

CFI

START-UP GUIDE

WHAT IS A CO-OPERATIVE
FINANCIAL INSTITUTION

HOW TO ORGANISE
A CFI IN 8 STEPS

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LEGISLATIVE FRAMEWORK
FOR CFIS & CO-OP BANKS

CFI MEMBERS' RIGHTS
& OBLIGATIONS

REPRESENTATIVE AND
SUPPORT
ORGANISATIONS ROLE

Photo: <http://www.pinterest.com/lareviews/cool/wp-content/uploads/2014/02/umbrella.jpg>



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WHAT A CO-OPERATIVE FINANCIAL INSTITUTION IS & WHAT IT IS NOT

The credit union is nothing of the kind; it is the expression in the field of economics of a high social ideal

Nomadelo Sauli

A Co-operative Financial Institution (CFI) is the umbrella term for member based deposit taking financial co-operatives, owned and controlled by their members who have a common bond and whose members choose to call themselves either a Credit Union, Savings and Credit Co-operative (SACCO), Financial Services Co-operative (FSC) and Financial Co-operative (FC). These terms are often used interchangeably in the CFI sector.

Alphonse Desjardins, a Canadian credit union pioneer said this about a Co-operative Financial Institution (CFI), "A credit union is not an ordinary financial concern seeking to enrich its members at

the expense of the general public. Neither is it a loan company seeking to make a profit at the expense of the unfortunates. The credit union is nothing of the kind; it is the expression in the field of economics of a high social ideal."

Around the globe CFIs continue to inspire great loyalty and confidence. As literature demonstrates, credit unions are the only financial services institutions that weathered the 2007/2008 economic crisis, and did not receive any bailout from government. This saw a quick rise in membership, member deposits, as CFIs were perceived to give people a measure of control over their financial destinies.

More-over, the people-centred actions of CFIs, driven by volunteers and employees dedicated to serving their peers – a more satisfying purpose than earning money for a select few – are fundamental to the CFI difference.

This article will facilitate the debate around the CFI difference; more importantly create awareness about the CFI model, philosophy and principles. It will make it easier for those involved in the CFI movement to articulate with relative ease and confidence "What a CFI IS and what it is NOT" – in other words, the CFI difference. Points to ponder:

WHAT IS A CFI?

A CFI IS

A financial co-operative wholly owned **and controlled** by its members

A CFI IS NOT:

A company owned by a few shareholders and/or founding members

A CFI IS

A co-operative with open and voluntary membership to all within an accepted common bond of association

A CFI IS NOT:

An institution that provides its services to clients irrespective of whether they are joined by a common bond or not

A CFI IS

A co-operative that provides financial **products and services** to its members;

A pyramid scheme

A CFI IS

An institution that encourages savings in order to provide responsible credit and other services to its members at a fair rate – whose surplus may be distributed amongst its members or towards improving services required by members;

A CFI IS NOT:

An institution that promotes or encourages reckless lending practices in order to maximise on profit for its directors

A CFI IS

A democratically owned institution with each member enjoying equal rights to vote (one member one vote)

A CFI IS NOT:

Speculating with members funds

A CFI IS

A member-centric institution driven by service to its members to improve the economic and social well-being of all members

A CFI IS NOT:

An institution which is owned and controlled by majority shareholders

A CFI IS

An institution that encourages economic participation by all members towards building a safe and sound institution to ensure continued service to its members

A CFI IS NOT:

A profit driven institution, for the benefit of a few individuals

A CFI IS

About people helping themselves, **pooling** their resources together in order to serve its members

A CFI IS NOT:

Driven by raising capital from the markets at the risk of losing it all to external funders

A CFI IS

Governed by **co-operative principles** (please refer to later article) whose ideals and beliefs seek to bring about social justice and solidarity for the greater good of the communities within which they operate.

Such CFIs offer many of the same products and services as commercial banks, however they differ in a number of ways: CFIs are not for profit but for service to its members;

- is owned by its members;
- its board of directors are elected by the members who function as unpaid volunteers;
- typically have fewer and lower fees than those of banks;
- surplus goes back to members in the form of dividend or patronage proportion;
- and interaction between co-operatives is co-operative not competitive.

THE CO-OPERATIVE PRINCIPLES AND WHAT THEY MEAN

Maclintosh Kuhlengisa

Co-operatives are businesses owned and run by and for their members. Whether the members are the customers, employees or residents they have an equal say in what the business does and a share in the surplus (profits)

As businesses driven by values not profit, co-operatives share internationally agreed principles and act together to build a better world through co-operation.

Successful co-operatives around the world are allowing people to work together to create sustainable enterprises that generate jobs and prosperity and provide answers to poverty and short term business practices.

The principles highlighted below show how members interact with each other and are summarized as follows:

Voluntary and Open Membership
Co-operatives are voluntary

organizations, open to all people able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Democratic Member Control
Co-operatives are democratic organizations controlled by their members—those who buy the goods or use the services of the co-operative—who actively participate in setting policies and making decisions.

Members' Economic Participation
Members contribute equally to, and democratically control, the capital of the co-operative. This benefits members in proportion to the business they conduct with the co-operative rather than on the capital invested.

Autonomy and Independence
Co-operatives are autonomous, self-help organizations controlled by their members. If the co-op enters into agreements with other organizations or raises capital from external sources, it

is done on terms that ensure democratic control by the members and maintains the co-operative's autonomy.

Education, Training and Information

Co-operatives provide education and training for members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operative. Members also inform the general public about the nature and benefits of co-operatives.

Co-operation among Co-operatives
Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

Concern for Community
While focusing on member needs, co-operatives work for the sustainable development of communities through policies and programs accepted by the members.

REGISTRATION REQUIREMENTS



Photo: http://staffprogress.ru/images/Slu4/foto_001

Tebogo Tshabalala

A deposit taking financial co-operative must meet all the requirement for registration of a co-operative in terms of the Co-operatives Act 2005 as well as the Co-operative Banks Act 2007 and its associated Standards.

An application as a CFI must first be submitted to the **Prudential Authority (PA)** and meet the requirements of:

- 200 membership
- R100,000 in share capital
- solvent
- the definition of a common bond
- the requirements of the Co-operative Act
- the requirements of the **Co-operatives Banks Act** and
- prudential and operating standards.

An applying CFI must furthermore provide in its application to the **PA** the following, which include all documents requirement by the **PA** and CIPC. These can be summarized as follows:

Once the PA has assessed your application, and is satisfied it meets its requirements, it will request concurrence from the Financial Sector Conduct Authority (FSCA). Thereafter the application will be forwarded to the CIPC for them to assess the application for registration as a co-operative.

Being registered as a CFI means your co-operative is a registered legal entity with CIPC Registrar of Co-operatives and the **PA as regulator** of CFIs. A registered CFI has legal powers and rights to take deposits from its members, governed by the Co-operatives Act, the **Co-operative Banks Act and Financial Sector Regulations Act (FSRA)**.

The CBDA has a number of guidance notes on its website which can assist with developing a business plan, savings and loans policy and constitution.

For more information on CIPC, CBDA and registration forms, please visit www.cipc.coop.za and www.treasury.gov.za/coopbank.

PA Requirements

- Form PA001- Application for registration
- Form PA002 - Members share register
- Form PA003 - Board of Directors Commitment
- Certified copy of the constitution
- Member resolution to register with PA
- Latest certified bank statement
- Business plan
- Savings policy
- Credit/Loan policy (if applicable)
- National Credit Regulator (NCR) certificate of registration (if applicable)

CIPC Requirements

- Customer code
- Certified copies of IDs of all founding members and persons lodging the application
- Form CR1- Application form
- Form CR4- Appointment of auditors Form CR8 - Exemption of certain auditing requirements
- Form CR5- Reservation of name
- Two certified copies of constitution
- Proof of payment into the CIPC bank account of application fee and reservation of name fee

STEPS IN ORGANISING A CFI

2 *Decide on common bond and assess support*

You may think that a CFI is just what is needed in your community, but you need to know if your proposed common bond (Refer to page 12) really wants a CFI and what services they would expect from it. Try and get potential members to commit by signing a form or acting as volunteers for the CFI, either in the setting up stages or when the CFI is up and running. A CFI requires a minimum of 200 members, having committed R100,000 towards shares to be able to register.

3 *Develop a business plan*

The process of developing a business plan is important as the business plan will give estimates of the expected levels of income and expenditure for the first three years after registration. During this planning process, the team will be able to develop a shared vision of what they want the CFI to look like.

4 *Training and support*

Once you have organized a steering group, establish that there is a need and desire to use the services of a CFI in your area, and decide where it is going to be located. You will then need to train staff and volunteers. Training courses may include training for directors and staff in governance, business planning, operations issues, financial management and internal audit. Contact a support organisation for further assistance with training requirements.

Maria Makena and David de Jong

Organising the start-up of a CFI takes a lot of dedication, time and commitment. Below we have tried to sequence how to go about forming your CFI. This list is not exhaustive and may require alternative strategies and steps depending on the material conditions of the group that is attempting to set up the CFI. Contact the CBDA for additional support

1 *Getting an organising group together*

You will need a group of at least 15-20 people as your steering group. These are people who will do the necessary research into the requirements to register, write up the constitution, business plan and initial policies. Members of the steering group should bring different skills such as management, research, marketing, accountancy and bookkeeping

5 Write up your proposed policies

The policy documents will set out how you will operate the CFI. The constitution of the CFI is the first policy document to be drafted. There will be a policy and procedures manual that will include the policies on how savings, loans and cash is handled. The CBDA will be able to provide guidelines to aid the development of these essential documents which are required for the next step, holding your formation meeting.

6 Holding a formation meeting

After having met all requirements of registering a CFI with the **PA** and the **CIPC**, a formation meeting needs to be held with all persons that are interested in establishing the co-operative so you can begin formalising your registration.

You must have prospective members attending the meeting. Before the meeting you need to:

- Prepare two copies of the draft constitution for signing at the meeting
- Prepare one copy of the disclosure statement (CR1) for signing at the meeting
- Have the Application for registration form ready for signing at the meeting
- Make enough copies of the constitution for everyone at the meeting or let them know how they can obtain them

The formation meeting

A formation meeting is held to finalise the particulars of the financial co-operative. A description of what will take place at the meeting is discussed below:

- **Elect a chairperson** to run the meeting and a secretary to keep a written record of the meeting.
- **Vote on the constitution:** Discuss the contents of the constitution to make sure everyone understands them. Included in the discussion is the proposed name which reflects the members composition and what brings them together (and alternative names in case the first name is already registered by another enterprise). If prospective members want to change the constitution, the changes need to be approved by all the members at the formation meeting.

6 Holding a formation meeting

Table the business plan and policies: During the meeting everyone needs to discuss and agree on the following:

- The objectives (exactly what the co-operative will do),
- Where will the premises (co-operative office) be located and the equipment it might need.
- How will the co-operative be financed? How will the funds be obtained?
- Move to adopt: If there are no changes to the Constitution, move that the co-operative be formed and the constitution be adopted. Two-thirds of prospective members must vote to adopt the rules to become a co-operative.
- **Apply for membership:** Each member at the meeting needs to complete the application for membership form. These application forms must be signed and witnessed and kept for the co-operative's records.
- **Elect the board of directors:** Vote to elect the co-operative's board of directors according to the co-operative's constitution

Note: Only members who have fully paid up on their shares may be elected or vote in the election of your board

7 Apply for registration

It is critically important that at your formation meeting all the forms are completed so these can be lodged with the required regulatory agencies (refer to page 6). First submit your application to the **PA**, who, if approved, will forward to the **FSCA and CIPC**. Once your application has been approved by the **PA** and **CIPC** you may begin operating. Until your application is approved, the CFI may continue mobilising **shares** in the CFI, however may not mobilise savings until authorised to do so.

8 Launch your CFI

Now the hard work really begins! You need to continuously get people to sign up as members, save and later on apply for loans so you can generate interest. The marketing of the CFI will now begin.

Abstracts have been taken from <http://www.brighterfuturestogether.co.uk/brighter-futures-together-toolkit/create-a-credit-union-for-your-community/>

ID

SIGNATURE

PHONE

STAMP

ADDRESS

REGISTRATION REQUIREMENTS OF THE CIPC

Mokgadi Mafojane

A Co-operative is a business where a group of people get together voluntarily to obtain a product or service. It must comply with the rules for co-operatives as laid down in the regulations under the Co -operatives Act 2005 and as amended in 2013. (Act no.14 of 2005)

So what does it take to register a co-operative with the CIPC.

REQUIREMENTS TO REGISTER WITH CIPC

A formation meeting must be held to constitute the co-operative and whereby the aims and objectives and other details regarding the co-operative will be agreed. Please refer to the article on "the founding meeting". Members attending the founding meeting will be regarded as Founder Members. Once founding members are in agreement to form the co-operative the following documents should be prepared for submission to CIPC:

- A customer code from the CIPC (this can be obtained by registering online at www.cipc.co.za)
- Form CR1(registration form)
 - Attach certified ID copies of founder members
 - Board of Directors (Names, ID no, Postal and Physical Address, date of elected directors)
 - Payable amount of R 125
- Copy of the constitution – Signed by Founder Members

- CR4 – Notice of appointment of an Auditor and consent to act as auditor.
- Form CR5: Application for Reservation of name, includes a payment fee of R50.00 (optional, or you must prepare at least 5 possible names)

It is important to remember that registering a deposit taking co-operative financial institution (CFI) requires that you have authorization to take deposits. This can only be obtained after first applying for registration to the CBDA, who, on approving your application, will forward all the above documentation to the CIPC. Your registration as a co-operative (and financial co-operative) is only completed once the CIPC approves your application.

When your registration is successful, CIPC will provide:

- A certificate of Registration and registration number
- A stamped copy of your signed constitution

WHAT DOES IT MEAN TO BE REGISTERED?

This means the co-operative has legal powers and rights and is now recognized as a legal entity and can enter into legal agreements with its members or suppliers.

For more information please visit the CIPC website www.cipc.co.za

LEGISLATIVE FRAMEWORK FOR CFIS & CO-OP BANKS

FINANCIAL CO-OPERATIVES ARE REQUIRED TO COMPLY TO VARIOUS LEGISLATION. SOME OF THE KEY PIECES OF LEGISLATION, AND THEIR IMPLICATIONS FOR ANYONE WANTING TO FORM A FINANCIAL CO-OPERATIVE ARE DISCUSSED BELOW:



Maclintosh Kuhlengisa

CO-OPERATIVES ACT OF 2005

The Co-operatives Act provides the business form of the entity. All Co-operative Financial Institutions (CFIs), are first and foremost, co-operatives, and have to adhere to the tenets prescribed in the Act. This also means that they have to be registered with the Registrar of Co-operatives.

FINANCIAL SECTOR REGULATION ACT OF 2017

This Act establishes the Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA) who have jurisdiction over all financial institutions

It aims to achieve a financial system that works in the interests of financial customers, and supports balanced and sustainable economic growth through the safety and soundness of financial

institutions; the fair treatment and protection of financial customers, prevention of financial crime; financial inclusion and transformation of the financial sector

CO-OPERATIVE BANKS ACT OF 2007

The CBDA is established through the Co-op Banks Act to support, promote and develop co-operative banking, as well as to register and regulate Representative Bodies and support organisations

The Act also provides the regulatory framework for Co-operative Banks and co-operative financial institutions with the intent to protect members funds of these co-operatives.

The Prudential Authority is responsible for the supervision of all registered CFIs and co-op banks, whilst the CBDA is responsible

for capacity building of the sector.

NATIONAL CREDIT ACT OF 2005

The National Credit Act applies to all credit providers and requires that any institution, giving out loans must register with the National Credit Regulator. This act further stipulates the conditions under which loans can be advanced, the maximum interest rates and charges that might be levied as well as disclosure required when advancing credit.

Underpinning these pieces of legislation are **STANDARDS** and **GUIDANCE NOTES** which explain in more detail, how CFIs and co-op banks can comply with these laws. These are available on the CBDA website i.e. www.treasury.gov.za/coopbank

Rights and obligations of members of a CBI



By virtue of being a member of a **Co-operative Banking Institution (CBI)**, members have rights and obligations. It is important for every member to be well-informed of these rights and obligations, in order to be able to exercise them.

Nobuzwe Mafanya

A MEMBER OF A CBI HAS THE RIGHT

- 1 To nominate or be nominated and elected as a director or committee member
- 2 To attend, propose items and take part in meetings
- 3 To vote at Annual General Meetings
- 4 Receive surplus as determined by the constitution via dividend or patronage proportion
- 5 To have access to the constitution and the financial statements
- 6 Apply for the use of all its products and services
- 7 Own shares and to save
- 8 To withdraw savings or make loans if they satisfy the conditions
- 9 Education on how the co-op works and their role in it

WHAT ARE THE OBLIGATIONS OF A MEMBER?

- 1 To attend and participate in general meetings of the CBI
- 2 To vote for capable persons to be CBI directors
- 3 To let the CBI know when member contact details change
- 4 To check statements and report queries therein to the CBI
- 5 To inform the CBI if the member has difficulties in repaying loan and discuss alternative repayment options
- 6 To protect the good name of the CBI
- 7 To help attract new members by promoting the CBI
- 8 To own the minimum amount of shares required
- 9 To take a keen interest in the performance of the CBI
- 10 To educate oneself about the co-operative and the governance structure of the co-op
- 11 To use the products of the CBI and save regularly and repay loans as per agreement



Common Bond

David de Jong

One of the key differentiators between a **co-operative banking institution (CBI)** and other types of banks is that it is member owned and controlled. This implies differences in their purpose of establishment. Firstly, co-operatives are formed when a “group of people”, come together having identified a need for a services or products that are needed. The purpose of coming together is to help one another to address this need and to see how they can, as a collective, provide services to members in a sustainable manner (covering their expenses). Companies also identify needs, but will only pursue the endeavour if they can see shareholder value and maximisation after having invested in the endeavour.

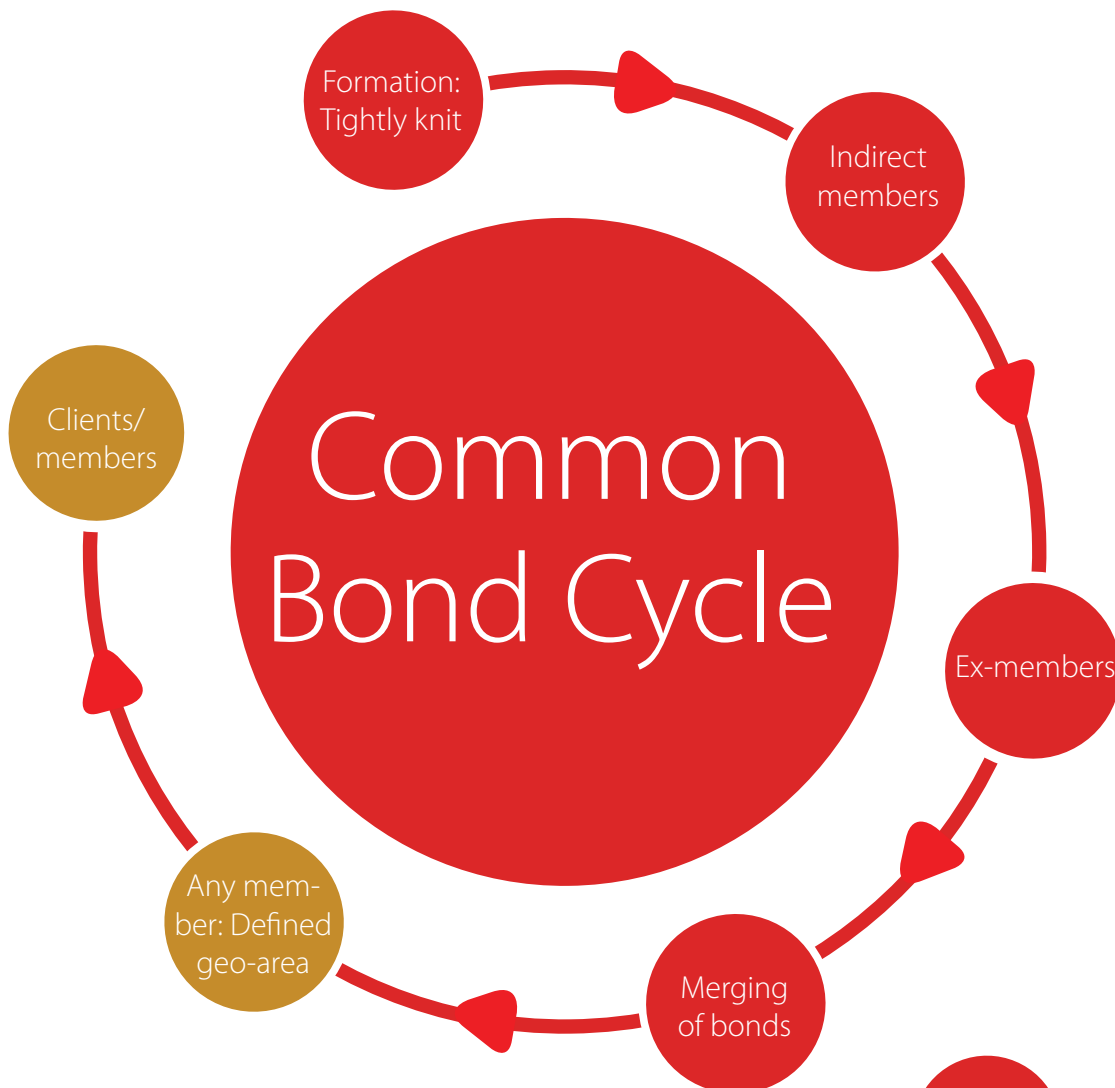
So who would be this “group of people” be? While it can be a group of 10 people from a stokvel, or in a workplace, logic would tell us that so few people cannot establish a bank. And we should keep in mind that banking is about trust. So this small group of people needs to speak to a larger group within the community from whom there would be trust amongst one another who agree they need the services of the **CBI**. This larger group is often referred to as the “common bond” or “chain of trust” amongst the members. This chain of trust should exist before the formation of a co-operative and would be the basis for the formation of the co-operative.

In **legislation**, three types of common bonds have been identified i.e **workbased**, for example “all work for the same employer”, **associational**, for example “all members of the same trade union” or **geographic** for example, “we all live in the same village or suburb”. One needs to read the **Co-operative Banks Act definitions** or specifics. Having solicited broadly the views of your **potential common bond membership before you even start, will place you in a much stronger position, as you will already have, in principle, an agreement to form when you have your formation meeting**

One of banks’ problems in serving clients is they don’t have enough information on clients, so additional costs need to be priced in to servicing them. In theory, in a **CBI**, within which

members are the depositors and owners, and there is a chain of trust, and the co-operative is close to its members, provides many advantages over banks. Firstly, members typically know one another and can vouch for each other. As a shareholder and depositor into the **CBI**, the members have an interest in ensuring all money lent out are repaid. In tightly knit communities there is information on people which the credit committee can solicit to make good credit decisions.

It is acknowledged, that a common bond can also be restrictive to a growing **CBI**. For this reason, after **CBIs** are established and have put in place systems to mitigate risk, or have saturated their current potential membership, they can apply to extend their common bond, to family, ex-members and potentially new communities and other potential members, within which they would still not undermine the trust and service to their current members.



Representative Bodies and Support Organisations role

Tebogo Tshabalala

According to the Co-operative Banks Act a “Representative body” means a secondary co-operative, irrespective of whether it is also a secondary co-operative bank, or other association of co-operative financial institutions and co-operative banks that represents at least two co-operative banks or co-operative

financial institutions in interactions with organs of state, the private sector and stakeholders

A “Support Organisation” means a support organisation accredited that supports more than one co-operative financial institution or co-operative bank.

Services: Representative Body

- Advocacy and Lobbying in matters relating to legal, business and labour related e.g. [taxation issues, unfair competition, unjustified levies, punitive legislative instruments, delayed payroll remittances

Services: Support organisations

- Education and training
- Accounting and auditing
- Research and consultancy
- Risk management
- Information technology services
- Mentorship and coaching
- Marketing and promotions
- Incubation

Where to find support for establishing and registering a CFI

David de Jong

					
240 Madiba Street, Pretoria	Prudential Authority 370 Helen Joseph Street Pretoria	the dti Campus (Block F - Entfutukweni), 77 Meintjies Street, Sunnyside, Pretoria	NATIONAL OFFICE The Fields, Office Block A, 1066 Burnett Street, Hatfield, Pretoria	Riverwalk Office Park, Block B, 41 Matroosberg Road, Ashlea Gardens, Pretoria.	127 - 15th Road, Randjespark, Midrand
012 315 5932 cbda@treasury.gov.za	0861 12 SARB 0861 12 7272	086 100 2472	0860 103 703	0800 20 37 22	0860 627 627 0860 NCR NCR
www.treasury.gov.za/ coopbanks	http://www.resbank.co.za/ RegulationAndSupervision/ BankSupervision/ BankingLegislation/ COPBanksact/Pages/ default.aspx	http://www.cipc.co.za/ Coops.aspx	http://www.seda.org.za/ Pages/Home.aspx Branches exist in every province	https://www.fscsa.co.za/ Pages/Home.aspx	http://www.ncr.org.za/ index.php

LOA

LIST OF ACRONYMS

CBDA:	Co-operative Banks Development Agency
CBI:	Co-operative Banking institution
CFI:	Co-operative Financial Institution
CIPC:	Companies and Intellectuals Property Commission
FSCA	Financial Services Conduct Authority
FSC:	Financial Services Co-operative
PA:	Prudential Authority
SACCO:	Savings and Credit Co-operative
SARB:	South African Reserve Bank



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