure depends on the effective participation of community members, through which ownership and control is acceptable to the community.

INTERNATIONAL HISTORICAL BACKGROUND OF COOPERATIVE BANKING

Co-operative banks originated in the nineteenth century in Germany. Peasants, farmers and craftsmen were affected by deep social and economic changes. Free trade and competition were generally propagated. In the agricultural sector farmers had to change production for the market. Previous methods of cultivation had to be changed. Following these developments, the importance of money and capital increased. As no real financial services were available, farmers had to borrow money from unscrupulous, profiteering moneylenders. The former dependence on feudal landlords often was replaced by dependence on these moneylenders.

Similar developments took place in towns. Craftsmen and retailers were in need of money and loans in order to expand their production and to satisfy the growing demand of the general public.

However, in order to obtain loans the necessary collateral or securities were not available. Existing banks rather invested in the expanding industrial sector.

In this situation, it soon became obvious that broad sections of the society would have to be given access to an organized financial system permitting them to borrow money to finance their businesses.

The liberalistic or capitalistic economic system which developed since the beginning of the nineteenth century – the motto of which was “The welfare of the individual ranks above the welfare of the society” – produced on the one hand a class of financial powerful, private entrepreneurs, and on the other hand, financially weak, indebted peasants, farmers, craftsmen and workers.

With their liberty as well as their personal and economic rights threatened, the financially underprivileged looked to the co-operative movement to help solve their plight and problems.

Co-operative banks in the rural areas also started to provide other services to their members such as purchasing of agricultural inputs and implements and marketing of agricultural products. This type of “universal co-operative” can still be found today.

One of the oldest and most successful example of community enterprise banking has been that of the Mondragon community in Spain. The movement began in 1940 when the community decided to make a cooperative of cooperatives. By 1986, it had grown to a membership of 100 separate but linked cooperatives, serving each other through creation of industries and social services. In contrast to high business failure and unemployment rate in Spain. Mondragon had reported a zero business failure and only thirty people registered un employed in a membership of 20,000.

In Bunladesh, one of the poorest and most crowded country in the world, the Grameen Bank was set up in 1977. Instead of asking for individual collateral for loans the bank asked the landless to form groups of fifty people, and then divide themselves into five groups of ten. These groups will meet regularly with a banker who trains them in money use, and for discussions on local business opportunities
Two people at a time in each group of ten can apply for a loan. Upon regular proof of payment, the next two are approved, and so on. Each loan has to be approved by the small group, then by the whole group and finally by the bank.

By 1987 Grameen Bank had 347branches, serving 5000 villages and revolving loans portfolio up to \$54million to over 290, 000 borrowers, with a repayment failure of only 2.7%.

NATIONAL HISTORICAL BACKGROUND

While South Africa has had more than 100 years of the history of established cooperatives and “emerging cooperatives, its rate of growth and impact on the South African political economy has modeled the first and second economy nature of South African economy.

South Africa’s historically grown dual cooperative sector constituted of established cooperatives and long term emerging cooperatives. The first were established with the assistance of the apartheid government and have operated as marketing and/or processing cooperatives for large scale white commercial agricultural farms.

The later though permanently in the form of emerging cooperatives, have been in existence for more than 100 years. The so called “emerging” cooperatives have always operated as mutual aid networks in the form of, stokvels (mutual aid saving and credit unions and burial societies). In an economy dominated by the first economy commercial banks, the only opportunity for the poor largely located in the second economy, to save and get credit from their meager earnings was and still is through mutual aid networks.

Indeed some of these formations have exhibited the highest principles of cooperation and as a result have been able to save money to bury their loved ones and meet essential needs for their sustainable livelihoods.

Attempts have been made both by the previous apartheid regime and current dispensation to transform the emerging cooperatives into legally protected structures without much success.

The Friendly Societies Act of 1956 which had the objective of legislating burial societies, was extremely complex, potentially onerous and unrealistic (dti,11/12/03). It is not surprising that less than 30 burial societies have been registered under this Act.

Co-operative savings and credit institutions are therefore not completely foreign institutions in South Africa as the examples of stokvels and burial societies show.

As early as 1928 the Reverend Bernard Huss, Principal St Francis' Native College, Marianhill, Natal, published a book entitled "People's Banks and Use and Value of Co-operative Credit for African Natives". He already proved that genuine aspects of a co-operative banking system such as group-cooperation and group responsibility are basic traditions of African societies and are applied in traditional savings and credit schemes.

Huss already asked for a recall of these traditional elements to construct modern co-operative credit societies. Co-operative banks should not be enforced on the people. To be successful they must be built on and based upon these traditional elements known to the people. Therefore, he called for "Mayibuye i Africa" (let Africa come back).

1994 saw the emergence of financial cooperatives in South Africa. The first to come up were the work based, Credit Unions, early in the year. To avoid being confused with labour unions, they later changed their names into Savings and Credit Cooperatives. SACCOs then formed the Savings and Credit Cooperative League of South Africa (SACCOL).

In December 1994 the first Village Bank was launched in Kraaipan, North West Province. Village Banks are community based Financial Cooperatives, and better positioned to target poverty. Village Banks were established to provide a financial and safe facility, where people could keep their savings as a leverage for local economic development.

Financial Cooperatives operate with an Exemption from the Bank Act, to facilitate their deposit taking.

In 1995 the concept of decentralized financial institutions was launched through the Reserve Bank of South Africa, this paved the way for the registration of financial cooperatives. The role of these institutions at the time was seen as follows:

- Provision of financial services to rural and remote communities
- Mobilization of local community savings and therefore financial capital
- Promotion of job opportunities through stimulation of local economy
- Ensure that local income gets re-circulated within the area of origin

The Registrar of Cooperatives and the Registrar of Banks agreed to work together agreeing to formalize these formations into financial cooperatives. The objective of both the Registrars was to create a legal framework that will encourage the growth of an efficient operation of a cooperative movement in South Africa.

The emphasis at the time would be an enabling rather controlling. That under this legislation the Registrar of cooperatives will promote the support and development of all

cooperatives, especially financial cooperatives. There are currently less than 50 operating out of about 100 registered financial cooperatives, in the country.

As indicated above, the apartheid economic policies that created a dual economy negatively impacted on cooperative development among the black majority population of South Africa. Major socio- economic changes brought about by the current dispensation through the passing of the most democratic constitution in the world, have opened up new opportunities for the development of cooperatives.

CURRENT STATUS OF THE SOUTH AFRICAN FINANCIAL COOPERATIVES

The situation of the Financial Cooperatives in the country is at the lowest it could get, this applies especially to village banks. This cannot, however be said of the stakeholder awareness and willingness to support.

There were three Apex bodies operating in this sector, in 2005, FICOSA, Financial Cooperatives of South Africa, commonly known as village Banks, because of their community based emphasis, SACCOL, South African Credit Cooperatives League, mainly work base and SAFOBS, South African Federation of Burial Schemes, is an association of burial schemes and mainly informal cooperative formations. To date only two still remain, FICOSA did not survive.

Below is the asset status of the three organizations as recorded in 2005:

Organization	Membership	Assets	Average savings per person	Representation	Products
SACCOL	5278	R26. 4m	R5,000	Representative of the SACCOs movement, locally and internationally .	Credit savings, insurance
FICOSA	28,887	R11.9m	R413	Representative of the village bank movement	Savings, credit, insurance
SAFOBS	250,000	R500m	R2000	Representative of burial scheme	Insurance

				formations nationally		
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Both FICOSA and SACCOL members operated under a Bank Exemption and therefore registered with the both Registrars of Cooperatives and Banks, for deposit taking. SACCOL is a registered Association and FICOSA is a registered Central Cooperative. SAFOBS is a registered association but its members are not necessary registered entities.

Five critical factors make these organizations attractive to Local Economic Development:

- **Outreach:** The total of 284,164 organized membership is infrastructure that will kick start a sustainable economic development movement.
- **Local Community base and Ownership:** Poverty is owned and known to the people who are affected by it. It therefore makes all the sense that development interventions should be mindful of community based strategies and outside interventions should work alongside these community based strategies to promote self -sustainability.
- **Savings Mobilization:** This self generated capital establishes, member participation, member ownership and independency, business capital, and long term sustainability of the organization. Savings build assets for wealth creation and credit capacity.
- **Social Capital and Community Participation:** Social Capital is measurement for community commitment and buy- in. Community participation is a step towards community accountability for the internal and external resources, ultimate skills transfer for management and institutional capacity.
- **Simplified systems at low cost:** Quality, simplified systems at appropriate costs facilitates operational management and builds confidence for accountability internally.

Challenges currently experienced by the sector can be summarized as follows:

- Local retail capacity still limited and characterized by; Management and governance problems; Poor management and information systems; Low outreach capacity and

sustainability; Low morale and poor business image; Fragmentation and lack of business continuity, because of absence of a regulatory framework.

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- The current statutes and systems are not consistent with the terms of reference and business objectives of the industry. Membership obligations not fully met and confronted. Mutual ties not strong enough. Board members of individual financial cooperatives not fully conversant of the rules, policies and procedures that exist within the industry, in terms of fidelity and fiduciary obligations and therefore unable to lead these entities to desired objectives.
- Government support has been intermittent and characterised by long absences in between. Of the initial sixty established by the defunct apex bodies less than twenty operates and less than five with positive growth.
- Lack of confidence within leadership opens these institutions to vulnerability. Too many interventions from ill informed service providers and unscrupulous opportunists, has been the order of the day for the last four years.
- The physical buildings from which some of the financial cooperatives operate are inconsistent with the requirements of the sector.
- Inadequate communication systems impedes effective linkages with critical stakeholders for support.
- Inadequate institutional and human resource constrains the quality of oversight

It takes more than changing formal rules to build these institutions. It means building people, building values, building skills and incentives that can support people committed to change. We must remember to create doers of development.

Our work should be at the rock face (foundation) of governance and capacity building. Such an agenda requires that we focus on the interrelatedness of the systems that work and make society function effectively. We must focus on financial and banking systems that inspire equal confidence in the global investor and the peasant farmer.

Too many capacity building programs in the past have floundered, because they have not been rooted in local ownership and knowledge.

THE STRUCTURE OF A COOPERATIVE BANKING SYSTEM

At the base of the co-operative banking system are the local financial services co-operatives. They are specially geared to the financial needs of their members: small and micro sized enterprises, such as, indigenous crafters, emerging farmers, hawkers, etc.

A co-operative bank must have statutes, which have to be passed and signed by at least the number of members required by the Co-operative Act. The statutes must clearly

state the object of the enterprise, and its name must indicate what this object is. The co-operative is legally established when the signed statutes and the members of the board of directors have been registered in the Register of Co-operatives, which is kept at the appropriate authority (Registrar of Co-operatives).

The law currently allows that the board of directors must consist of at least two members who will be responsible for running the business of the co-operative bank subject to the restrictions imposed by the Banking Act, the Co-operative Act, and the statutes of the particular co-operative.

Many countries have introduced a supervisory board that is required to supervise the work of the management in all aspects of administration. The supervisory board's duty is to check how the management runs the affairs of the cooperative. If a supervisory board is not required by the co-operative act, some kind of control mechanisms should be put in place. In South Africa the National Treasury, currently responsible for these entities, has just recently nominated the Apex Fund to be the regulator of the Financial Services Cooperatives.

The general meeting is required to pass resolutions relating to the annual financial statements, the distribution of surpluses or the covering of any losses, the election of members of the supervisory board if foreseen in the Act, the ratification of the acts of the management and the supervisory board. It sets the limits on the size of loans, amends the statutes, and so on.

At the general meeting, each member has only one vote, irrespective of how many shares he or she may hold in the co-operative, and also irrespective of how high his or her credit balance may be.

Although the primary business is money-related, many co-operative banks also deal in agricultural products. These activities range from the purchase of products needed for agriculture to joint maintenance of agricultural machinery and joint marketing of member produce.

At the second tier the co-operative banks may establish regional banks. The main objective of the regional banks (Secondary Cooperatives) would be to support their member banks through liquidity management and refinancing facilities in their lending business and in rendering comprehensive and competitive services. In addition, the regional banks act as bankers to the regionally operating merchandise and service co-operatives, just as the local co-operative banks do at their level.

The third tier could be a national co-operative bank, the central bank to promote the entire co-operative system.

Components of a Cooperative

- **Members:** Local community buys into the cooperative through member regular contributions or shares.

- **Social Capital and Community Participation:** This is made up of the collective efforts of the members and represents social, economic, intellectual, and moral resource of the community. Social capital is measurement for community and member commitment.
- Community participation establishes accountability of resources by the community of origin, and ultimate transfer of management skills for institutional capacity.
- **Savings mobilization:** Self generated capital establishes member participation, ownership, independency and long term sustainability for the business. It further establishes individual credit capacity and wealth creation.
- **Simplified and Locally adapted Systems at Low Cost:** Quality, simplified systems at appropriate costs facilitates operational management and builds confidence for accountability internally.
- **Leadership:** Business leadership and Corporate Governance are at the heart of a successful cooperative. This critical resource makes it possible for cooperatives to represent themselves and operate at macro economical levels.

Factors Contributing to the Strength of the Co-operative Banking System

The success achieved by the co-operative banks, elsewhere in the world, can be attributed to the co-operative constitution, the decentralized form of their system and interaction of different levels.

The fact that they maintain close contact with local people and businesses makes them an integral part of the community. Members are given the exclusive democratic right to influence their bank's decisions as to what services the bank should offer, which actually is the main difference to other banks. As a result, the members develop strong identification with their bank.

The members not only provide the co-operative banks with capital through their membership shares, which are liable for the debts of the bank, but also provide the bank with business. They make much more intense use of the offered banking services than the "mere clients" do. Members are more aware of the range of services offered; they have a special sense of loyalty to their bank and are convinced of its competence.

Every co-operative bank is legally independent. This gives flexibility in its decisions, actions and reactions to the local market, so business decisions can be made without delay. The competitive edge of being "the bank around the corner" has contributed to giving the co-operative banks the position they hold in the markets today.

Another very important factor contributing to the competitiveness of the co-operative banks is the fact that they belong to a decentralized organization. However, policy and decision making does not go from the top to the bottom:

In co-operative banks, policies and decisions are made democratically by the members together, and this has the advantage that decisions have the backing of all members. Co-operatives established federations or unions of co-operatives to serve and advise affiliated co-operatives. This was necessary because members with insufficient knowledge of legal, fiscal and business matters have often ran the early co-operatives. As a result, the newly emerging co-operatives needed additional assistance and advice. Decision-makers realised very soon, too, that every co-operative bank must be audited, either by private auditing companies or by specialised co-operative audit institutions. This guarantees an effective system of auditing that is in the interest of the co-operative itself, of its members and general public.

Co-operative banks should belong to the security mechanisms in their country and if they do not exist, strive for introducing their own system. In this way, no depositor or customer of a co-operative bank will suffer a deficit or loss.

As institutions that carryout banking activities the co-operative banks are regulated both by the Co-operative Act. Liquidity requirements and capital structure, for example, are regulated in the Banking Act. The Reserve Bank or the authority responsible for the bank supervision should also supervise co-operative banks.

In general, the Co-operative Act regulates the organisation and the structure of co-operative banks, whereas the Banking Act regulates the activities.

Basic considerations for developing a Co-operative Banking System

A limited number of poor people would be able to engage in economic activities if they had access to loans. However, it can be assumed that a far larger number neither want to be in debt, nor would have the opportunity to use a loan productively. Poverty is not necessarily related to “credit need”. In many cases this results in grants being made in the guise of loans. A person may be poor and deserve public (welfare) assistance, but loans may be an inappropriate tool for solving his/her problems.

Mixing loans with grants undermines the ability of the financial system to connect with those individuals in a society who are creditworthy. Credit programs that provide loans on soft terms are usually transitory. As soon as the patience of the donor is exhausted, the program collapses or disappears.

Sustainable programs must charge enough fees and interest to cover their costs, have to recover close to 100% of their loans and must be innovative to keep operating expenses low. They should develop deposit services that allow the financial system to perform its most important function: intermediating between those who have financial surpluses and those who need credit and are creditworthy. Done efficiently, this intermediation leads to more efficient allocation of resources in the economy. Studies have shown that poor people save and that the demand for credit can be actually served by different sources such as own savings, supplemented by income from government pension remittances; family remittances; and any other transactions.

For this reason, attractive deposit facilities may be more instrumental in facilitating the culture of saving little by little and accumulating assets.

People who form a co-operative reap the benefits of shared responsibility and ownership. With co-operative banks emphasis is laid upon the self-financing aspects, to minimize liabilities. Members have to contribute to their own capital formation. Increasing the financial base by retaining surplus in reserve funds is a permanent task within a co-operative.

It would be wise to start with those cooperatives that are already successful or have the potential for success for a firm and stable take off. However weak ones can be put through some remedial process to assist them to get on track.

The combination of financial, purchasing and marketing services signals a welcome risk compensation for the primary co-operative bank. Conflicts of interest between the financial clients and merchandise clients can, however, arise.

Therefore, financial services should, if necessary be kept separate from the other co-operative activities as regards bookkeeping and accounting to avoid mixed calculations and/or cross subsidisation. This would also make it easier for the other persons in the community to acquire memberships in such co-operative. The members could possibly establish a sub-committee on financial services. At least two board members should deal with the financial services of the emerging or developing co-operative.

In such circumstances, however, it should be remembered that cooperation in one form or another is part of human nature. Therefore, one should start from what the people know. Structures such as rotating savings and credit associations (stokvels and burial societies in South Africa) exist in every society.

Those who propagate modern co-operatives need to know these existing traditional forms of cooperation and have to relate them to new needs and proposed new forms of working together in co-operative societies. They have to allow people to decide what they want. To promote development means among other things to enable people to make choices and to let them choose for themselves.

Therefore, the process of development of co-operative banks is best undertaken by the members and prospective members themselves with the assistance of co-operators, promoters, facilitators etc. familiar with the history and culture of the target group. This best responds to:

- The need to start from the subjectively felt needs, common interest, aims and risk perception of the members with regard to co-operative banks or multi-use co-operatives;
- The importance of institutional capacity building that enhances member participation and ownership;
- The promotion of (small) homogeneous and cohesive (local) financial institutions;

- The integration, as far as possible, of the activities of the cooperative with the social and economic needs of the community, for relevance, support, credibility and security;
- The development of institutional arrangements and management systems which are adapted to local conditions.
- Integration with other similar institutions and establishment of a three tiered system, owned by the members, in a bottom up development process. This should be motivated by the desire of the sector to interface with the broader financial and corporate sectors at appropriate and efficient levels.

Since the initiation or further development of a co-operative self-help organisation is usually an innovation in its (local) environment, and needs to be seen as a “learning process approach” of the participants, it is not appropriate to plan this process in a deterministic sense or regulate it through straight-jacket procedures.

The promotion of co-operative self-help in general requires motivated, capable and experienced (local) promoters, who have to act as innovators and facilitators of development processes. The development of concrete forms of institutionalised co-operation, which are adapted to the local conditions as well as to the needs and interests of the members, and which can serve as “illustrative models” (e.g. village banks and others), will considerably facilitate the process of “imitation” and “diffusion”.

External assistance must be kept to a minimum and be directed towards forms of general, indirect and long-term support for the co-operative structures as a whole rather than direct aid to primary co-operatives.

Sustainable operation and growth of a co-operative bank or a multi-use co-operative is an organic process which requires a balance between resources and tasks and the gradual gaining of experience by both members and management. The provision of “cheap” capital or material resources reduces the motivation of members to contribute their own resources. Further de-motivation results from the expectation that further inputs of cheap or free capital can be expected. A dependence perception arises which is opposed to the co-operative commitment necessary for the sustainable operation of the co-operative.

Assistance is best provided in the form of supporting activities and institutions beyond the reach of individual co-operative organisations, thereby contributing to an upgrading of their human resources, physical infrastructure, managerial capacity, and business opportunities.

Care must be taken that this process is based on mutual dialogue, exchange of experiences, identification of needs, priorities and available resources.

COOPERATIVE MICROFINANCE AND COMMUNITY ECONOMICS

It is acknowledged worldwide that no programme of development will succeed without community ownership and support. Local institutional structure and capacity building are pre requisites for effective management of community funding.

What it means for a community to have its own financial cooperative, is that community and individuals can;

- Have a basic deposit and withdrawal facility
- Have secure deposit facility for individual and family life and death savings
- Build up culture of savings, credit capacity and financial literacy
- Increase in local trading and wealth creation through asset accumulation
- Management of government grants and subsidies
- Build up a capital base and become financially self reliant

Objectives of Community Economics

- Achieve greater self reliance
- Improve local enterprise opportunities
- Attain self generated sustainable growth
- Maximise human and financial resources
- Provide basic needs and affordable services

These objectives are sought on the understanding that;

- Formal industrial sector is no longer the primary source of employment
- The only way to obviate poverty is to create wealth
- Information, knowledge and skills are real determinants for economic growth
- Real independence comes from lessened dependence on the State
- There is unrealized local expertise and wealth creation potential to be mobilized any community and region.

While there can be few people who fully comprehend macro economic issues, there is even less comprehension for sound community economics, whereby a community is able to benefit from becoming more responsible and accountable for its own development, especially through the formation of a primary cooperative.

People who form successful cooperatives reap the benefits of shared responsibility and ownership. With all cooperatives the emphasis is laid on upon self financing aspects to minimize liabilities. Members have to contribute to their own capital formation. Increasing their financial base by retaining surplus in reserve funds is a permanent task within a cooperative.

At the heart of cooperative microfinance is local economic development. This will be achieved by ensuring economic movement of individual household through accumulation of assets.

COOPERATIVE MICROFINANCE AND ASSET ACCUMULATION

Assets can be defined as resources that individuals, households or communities have to protect themselves against risks and vulnerability. Hence, assets increase households' economic security and reduce vulnerability to risks by allowing more control, flexibility and capacity to plan for the future. Without these poverty will flourish.

Assets include the following types:

- Financial assets – cash, savings, loans, regular remittances or pensions and other financial instruments.
- Physical assets – land, buildings and improvements, livestock, vehicles, etc.
- Human assets – skills and knowledge, ability to labour, good health, control over decisions, bargaining power, etc.
- Social assets - networks, membership to groups, access to wider institutions of society, freedom, etc.

It is important for low-income groups and the poor to build assets that will enable them to reduce risks and vulnerability, which their households may face. When the poor are able to accumulate assets they are better positioned to access basic services such as health, education and food security for their households. In addition, they are able to respond to losses and emergencies that they may face better. This is even more important in South Africa given the impact of HIV/AIDS as it erodes the asset base of the poor. But the poor are also prone to natural disasters such as tornadoes and floods, and tragedies such as fires raging through slums. These destroy assets, and worsen poverty.

All types of assets as outlined above are crucial to households; however there is general consensus that financial assets are particularly important as they can enable the accumulation of other kinds of assets. For example, when a poor person has accumulated financial assets he/she is able to pay for the school fees and uniform of their children, thereby building the human assets. Similarly, the financial assets also make it possible to acquire land, buildings, livestock etc. The financial assets also improve social acceptability and it opens social doors of the community for building up of social networks etc.

Cooperatives are well placed to harness the above process and facilitation of systematic external interventions.

Poor people use financial services for the same reasons as anyone else such as:

- To build assets that enable households to reduce their risks and vulnerability to emergencies
- To access basic services
- To seize investment and other enterprise opportunities; and
- To improve their homes.

COOPERATIVE MICROFINANCE AND POVERTY REDUCTION

The provision of financial services to low-income groups and the poor is recognized as critical in reducing poverty since these facilitate the building of personal, household and community assets.

Credit cushions consumption against income shocks thus reducing vulnerability and minimizing the need for other coping strategies such as asset sales that may damage long-term income prospects.

On the other hand, increasing the collective savings and investments amongst poor communities and investing a portion of these in productive activities will increase income generation.

When savers are able to draw down accumulated savings and/or borrow to invest in income-enhancing assets - including human assets e.g. investing in health and education - and start micro-enterprises, they are also able to be productive and contribute to economic growth. Broad-based access to financial services can therefore generate employment, increase incomes and reduce poverty.

Since the rise of the microfinance in the 1970s, microfinance institutions (MFIs) have provided credit to poor people. However there is now general acknowledgement that the poor need to use a broad range of financial services, including deposit accounts, insurance and the ability to transfer money to relatives living elsewhere. A number of MFIs globally have already responded to this by providing other financial services such as savings and insurance. In South Africa the response to this need of a broad range of financial services by the poor has however been limited.

It is important to note however that the MFIs in South Africa – those who provide credit only and mostly Khula initiatives – are legally restricted to take deposits and therefore cannot provide savings products to their clients.

There is however experience among the Financial Services Cooperatives and the Savings and Credit Cooperatives of providing savings, loans and insurance products to the poor.

CONCLUSION

The co-operative idea is experiencing a nationwide revival at present as a result of its traditions, but also of its specific features. Individual self-determination and self-responsibility are increasingly becoming the centre of attention. Political changes are forcing a reorganisation of economic structures. The democratisation process is to be consolidated by preserving a large degree of self-determination, while spreading wealth more evenly. These basic conditions will offer an enormous potential

Thina Sinako is a five year programme, and currently on its third year. It is critical to focus on what should be done now to contribute effectively in the growth of Cooperative Microfinance. What should be done with the currently struggling institutions within the sector and what learning experiences to be taken forward to building new improved ones.

The sector because of poverty has not been able to grow itself and real ownership is currently elusive as the sector continues to depend on outside interventions. Ownership as the critical element of cooperative development should be achieved at the outset of establishment otherwise all other inputs are a waste of time and money.

To this end, there should be a concerted effort to build into social capital and leadership that would impact on good corporate governance and business leadership. Financial management and ethics form a critical element of the training programme. This is one of the basic requirements for the development of a three tiered sector which is efficiently accountable to its members.

A ten year government commitment to building the sector is paramount. The first five years should build the institutional capacity and the ability to meet all operational obligations necessary to make the three tiers of business work and create wealth. The second five years should deal with legal and treasury issues according to the cooperative bank act.

The objective should be building the sector to take care of itself and lessen dependency on external stakeholders including government. This is a worthwhile investment for our national economy.