

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

**Financial Cooperatives Indaba**  
**GEORGE .Y.OMBADO**  
**Executive Director ACCOSCA**  
**19-21 October 2011**  
**Fountains Hotel, Cape Town**



## 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

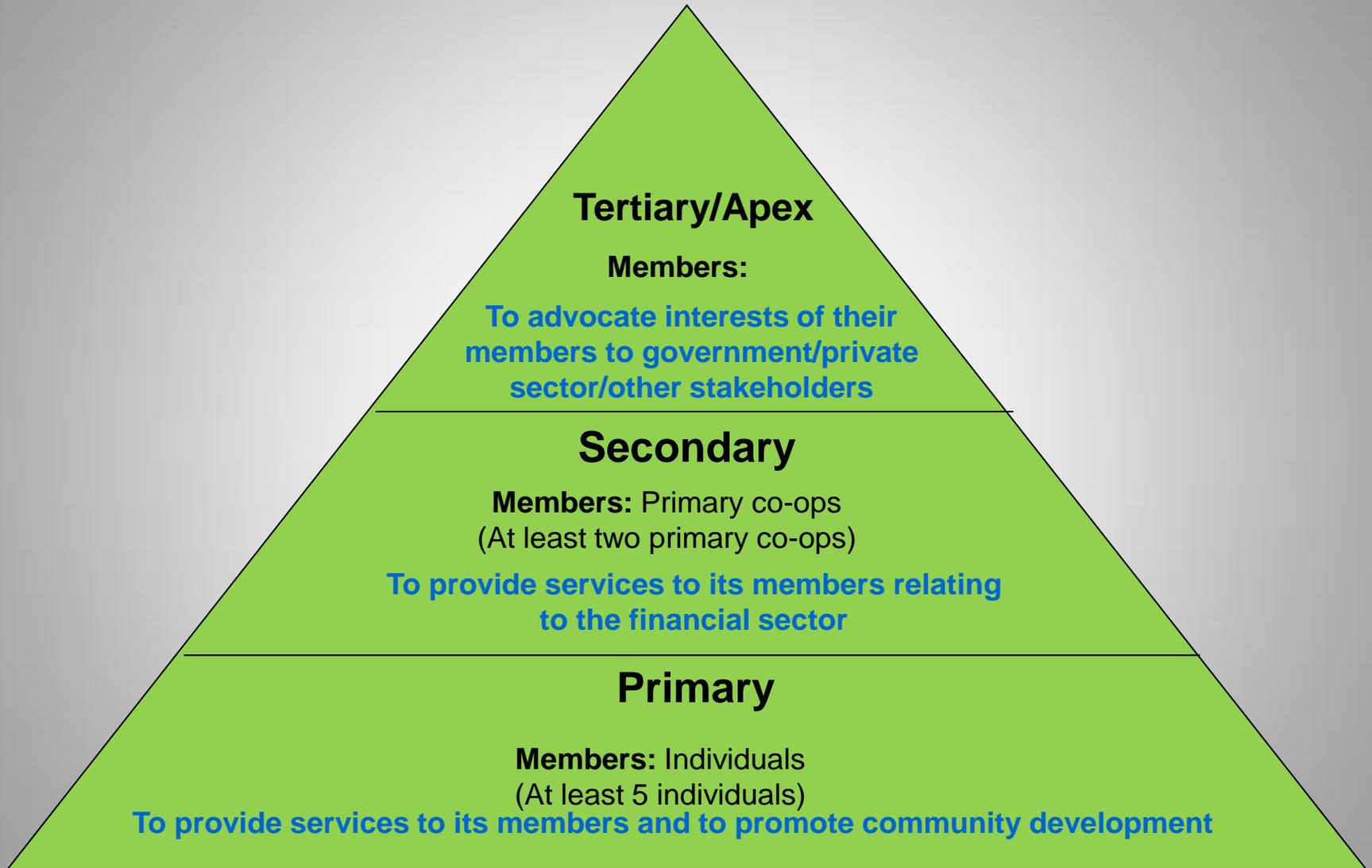
- Their institutional structure and governance, legal and regulatory status, and scale and services portfolio also vary widely across regions and especially between industrialized countries and developing economies.
- In S.A Co-operative Banks Act of 2007
  - Created a Co-operative Banks Development 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

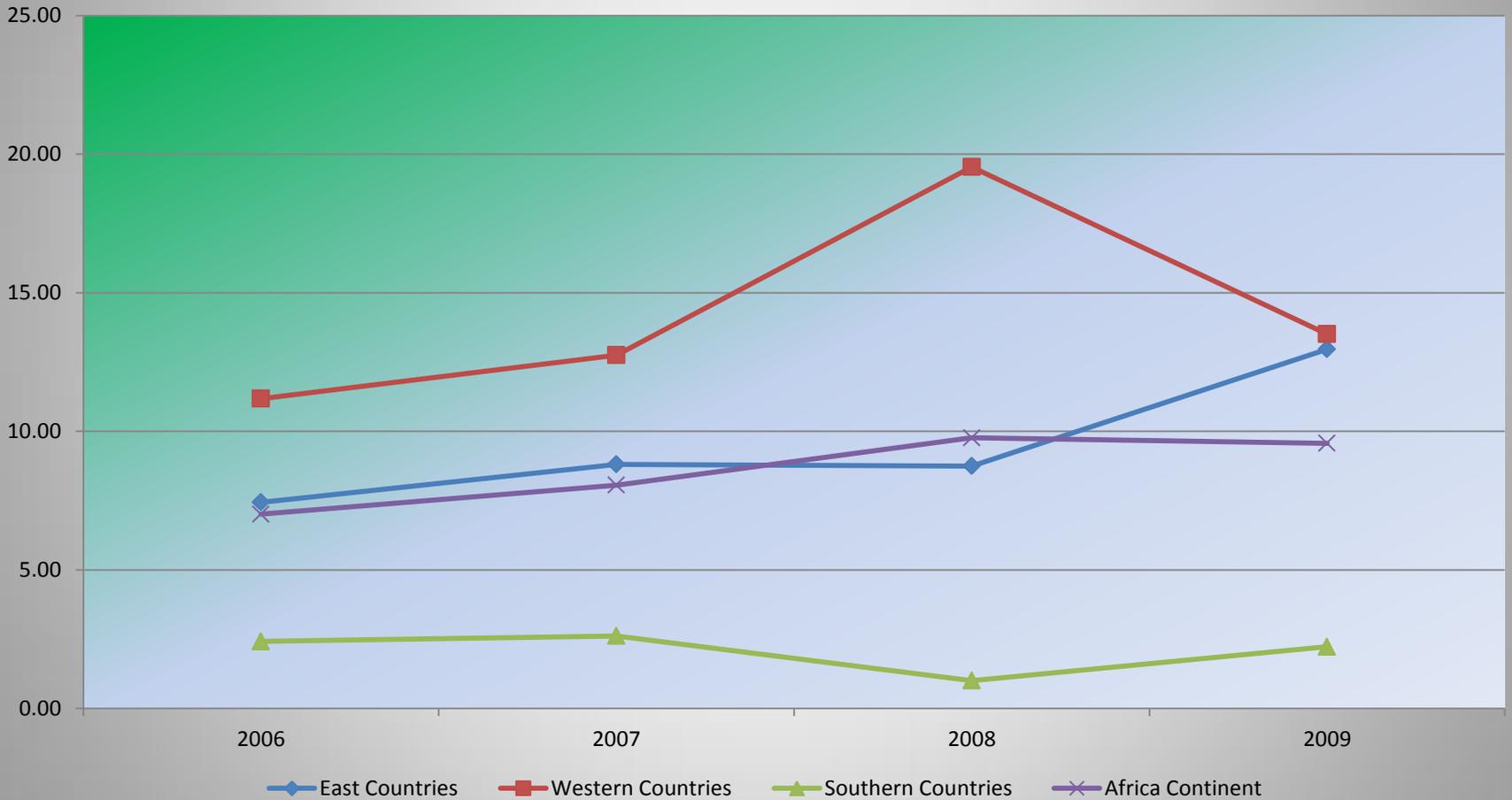


# Stages of CFI development

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



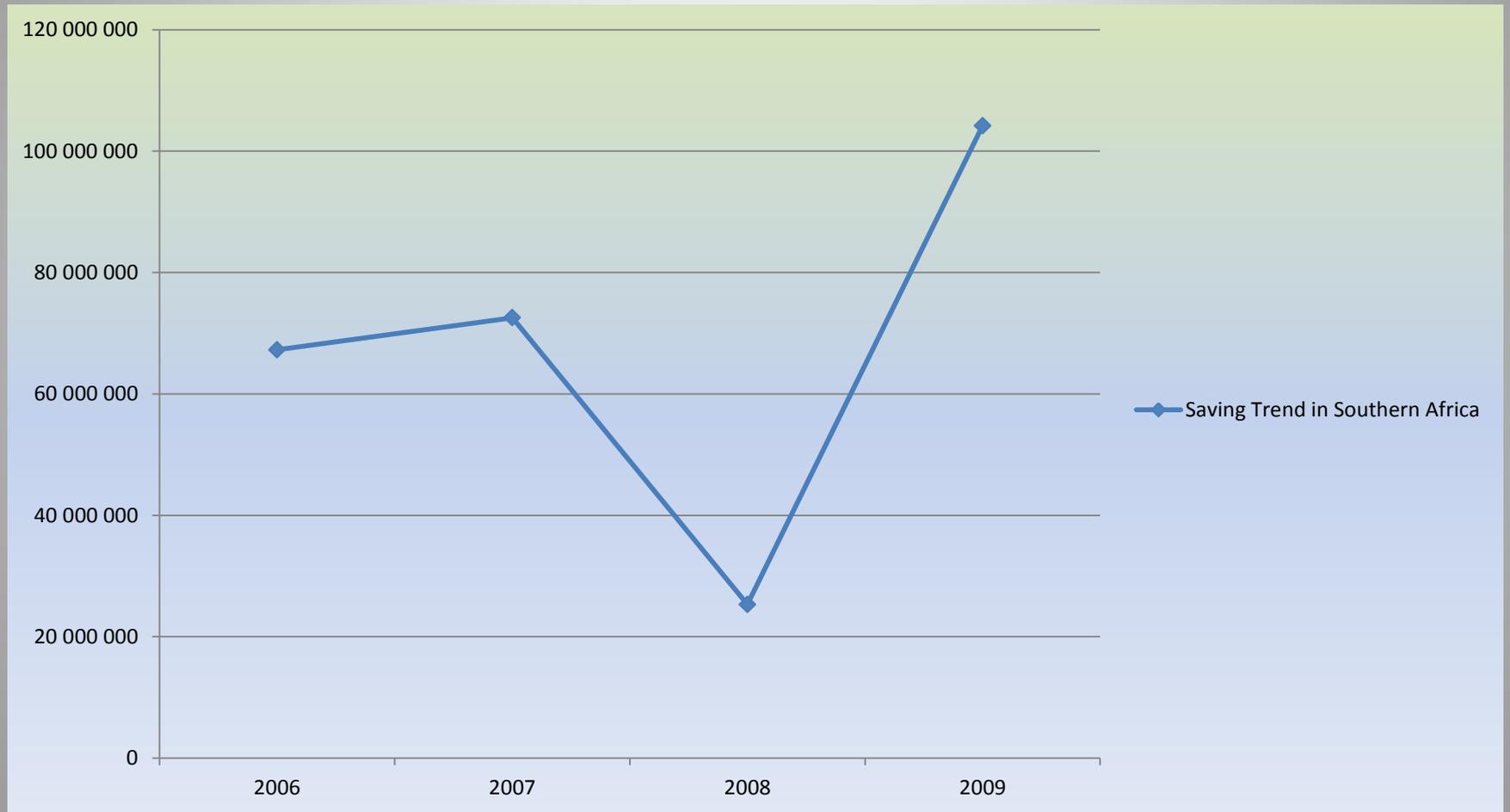
# Africa Saving Trend



# 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 adopted 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

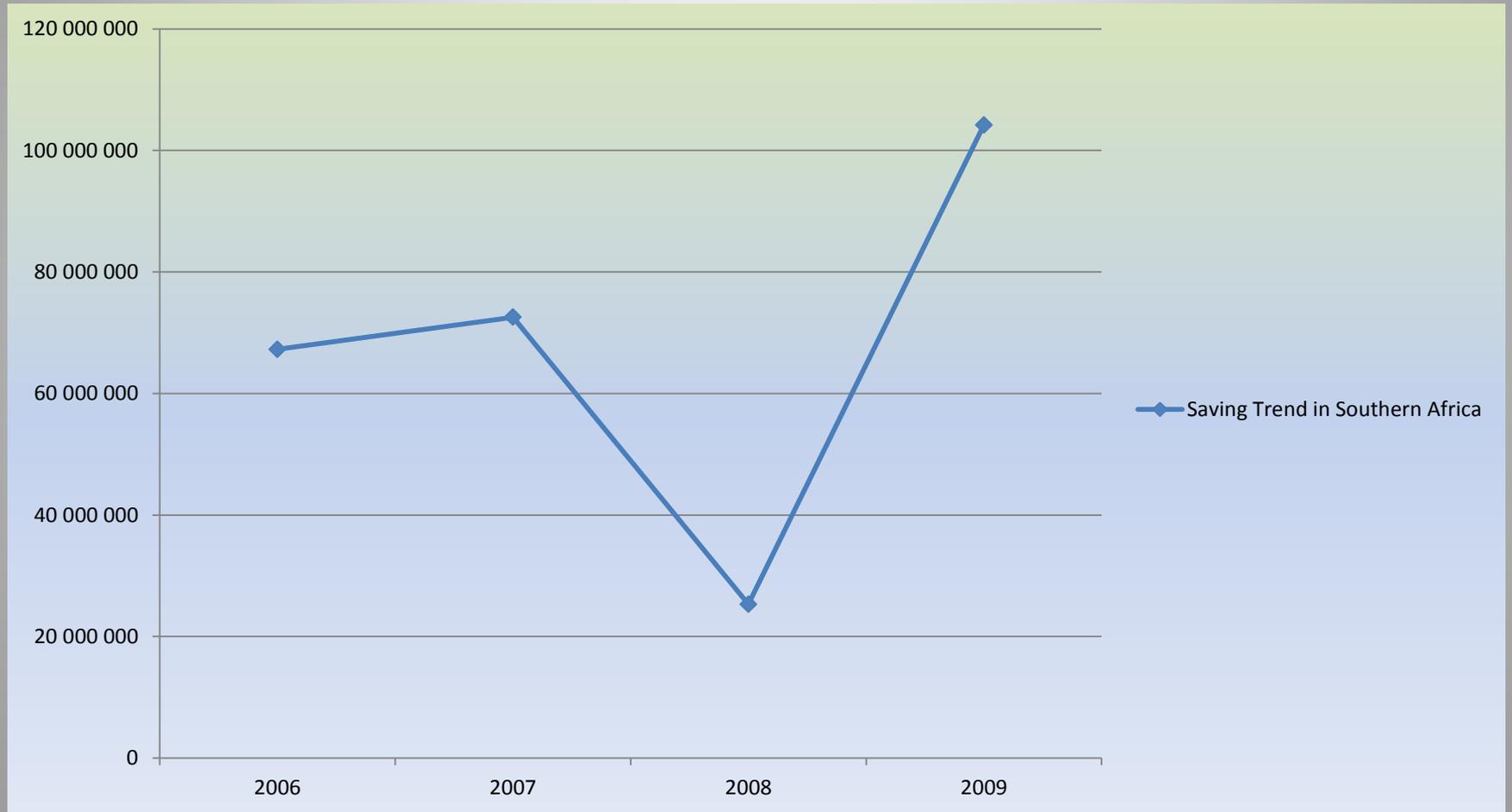
# Strategic Alliance between Apex and Other stakeholders

- 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



Thank You!

