The Nuts and Bolts of Building a Sustainable and Inclusive CFI movement

Financial Cooperatives Indaba
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Cooperative financial institutions (CFIs)

• Member-owned financial intermediaries referred to as credit unions, savings and credit cooperatives, cooperative banks, and other terms that differ across regions of the world.

• A most basic common denominator is that they collect deposits and do business often solely with members.
Composition of CFI

• Their institutional structure and governance, legal and regulatory status, and scale and services portfolio also vary widely across regions and especially between industrialized countries and developing economies.

• In S.A Co-operative Banks Act of 2007
  – Created a Co-operative Banks Development Agency to assist financial co-operatives with development
Strengths of CFI

• CFIs serve larger numbers of poor people than specialized (“targeted-to-the-poor”) microfinance institutions, without relying on donor support as the latter do.

• Attach great importance to financial stability and loan recovery
Understanding Co-operatives Act structure

**Tertiary/Apex**

**Members:**
To advocate interests of their members to government/private sector/other stakeholders

**Secondary**

**Members:** Primary co-ops
(At least two primary co-ops)
To provide services to its members relating to the financial sector

**Primary**

**Members:** Individuals
(At least 5 individuals)
To provide services to its members and to promote community development
Stages of CFI development

A weak Tertiary/ Apex not only jeopardizes the long-term sustainability of the sector but can also lead to financial uncertainty

- Stage 1: Slow growth
- Stage 2: Rapid growth
- Stage 3: Diminishing Returns
Saving Patterns in Africa

[Chart showing saving patterns in Africa from 2006 to 2009, with different lines for East Countries, Western Countries, Southern Countries, and Africa Continent.]
Stage One: Slow Growth

• In this stage of development, the drivers of the soundness of CFI namely Infrastructure, Intellectual Capital, Institutions, Integrity, Interaction and Innovation are usually poorly defined.

• Investments in the inputs are low to result in significant development in co-operative sector
Saving Trend in Southern Africa
Stage Two: Rapid Growth

• In this stage, superior products and services in the co-operative sector materialize as via the CFIs
• Improvements in the key drivers tend to increase the marginal contribution to the development and growth of the sector.
• New innovation and new financial instruments spur membership growth and the soundness of the CFIs.
Stage Three: Diminishing Returns

• Lastly in the third stage, the financial sector achieves a high level of maturity and products-have steady growing volume of loans and savings

• Services offered by CFIs become highly standardized and established in the market place.

• To this end, the co-operative financial sector reaches a steady state of financial development
CFIs interventions

• Majority of the population have permanent need for financial services: Credit, Savings and insurance

• Coordinated approach is needed in meeting this needs – Quality of Organisation with a good match between aims pursued and activities carried out (Efficiency, effectiveness and Social Viability)
Role of Legal framework in integration

- CFIs fall under banking authority supervision if Yes
- How→ direct or delegated supervision
- Because of lack in rural financial services, the government should adopt a series of policy measures
- Effectively enabling National Leagues perform delegated supervision
Indirect Supervision for CFIs

• Indirect supervision is a regulatory regime that is unique to CFIs. In this regime an agent (the delegated or auxiliary supervisor) performs certain tasks associated to the supervisory function on behalf of the state authority (the principal supervisor).

• No indirect supervision regime should be expected to work without a commitment of the principal supervisor.
Delegated functions

• Execution of function of data collection, processing and information/recommendation production
• The delegated supervisor is endowed with powers to enforce corrective actions, cease and desist, or, rarely, intervention and or liquidation orders.
Cautions

• Delegated supervision don’t translate into unsustainable fiscal deficits and operational burdens to CFIs.

• Supervisory interventions don’t compromise pro-poor and development investments.

• Improve staff Capacity: this encourage Innovative financial products that contribute to bridging exclusion of rural sectors.
Con’td

• Ensure that CFI’s embrace best governance structures and practices- strengthen accounting systems
• Adequate information disclosures to enable CFIs meet capital adequacy ratio
• Strengthening the quality of regulatory capital, widening the risk coverage, limiting leverage and introducing liquidity requirements.
Building sustainable Co-operative Financial sector in SA

- Policy Framework
- Strategic Alliance
- Research and Development
Impact of policy framework

The following are observed:

• Each country’s legislative framework in some way provides for the registration of CFI, need to ensure that savings of members are safe.

• CFIs progress in terms of information disclosure, which will significantly contribute to establishment of industry standards and risk management of the monetary authorities.
Strategic Alliance between National Apex and Regulatory Body:

• Encourage indirect Supervision: The purpose of the alliances is to limit risk and exploit economies of scale in the procurement of inputs. –Members interest not government control

• Discourage dependency on Government intervention or grants from partners
Strategic Alliance between National Apex, Secondary and Primary Co-operatives

• The higher the level of integration the more often authorities appear to rely on the movement's own monitoring arrangements.

• Re-position National Apex: Confusion as to who regulates what could be minimise.

• Education and Capacity building: Leadership, Management and Saving Culture
Strategic Alliance between Apex and Other stakeholders

• Engagement with Legislators
• Involving Media in spreading the co-operative agenda
• Mainstreaming Youth and Gender in CFI activities
• Active role in Mitigating HIV/AIDS
• National Issues: Environment and Unemployment
Research and Development

- Re-design CFI through research and encourage learning institutions into co-operative discourse
- Enhance documentation and Management information
Sustaining Savings

Saving Trend in Southern Africa

- 2006: 60,000,000
- 2007: 65,000,000
- 2008: 15,000,000
- 2009: 120,000,000
Thank You!