

# **Co-op Banking Sector Strategy - Implementation Steering Committee**

*Presentation to the Portfolio Committee  
on Small Business Development*

20 September, 2023

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# Who are we ?

## SECTOR STRATEGY IMPLEMENTATION STEERING COMMITTEE

- We are a steering committee made up of volunteers representatives of 13 registered co-operative banking institutions (CBIs), with a task of ensuring the implementation of the CO-OP BANKING SECTOR DEVELOPMENT STRATEGY FOR SOUTH AFRICA – the Sector Strategy Implementation Steering Committee (SISC)
- Our work is technically supported by experts from Co-op Development Bank Agency, the World Bank and the Dora Tamana Co-operative Agency
- The SISC has chaired by Mr Lucky Mpungose from Le Grange CFI, together with Mr Poifo Mofokeng of Ditsobotla Co-operative Bank

# What are co-op banks?

- Co-operative banks ( as referred to as CFIs,CBI, SACCOs) are financial co-operatives that are **collectively owned and democratically controlled** by their members
  - Members **save together and lend to each other.**
  - Co-op banks **exist only to serve their members** not to profit from their needs.
  - They are regulated under the Co-ops Banks Act, Co-ops Act, National Credit Act and others
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- A co-op bank is legally formed by a minimum of 200 people (and a minimum of R5-million deposits) who join-together in a common bond to provide banking services to each other. If a co-op bank has not reached R5-million deposits, legislation allows a co-op bank to initially register as a Co-op Financial Institution (CFI) with a minimum requirement of only R100,000 membership share capital.
  - Common bond of membership = by community, association, or workplace is a legal requirement

# Background to Co-op Banking Sector Development Strategy

- In March 2021 during a multi-day **National Indaba** over 100 participants from the co-operative banking sector reviewed, discussed, and chose a **developmental growth path forward for the movement**.
  - There was unanimous support at the National Indaba for the **vision** which has a targeted approach for **co-op banking institutions to serve workers and communities**.
  - Following the Indaba, a **Sector Strategy Implementation Steering Committee** was formed and developed the components of the strategy by looking at **how the sector should be organised, the immediate needs of the sector and how the strategy should be organised to develop and promote co-operative banking**.
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- This strategy for growing the co-op banking sector **recognises the broader environment in which financial services are occurring in 2021**, including the impact of COVID-19 on ability of people ability to repay loans and operational and financial capabilities of the sector like ours.
  - The Sector Strategy also benefitted from **survey** conducted by CBDA-World Bank, on of what members and potential members are looking for in their co-operative banks – the survey fed into the process of forming a strategic direction for the sector.
  - This is for the **first time since the passing of the Co-operative Banks Act in 2007, that we have a co-operative banking sector strategy**. It is strategy that has been largely driven by the sector itself, with active support of national government – particularly the CBDA.

# What is the state of the co-op banking sector development ?

1. International experience shows that co-operative banking development can be classified in the following stages:
  1. **Nascent development stage** – characterised by small asset size, tight common bond of membership, strong voluntarism, basic savings and loan products, regulation and support from government, sponsorship from wider co-operative banking movement
  2. **Transition development stage** – characterised by large asset size, shifts in regulatory and state support framework, adjustments to common bond, greater product development, professionalism of the support and representative bodies.
  3. **Mature development stage** – characterized by large asset size, less restrictive common bond, digital technology environment, well organized and progressive support and representative organisations.

Nearly 15 years since 2007 Co-op banks Act, and 13 years since the establishment of CBDA, **co-op banking sector in South Africa is still in the nascent stage of development.**

**2. KEY FACTS** about the co-op sector in SA today:

- About **29 CBIs** – co-ops banks and CFIs - , representing nearly **30,000 members**, with the average membership of individual CBI being 1,000,
- Together they have mobilized over **R400m in savings**, which offers basic savings products.
- The total assets of the sector is over **R500m**.
- About **R350m** has been lent out to members in a form of loans – majority of these loans are personal, and there is a trend toward productive loans (enterprise and housing loans). Relative to the assets in the sector, lending is very low.
- Most registered CBIs are either organized as **community-based banks** or as **association-based**, such as trade union-based CBIs, as their common bond of membership. There are also workplace/employer-based CBIs.
- The sector most concentrated in **GP and KZN**

# Challenges facing the co-op banking sector

## 1. Co-operative Banking Identity remains a problem

- One of the key problems affecting is the factor that the term **co-operative bank**” or “co-op bank” is being used in confusing ways. Various names have been legally used refer to the same thing in content and form – co-operative bank.
- More recently National Treasury amended the Co-operative Bank Act to include a new name for the same thing – ‘Co-operative Financial Institutions (CFIs)’ - a term that has no legal precedence internationally. The use of such names not only undermine the original intent of the co-operative bank act – which is to promote co-op banks, but also affect start-up development challenges and the effort of raising public awareness about co-operative banking.
- We have called for the protection of our identity as co-operative banks, and that any reference to other names under the co-operative banks legislation or in regulations, should not be used, irrespective of the level of development of such as an institution.
- This will great improve the co-operative banking identity and strengthen efforts in government and within the sector in promoting development and growth of the sector.

## 2. Legal, Regulatory and Supportive Environment

- **The recent Cabinet decision to merge the Co-operative Development Bank Agency (CBDA) with other entities in the Ministry of the Small Business development**, was done without any consultation or engagement in the sector.
- The Sector, however, has been invited to engage with the the Ministry of Small Business Development to ensure that:
  - The main functions of CBDA are carried into the merger, and these functions are adequately resourced and strengthen, They include the following:
    - to promote, register and regulate representative bodies , facilitation, promote and fund education and training to enhance the work of co-operative financial institutions
    - to accredit and regulate support organisations
    - to provide liquidity support to registered co-operative banks through loans or grants,
- These envisaged amendments in the Co-operative Banks Act, on the CBDA **must be aligned in the amended Co-operatives Act of 2013, which also refers National Co-operative Development Agency (NCDA) and other support institutions.**

# Current challenges facing the sector

## 2. Legal, regulatory and supportive environment (cont..)

- There is general view within the sector, that there is too much regulations for co-operative banking, a small sector.
- In some cases, some of the regulatory measures imposed by the Prudential Authority tends to micro-manage the sector, such as matters of succession in elected board leadership and appointment of Managing Directors.
- Many new regulations and prudential standards are introduced without assessing the effectiveness or impact of existing new regulations on the sector.



# Current challenges facing the sector

## The development and growth challenge

- Despite the last 25 years and the passage of the Co-operative Bank Act in 2007 providing a legal framework for the sector, co-operative banking sector serve nearly 30,000 members out of 40 million adults in South Africa – a number that has remained relatively flat (0.7% annual membership growth) over the past decade.
  - Part of the reasons, in general lack of public awareness of this type of co-operative ,

## Peer country comparison of co-op banking institutions

Country	% of adults with account	Assets of co-op banks in USD	% of adults with at co-op banks
South Africa	69%	\$30m	0.08%
Kenya	82%	\$10bn	27.8%
Brazil	70%	\$62bn	7.5%
Lesotho	46%	\$7,3m	5,7%

Source World Bank, 2018

# The main challenge of sector is that of **growth and development**

## **1. The challenge of membership growth relative to potential**

- Although there has been commendable average annual growth in assets (18%) and deposits (15%) over the past 10 years, **the number of members remain the main challenge - growing annually at only 0.7%** - the lowest among peer countries.
- Given that 11 million working- aged South Africans are unbanked there is, therefore, a significant untapped opportunity for growth and mobilisation of their deposits

## **2. Lack public awareness about co-op banking, its nature and purpose.**

- This hinders the ability of the sector attract more deposits, grow loans and generate the resources needed for growth –
  - for instance, 10 million of people involved in savings groups like burial societies and stokvels, communities in the townships and villages, and several millions of workers belonging the trade union movement, are unaware of what co-op banking can offer to their members.

**We need champions in government , working with the sector to **promote co-operative banking identity – especially with regard to ownership and control of these banks by communities and workers, who are its members.****

The main challenge facing the sector is that of **growth and development**

**3. Given the small size of the sector and workers-communities they serve, many have found it challenging to attract and retain quality staff and board leadership, especially in the rural areas.**

- While external support will remain a necessity in the growth of the sector in the foreseeable future, the sector needs to begin building internal skills capacity through technical co-operation, and move towards the creation of its **own training and education eco-system.**

**4. The need to improve the granting of both personal and productive loans to members**

- Loans are the primary source for financial assets in the sector yet,
  - **it takes a long process for CBIs to obtain a loan license from the National Credit Regulator.**
  - Members believe that their CBIs applications for a loan licence were time consuming and create the impression that financial co-operatives cannot deliver the requested products.
  - This often drives members to seek loan elsewhere...

# The main challenge facing the sector is that of **growth and development**

5. Deposit insurance in CBIs and co-operative banks could help improve confidence in the sector, but it alone will not be enough to spur growth.

- 88% of G-20 countries financial co-operatives have deposit insurance. South Africa is a notable exception. Co-op Banks Act originally include government guaranteed deposit insurance scheme – this was subsequently removed, without consultation with the sector.
- The National Treasury has proposed Deposit Insurance Scheme over the past four years, to cover both co-operative banks and CBIs and other banks.

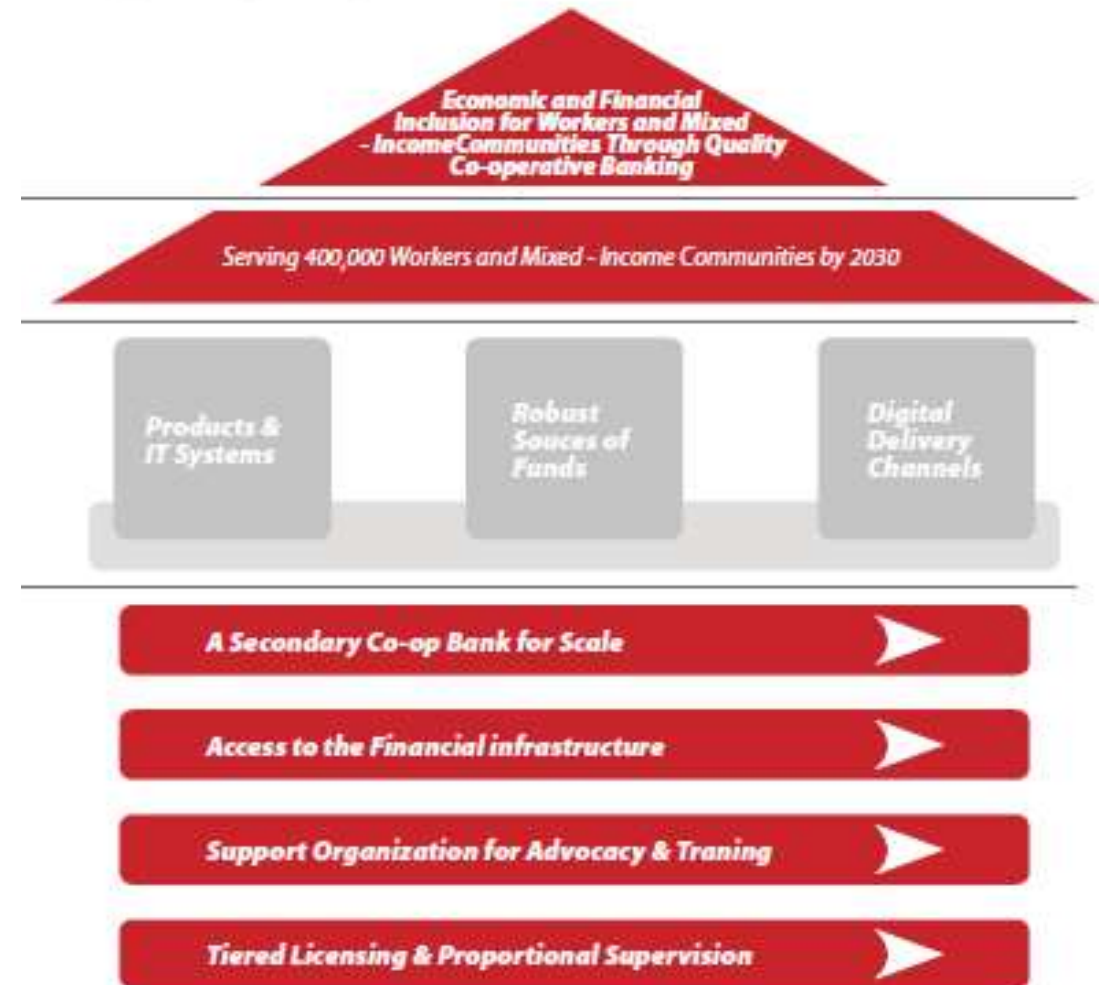
6. Unlike other countries during the startup phase of co-op banks, there is too much restrictive prudential and operational norms and RED-TAPE, that have hindered growth.

- Kenya, Poland, USA, Brazil and Uganda all had limited prudential requirements and regulation for their co-op banks in the early years of their growth and did not have regulatory constraints, **especially on on fixed assets and borrowings**. This allowed them to be more creative, leveraged, and take on greater risks than the financial co-operatives in South Africa. **Special supervision came when these countries had at least 10% of the population, compared to current 0,7% in this country.**
- It takes too long to register (over 2 months or more), and after registration, co-op must again register for loan licence.

# KEY FEATURES OF THE CO-OP BANKING SECTOR STRATEGY

- 1. Key features of the Sector Strategy are:
  - **Vision** for the sector: **to promote economic and financial inclusion for workers and mixed income communities** through quality co-operative banking.
  - **Target:** the sector will serve **400,000** workers and mixed income communities by **2030**
  - Pillars: pillars of strategy are (1) **products and IT systems**, (2) **robust sources of funds**, and (3) **digital delivery channels**
  - **Enablers:** 4 enablers identified are:
    - (1) a secondary co-op bank for scale;
    - (2) access to financial infrastructure;
    - (3) support and representative organisation for advocacy and training;
    - (4) tiered licensing and proportional supervision.

Co-operative Banking Sector Development Strategy



# SECTOR STRATEGY + PROPOSALS

- **Vision: Economic and financial Inclusion for workers and mixed-income communities through quality Co- operative Banking**

The vision focuses on placing members and potential members at the centre, by promoting inclusion for workers (organised and unorganized workers) and mixed-income communities through **active promotion of co-operative banking**, rather being a stepping-stone to become private commercial banks.

- **Target: Serving 400,000 workers and mixed-income communities by 2030**

Achieving this will require products, systems, funds and channels, developing membership growth strategies for existing CBI and forming new co-op banks. In these efforts we seek to work closely with

- trade union movement, and other associations, which represent millions of workers,
- burial societies and savings groups which serve over 18 million members.
- Municipalities - targeting townships and villages, and moving towards “one municipality, one co-op bank”

**Proposal 1: Government should work with the sector to achieve this target, through aggressive government support programme as was done in Uganda – that country reached 3,8 million members in a decade.**

# SECTOR STRATEGY AND PROPOSALS

- Pillars:

- **Products and IT systems:**

The **core savings and loans** need to become more attractive offerings. More CBIs need to make more good loans and make savings more accessible so people feel comfortable placing larger balances with CBIs and knowing they can get the money quickly, if needed.

IT systems needs to be upgraded to support these products.

**Proposal 2:** Secondary co-op bank is being planned to connect all CBIs to the national payment system so that the sector can deduct at primary source – currently members saving deposits are channelled into private banks accounts.

- **Robust Source of Funding**

Key to mobilising deposits from members – **the primary source of funding in a co-op banking** - is having deposit products that are attractive to a mix of income groups (from low to middle and higher income groups), however:

**Proposal 3:** Government must review the **external borrowing limit** of 15% of total assets of CBIs, to at least 40% or more.

Proposal 4: A. secondary co-op bank will also help with accessing external funds (such as enterprise or housing funds) at favourable rates.

- **Digital Delivery Channels**

People want to be able to access their funds/ information easily through smartphones, mobile money, ATMs, etc - channels that that currently does not exist in the sector.



# SECTOR STRATEGY AND PROPOSALS

- Enablers

- **A secondary co-operative bank at scale**

A bank for and by co-op banks that will facilitate access to national payment system, provide wholesale banking services to its member-owners – the co-operative banking institutions. Such services include payment services, investment and insurance services.

Licence application SARB to be submitted in 2023

- **Access to financial infrastructure**

- To be an alternative to pro-profit private banks, the co-operative banking sector needs to have **direct access to the financial infrastructure (such as National Payment System and Deposit Insurance)** as opposed to paying competitors for access through them.

- **Proposal 5: 10-year premium holiday for the sector should be part of their inclusion in the forthcoming Deposit Insurance Scheme**

- **Tiered licencing and supervision**

Lighter touch regulation and supervision for small entities would help the sector **focus more on the provision of services and fair outcomes for members as opposed to compliance.** This is to say that, we need a more developmental approach to regulation.

**Proposal 6: Calling for co-operative banks in various names CFIS, should be removed from legislation and regulation. The formal use of the name should be co-operative bank, irrespective of their level of development.**

**Proposal 7: Government should re-calibrate the regulatory framework and invest more in the capacity and governance in the co-op banking sector needed to reach the vision and target established here.**

**Proposal 8: It should be easier to register a co-op and regulations must be proportionate to the size of the sector.**



# SECTOR STRATEGY AND PROPOSALS

- Enablers
- **Support organisations for advocacy and training**

There is a need for: 1) a strong representative body, 2) a Second-Tier Co-operative Bank (as discussed above), and 3) Support Organization(s) for training and to facilitate access to concessional funding.

**A national co-operative banking association that will represent the sector and also act as a support organisation, will be re-launched in 2023**

Proposed National  
Secondary Co-  
operative Bank

PROPOSED  
**NSCB**



**NATIONAL SECONDARY  
CO-OPERATIVE BANK**

# What services can an NSCB offer?

TYPES OF SERVICES	EXAMPLES
<b>1. Payment Services</b>	inter-bank account transfers, mobile banking, standing debit order, e-bill payment, debit cards. E-wallet etc.
<b>2. Investments Services</b>	Investments of funds with SCB for high yields (eg. Treasury bonds), investment of funds for to maintain high liquids funds (money market accounts, short-medium and long-term borrowing of funds from SCB to support CBI loans/cash flow
<b>3. Insurance Brokage Services</b>	access to credit life insurance, microinsurance, auto, home, life insurance for CBI members, board members fidelity insurance

# Proposed National Secondary Co-operative Bank

## Secondary Co-op Bank Working Group (SCB-WG):

- Following the finalisation of the Sector Strategy late last year, the SCB WG was formed by volunteers from a number of CBIs.
- The mandate is to implement enabler 1 of the Sector Strategy – “a secondary co-op bank for scale”.

- Secondary Co-op Bank Working Group (SCB-WG):
  - The WG has been hard at work since April this year.
  - **The main task** of the Working Group is to move the proposed secondary co-op bank from its early phases through the establishment of more formal structures.
  - This process involves **organising, planning, forming, registration and launch** of the proposed Secondary Co-op Bank.

# Proposed National Secondary Co-operative Bank

## **Key responsibilities of the SCB-WG are:**

- Co-ordinate all research and information gathering
- Survey potential members - primary co-operative banks and co-operative financial institutions
- Determine the membership policy as guided by co-operative banks legislation and best practices and recruit members
- Oversee collection of market research and studies to determine a secondary co-op's bank feasibility
- Ensure completion of a feasibility study, including financial projections
- Explore options for financing, membership shares, savings and external funding/donations/sponsorships.

## **Key responsibilities of the SCB-WG are:**

- Report on the Working Group's progress to potential members and other stakeholders) on a regular basis and coordinate membership meetings, if initial research shows that the proposed secondary co-op bank is feasible, oversee preparation of a business plan.
- Develop and implement training and support plan for the Working Group
- Develop policies and procedures for proposed secondary co-op bank
- Register the proposed secondary co-op bank with the Prudential Authority of the SARB
- Handle public relations through SCB-WG Chairperson, including inquiries from the media and publicity about the proposed secondary co-op bank's accomplishments and progress

# Proposed National Secondary Co-operative Bank

- **Members of the SCB-Working Group, are volunteer 9 members, consisting at least one representative of a participating primary CBI who have volunteered to work on this project.**
- Gender representation and as well as skills and experience have been an important consideration in the make-up of the WG.

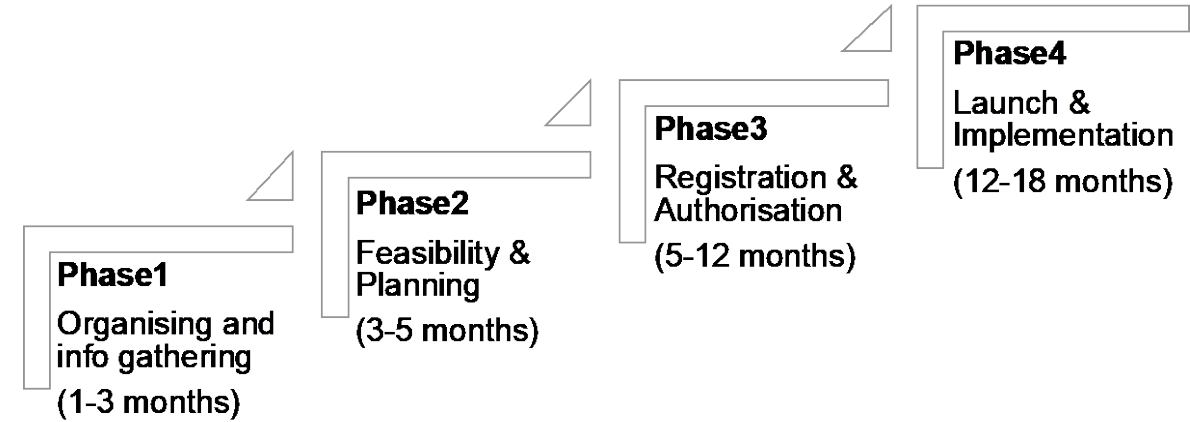
Working Group Members		
	<b>Members</b>	<b>CBI</b>
1	Lucky Mpungose (Chair)	KING GRANGE CFI
2	Sandile Ntshangase (Deputy Chair)	ZIPHAKAMISE CO-OP BANK
3	Sihle Ngubane (Treasurer)	SADTU SACCO
4	Oratile Rathlagane (Secretary)	NEHAWU SACCO
5	Xoliswa Memani	IMVELO CFI
6	Ami Acharya	NAGRI CFI
7	Tiisetso Mahlatsi	SAMWU SACCO
8	Koos van Erk	Oranjekas CFI
9	Kgomotso Radiphochwa	MNOTHO CFI
<b>Technical Support to the Working Group</b>		
11	Tebogo Phadu	DTCA
12	Dave Grace	Dave Grace Associates + World Bank consultant
13	Tebogo Tshabalala and her team	CBDA capacity-building unit

# Proposed National Secondary Co-operative Bank

- The Working Group has established **four committees** focusing on the following:
    - Planning
    - Finance
    - Policies & Constitution
    - Promotion & Education
  - These committees are essential for the WG to carry out its work
- 
- Committees can also **draw in volunteers** within the sector who are not members of the WG, based on their experience and expertise.

# Proposed National Secondary Co-operative Bank

Four phase development approach and  
timeline



We plan to submit application for registration to PA by October  
2023



# Proposed National Secondary Co- operative Bank

PROPOSED NSCB: WORKPLAN			
Phase 1: Organising+ Gathering Info June – November 2022	Phase2: Feasibility & Planning February – September 2023	Phase3: Registration and Authorisation October – December 2023	Phase 4: Implementation January – June 2024
Key Activities	Key Activities	Key Activities	Key Activities
<b>Activity1:</b> Gather info about secondary co-op banking <b>Done</b>	<b>Activity1:</b> Develop and circulate SCB survey forms <b>Done</b>	<b>Activity1:</b> Hold Formation Meeting	<b>Activity1:</b> Establish relationships with CBI management and other partners
<b>Activity2:</b> Form SCB Working Group (WG) and its committees, and secure technical assistance <b>Done</b>	<b>Activity2:</b> Conduct Feasibility Study (FS) <b>Done</b>	<b>Activity2:</b> Elect Board and its Committees	<b>Activity2:</b> Finalise plans, budget, and office location and systems
<b>Activity3:</b> Set up financial and admin systems <b>Done</b>	<b>Activity3:</b> Report to the sector on FS	<b>Activity3:</b> Secure/funding Commitment letters from CFIs/CBs/Sponsors	<b>Activity3:</b> Hire Managing Director and Technical Staff.
<b>Activity4:</b> Set up communication systems <b>Done</b>	<b>Activity4:</b> Continue engagement with actors in the sector <b>Continuous</b>	<b>Activity4:</b> Secure operating facility(s)	<b>Activity 4:</b> Launch and begin operations
<b>Activity5:</b> Host meetings with CBs/CFIs <b>Done</b>	<b>Activity5:</b> Develop and Draft Business Plan (BP) <b>In Progress</b>	<b>Activity5:</b> Submit applications to PA and Registrar of Co-ops for registration and authorisation.	
<b>Activity 6:</b> Interact with PA and CBDA <b>Continuous</b>	<b>Activity6:</b> Draft Polices and Constitution <b>Done</b>	<b>Activity6:</b> Conduct training of board and Committees	
<b>Activity7:</b> Begin Membership Drive <b>Continuous</b>	<b>Activity7:</b> Raise capital (member share and member deposits + donations)	<b>Activity7:</b> Continue to raise capital (member share and deposits, donations)	
<b>NOTE:</b> Throughout these stages, there will be key targets setting the following: <i>number of CBs/CFIs who joined; amount of membership share capital and savings pledged by members. The achievement of these targets are key decision points for moving to the phases.</i>			

**Proposed South  
African Co-  
operative  
Banking  
Association**



# Proposed South African Co- operative Banking Association

## Association and its members

- The association, or the representative body will be owned and controlled by the CBIs. It will represent the sector (CBI) before parliament, local, provincial, stakeholders and internationally.
- The association will be registered under the Co-ops Banks Act 40 of 2007.

# Proposed South African Co- operative Banking Association

## SERVICES TO BE OFFERED

- The association must unite CBIs and have capacity to interpret
  - Policies;
  - Regulations;
  - Legislation;
  - Ensure compliance;

## SERVICES TO BE OFFERED

- It must also provide support and training -
  - Education;
  - Information;
  - Research;
  - State of the art technology (latest)

# Proposed South African Co- operative Banking Association

## RESOLUTIONS FROM CO-OP INDABA

- The sector agreed that a new Association is required to represent CBI's and currently there is no association or representative body.
- A new Association must be registered and licensed
- Register as a Secondary Co-operative and Representative Body (Priority)

## RESOLUTIONS FROM CO-OP INDABA

- There were 4 proposed names. However, in case none is available, Steering Committee to select the name that best represents the aspirations of the sector
- Draft Constitution to be circulated to the CBIs for comments before registration
- Fees (joining, renewals, and/or subscriptions) – to be determined by the sector and formally agreed to at the formation meeting

# Proposed South African Co- operative Banking Association

## PROGRESS

- **Name and Registration**
  - South African Co-operative Banking Association (SACOBA)
  - It will be registered as a Secondary Co-op in accordance with the decision of Indaba (Nov 2022)
  - Domain is register: [www.sacoba.org](http://www.sacoba.org)

## PROGRESS

- **Statutory Documents**
  - **Constitution**
  - It was circulated to the sector
  - Noting that some of the CFIs were involved in the drafting of the constitution
  - It is now waiting for the formation meeting for endorsement

# Proposed South African Co- operative Banking Association

## PROGRESS

- Board Charter
  - **Developed and Approved**
- Terms of Reference
  - Draft TOR for the sub committees of the board are completed though not yet approved committee
- Strategic Planning
  - Strategic plan pending registration and CBDA/SEDA for funding

## PROGRESS

- **Branding**
  - Logo was approved
  - Website pending registration and financial support
  - Standard presentation is available
  - Business Profile awaiting registration
  - Marketing and promotional material awaiting financial assistance
- 
- **Communication**
  - Newsletter was developed
  - Sector was consulted and this is an ongoing
  - Stakeholder's communication was sent to and 3 sessions were held with Bankseta, Regenissis and Finmark Trust

Thank you.