TheConnection

Asibambane, let's keep connected!

Issue 9 | August 2015

CFI SUCCESS THROUGH COLLABORATION IN SHARED SERVICES

CFI April 2015 | Banking Platform Status Report

PAYMENTS CARDS **CONFERENCE**

CAPACITY BUILDING PROGRAMMES 4th QUARTER

Report: 2015 Africa SACCO's Development Educators (DE) Training Program

Report: Cards & Payments Africa

FYI: Upcoming Events

FYI: Words of Wisdom

MORE

CONTENTS

EDITORIAL TEAM

McIntosh .M. Kuhlengisa

Tebogo .T.V. Tshabalala

DESIGN & LAYOUT

National Treasury Communications

CO-OPERATIVE BANKS DEVELOPMENT AGENCY

SEND YOUR STORIES FOR PUBLICATION IN THE CONNECTION TO:

CBDA.MAILBOX@TREASURY.GOV.ZA

OR CALL US ON (012) 315 5367

CFI SUCCESS THROUGH COLLABORATION IN SHARED SERVICES

By McIntosh.M.Kuhlengisa

The co-operative financial sector in South Africa has been stuck in an evolutionary loop for the past twenty years. The sector is growing very slowly, product innovation or differentiation is virtually non-existent, membership has remained stagnant, deposit growth lackluster, and use of technology is miniscule. National government, through either the Co-operative Banks Development Agency, or provincial governments have put in place several policies, legislations and funding initiatives to drive growth in the sector, but results are slow to materialize.

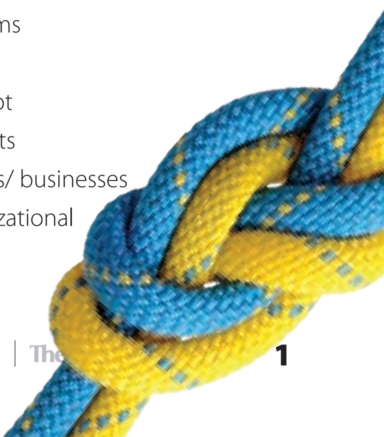
To further compound the problem, the CFI sector is operating within one of the most advanced banking systems not only in the continent, but in the world. Consequently, if the sector is to start making meaningful progress, it cannot continue adopting the 'business as usual approach' currently predominant.

CFIs are essentially trapped in a vicious cycle i.e. where they 'scrap' at the bottom of the economic barrel for skills, and

> “ The CFI sector is operating within one of the most advanced banking systems not only in the continent, but in the world

for members/clients. Typically, CFIs' members do not fit the economic profile of a normal bank's clients with regard to income generation. As such, in order for the sector to grow, there is an urgent need for a strategic review of its operating model given the following issues:

- Inadequate accounting & MIS systems
- Low levels of skills
- Suboptimal products which have not kept abreast of market developments
- High failure rate of funded members/ businesses
- Suboptimal governance and organizational structure



CFI SUCCESS THROUGH COLLABORATION IN SHARED SERVICES

—— CONTINUED

Research points to identifiable waves of co-operative sector growth i.e.

WAVE 1:	Establishment, in which CFIs are founded in small communities across the country and issue loans to a largely rural membership base
WAVE 2:	Infrastructure building, where membership and total assets increased dramatically and CFIs begin offering a wider range of financial products through the support of centrals and system strategic partners.
WAVE 3:	Consolidation where CFIs merged and combined to achieve the advantages of scale for controlling costs and driving growth

Sourced from : Deloittes, A 21st century co-operative: Rewrite the rules of collaboration

The CFI sector in South Africa remains stuck in the first wave. This article seeks to propose a mechanism that could result in the fundamental realignment of the sector- redefining how CFIs function and interrelate - both with players inside and outside the system. These changes are necessary due to a combination of external factors - including increased competition from the traditional banks, member preferences and regulatory requirements, as well as internal factors, such as non-existent technology and a quest for scale and organic member growth.

CFIs that fail to update their business models, and rely instead on current infrastructures and tools, and products will struggle to succeed in this new era of collaboration. Fortunately, there is still time to prepare for this transition. Those CFIs that act now to improve operations, manage their risks, strengthen governance and develop growth strategies will be well-positioned to provide their members with differentiated services and true value going into the future. Key to this is that the sector needs to achieve economies of scale in order to deliver these great strategies.

The Financial Co-operative Model

The financial co-operative model embodies the rediscovery of social and community values on the backdrop of trust (through a common bond), member control and savings first. It is the members, who own the business and maintain its governance. And this is what puts the needs and priorities of the members at the very center of the operations. Underlying the model are the seven (7) co-operative principles i.e. Voluntary and open membership; Democratic member control; Member economic participation; Autonomy and independence; Education, training, and information; Cooperation among co-operatives and Concern for community

Traditionally the ethos of 'Autonomy and Independency' has been underpinned by the legal requirement that members of a CFI share a 'common bond', the chain of trust, which strengthens the security of the co-operative, with members connected by more than financial ties. The bond may be occupational (with members working for the same employer), geographical (living or working in a certain area), or associational (belonging to a particular, perhaps religious, organisation). Member economic participation has relied on members capitalizing the co-operative, making it a savings first model.

Why Shared Services for Co-operative Financial Institutions

As CFIs contemplate these changes, it's worth considering whether the sixth principle of the co-operative movement – "co-operation among co-operatives" – has been fully optimized at all to the benefit of members in our movement. Success into the future will be a function of a renewed spirit of co-operation, and initiatives towards secondary co-operative bank structures and representative bodies are nods in the right direction. To address the

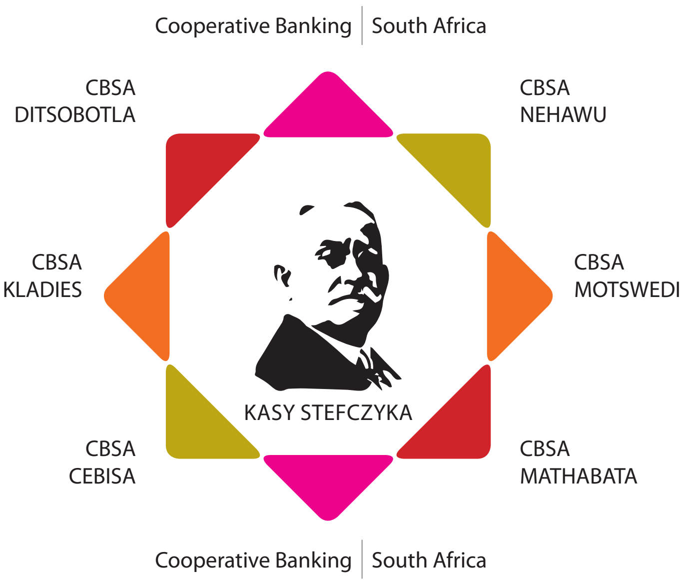
CFI SUCCESS THROUGH COLLABORATION IN SHARED SERVICES

CONTINUED

challenges facing the model, i.e. inadequate accounting & MIS systems, low levels of skills, suboptimal products, and suboptimal governance and organizational structure I propose collaboration and shared services as means to strategic co-operation.

The first reason for ensuring strategic co-operation is scale. While there is a significant disparity in size between the largest and smallest CFIs, even the largest CFIs are miniscule when compared to the smallest banks in the country. No single CFI is regionally or locally significant and none hold a dominant position in the banking system. In such a market there are clearly advantages to working together.

Country-wide Branding as a Source of Competitive Positioning in the CFI Sector



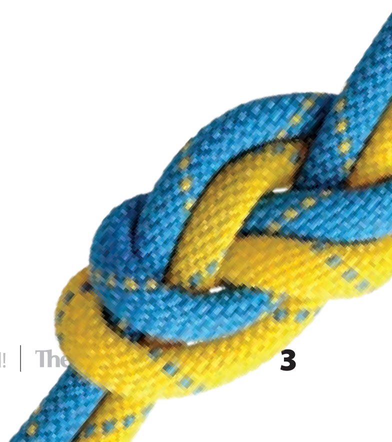
Additional important factor of success i.e. common, country-wide branding campaigns (with the use of one trade mark) financed through central marketing fund (with participation of all CFIs. The sector can create an authentic brand that demonstrates the cooperative difference facilitate specific actions and behaviors to fulfill the brand promises.

The second key reason is the incessant competition. Competition will continue to put pressure on CFIs, especially as banks become more effective and efficient at delivering differentiated customer service to individuals and small businesses. Banks have also begun to compete against core co-operative values through initiatives such as corporate social responsibility, sustainable businesses and the environment. This trend has been in effect for some time and is expected to accelerate.

And then finally, technological changes will prove to be too difficult for some to manage on their own. Mobile banking, contactless payments, core banking replacements and integrated cash management are just a few examples of functionality that many CFIs will have difficulty implementing at an individual level.

Learning from others

Co-operative banking structures in Europe have already captured synergies particularly by bundling back office operations, IT, Credit processing and Risk functions. For instance, Erste Bank, a Central and Eastern European Savings Bank, has a subsidiary Skredirpartner- which offers credit services in processing new and portfolio businesses for car and consumer loans.



CFI SUCCESS THROUGH COLLABORATION IN SHARED SERVICES

—— CONTINUED

Existing Models to Capture Synergies in Co-operative Banks

	DECENTRALISED	CENTRALISED	
Raiffeisen BANK	Independent local Raifessen banks Provision of selected services: Regionally by federal state headquarters Centrally by Raifessen Bank (eg forex, management, advisory, marketing)	Volksbanken Raiffeisenbanken	Regional responsibility Selective services provided centrally by subsidiaries (e.g loan processing by Schwabisch Hall Kreditservice or risk management by BVR)
Finanzgruppe	Decentralized organization Consolidation of back office services in subsidiary corporations	ERSTE BANK	Selective functions at group level (payments, risk management) 100% subsidiaries for middle and backoffice functions (call center, purchasing, real estate)
Rabobank	Tendency towards more decentralized organization with high inhouse value added in branches Centralization of certain activities: Product development and campaigns Risk management	CRÉDIT AGRICOLE	Strong regional organization with regional banks as hubs Extensive centralization at the regional level, limited centralization at the national level (e,g. risk management)

Source: Mckinsey

Over the years, as illustrated above, co-operative banking structures have had several functions were bundled in shared service centers, among these payments, facility management, personnel/payroll, sourcing, and IT infrastructure. It is estimated that synergies of at least 20% to 30% have been realized in the functions.

Application of the shared services model

As shown with the international experiences highlighted above, there is scope for improved collaboration and efficiency through shared services arrangements which could do a lot to reduce costs and improve efficiency.

Shared services can be provided through either a central unit or units and can also be driven by CFIs on a national, regional or local basis. The benefits of driving the process of shared services at a regional level would be ease of integration into provincial government's strategic planning processes. For instance, one province's strategy could be the use of co-operative finance in banking and insurance as a key mechanism to promote financial inclusion and promote community-self finance and reinvestment in the township economy.

CFIs within a particular region can set up a shared services center (SSC), either as another co-operative, equally owned by the member-CFIs or it could be a different type of legal entity such as a company run on commercial lines. The SSC can provide shared services and or shared management services on a cost recovery basis to the individual member

CFI SUCCESS THROUGH COLLABORATION IN SHARED SERVICES

—— CONTINUED

CFIs. Services may include:

- data processing,
- investment management,
- insurances services,
- debit and credit card processing,
- mortgage and personal loan administration,
- credit checks and scoring
- back office support,
- branding and marketing,
- branch and phone center services,
- delinquency collection,
- management and accounting services,
- preparation of financial statements,
- preparation of financial and regulatory reports.
- Legal services

The individual member CFI's will most likely maintain a 'branch interface', which does not necessarily need to be staffed with highly skilled individuals, with most of the skill domiciled at the shared service center level. For instance, risk management skills can be hosted at the shared service level.

Key to the success of this model would be the following factors:

a) Full transparency regarding employees and (their) cost base along with service standards for shared service functions.

b) Specifying a shared aspiration level for cost savings and operational efficiency

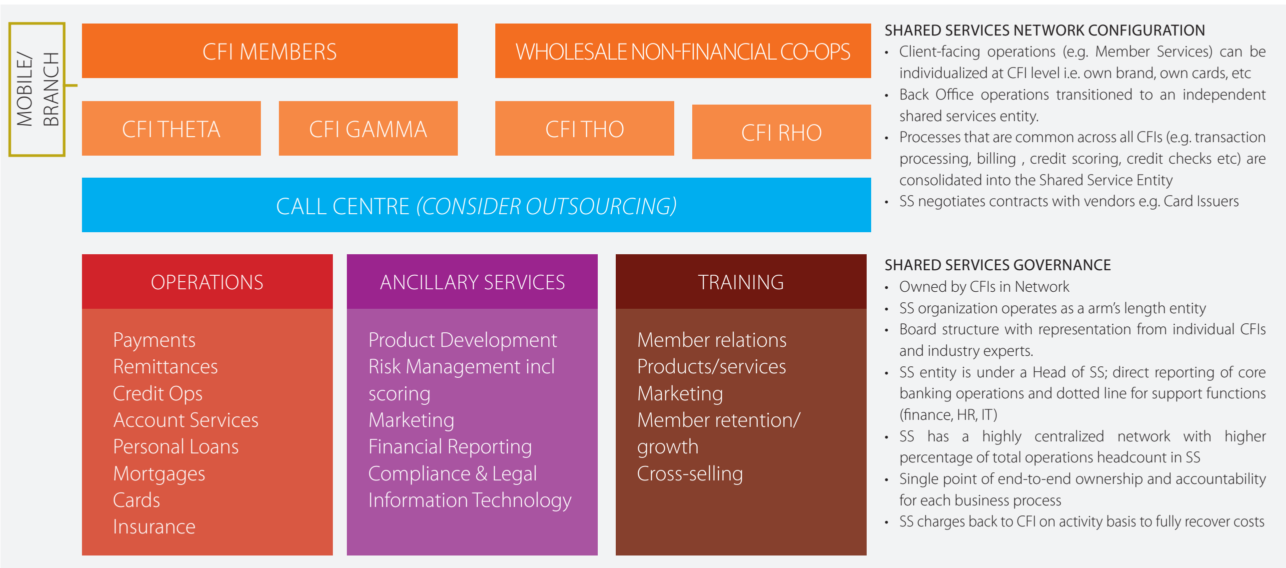
c) Specifying optimal target model and/or performance and costs per function.

d) Piloting with only a few functions to minimize risk, build up shared service infrastructure, and identify optimal model.

e) Participating CFIs will need to agree on standardization of products and services.

The diagram below provides a visual conceptual overview of how this would work at a regional level:

CFIS OPERATING AN "INDEPENDENT SHARED SERVICES ENTITY" THROUGH A HIGHLY CENTRALIZED NETWORK



Conclusion

Most co-operative financial institutions in South Africa are much smaller than their banking competitors. Financial services are a scale business so this size difference can lead to serious competitive disadvantages. As a result, CFIs must collaborate on a host of operational and strategic items if they are to remain relevant.

Editorial

By McIntosh.M.Kuhlengisa

Time indeed waits for no man…or woman for that matter. We are almost halfway through the year, and the CBDA has been a busy place. We welcome you to the 9th issue of the CFI newsletter, the Connection.

In this issue, our feature article is on shared services within the co-operative financial sector. This feature is consistent with the CBDA's approach of continuously seeking to add value in the setor by continuously engaging on possible innovative ways to further grow the sector and enhance the value proposition of the CFI sector. It is borne from the knowledge that CFIs are trapped in a vicious cycle i.e. where they 'scrap' at the bottom of the economic barrel for skills, and for members/clients. Consequently, if we are to make meaningful inpact we need to be continuously looking at how we can better serve our members….because that is the sole purpose of the CFI.

In line with the regulatory developments, we also feature articles on alternative capital sources for CFIs, as well as an update on the process the CIPC follows when they deregister co-operatives. We also have an interview from an actual CFI member, Ms Tshidi Mathebula of Thari-Entsho FSC in Soweto, who shares with us her experiences as a member of a CFI.

We hope you will enjoy going through this issue, as much as we have enjoyed preparing it. If you have any questions, or comments, always feel free to drop the editorial team an email at *cbda.mailbox@treasury.gov.za.*

Happy reading.

CFI MEMBER INTERVIEW

By Tshidi Mathebula: (Thari-Entsho FSC)

The CFI member interview is aimed at getting a CFI member's perspective regarding the benefits they get from using their CFI sector. It is about the general membership and what they value most about their CFI. In this edition we spoke to Tshidi Mathebula, a CFI member of Thari-Entsho FSC in Soweto. Below are her thoughts regarding her CFI.

WHAT ARE YOUR BENEFITS AS A MEMBER OF A CFI?

My benefits as member of a CFI are that I am able to invest in my CFI, my capital increases and I was able to develop economically.

WHAT IS YOUR ROLE AS MEMBER OF A CFI?

My role as a CFI member is to recruit and encourage my community to join CFI, impart knowledge about CFIs i.e. its role and benefits

WHAT IS THE IMPORTANCE OF SAVING IN YOUR CFI?

The interest rate is different from that of the commercial banks. As a member you are able to loan money from my CFI using your savings as collateral.

IN YOUR VIEW, WHAT IS THE BIGGEST CHALLENGE TO YOUR CFI?

Some members are not consistent in paying back their loans.

WHAT DO YOU VALUE MOST ABOUT YOUR CFI?

It embraces all categories in the community
It charges reasonable interest
It empowers members financially
Meetings are held regularly to give us feedback about the progress of the CFI

2015 AFRICA SACCO'S DEVELOPMENT EDUCATORS (DE) TRAINING PROGRAM

By Khomotjo Mabule

The Africa SACCO's Development Educators' (DE) Training Program was held at Birchwood Hotel & OR Conference Centre in Johannesburg, on the 14 to 21 February 2015. This was the second DE program after the last program held in Nairobi Kenya 2014. The program was organised by African Confederation of Cooperatives Savings and Credit Association (ACCOSCA) in partnerships with National Credit Union Foundation (NCUF) along with World Council of Credit Unions (WOCCU) and National Cooperative Business Association (NCBA).

Currently, the DEs programs run in America as Credit Union Development Education (CUDE), in Caribbean, as Carrib Development Education (Carrib DE), in Philippines, as Philippine Development Education (PHDE), in Europe, as European Development Educator Program (DEEU), in United Kingdom, as Development Educator United Kingdom (DEUK) in Asia, as Asian Credit Union Development Educators (ACCU), and now in Africa, as Africa Development Educators Training Program.

The purpose of the Africa DE training program is for trainees to acquire knowledge and skills to implement practical co-operative strategic thinking within the sector and the impact it would have on the members of the movement. This also allow trainees to connect with peers around the world, while being mentored by some of the renowned global co-operators.

The program was attended by delegates from South Africa, Kenya, Malawi, Zimbabwe, Swaziland, Ghana, Gambia, Zambia, UK (Barcelona, Scotland), US (Washington D.C, Taxes), and Canada.

The following topics were presented and/or discussed for the duration of the training, in allocated groups:

- History and philosophy of SACCOs;
- Credit Union structure;
- Challenges facing the movement;
- Cooperative principles and cooperative;
- Development (Africa) issues;
- Understating SACCOs for a global perspective;
- Understanding co-operative management (credit risk and liquidity management);
- Human resource policies and succession planning;
- Building a consensus between the board and staff to protect the cooperative identity;
- Challenges of cooperative growth in South Africa;
- SACCO's role in social development, looking at food security or health programs;
- Definition of cooperative;
- Mainstreaming youth in cooperative model;
- Savings and lending model strengthen marketing co-operatives linkage;
- Showcasing impacts of co-operatives linkage at the community levels;
- The Canadian Credit Union system;
- Africa development agenda-development issues for SACCO's as alternative financial institutions; and
- Project discussion as Africa DE graduate.

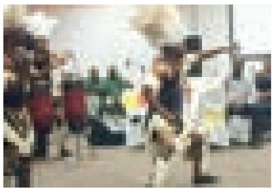
This was an intense yet fruitful 8 days of understanding CFIs in global perspectives, knowledge of success stories from African cooperatives as well as learning from prominent international co-operators.

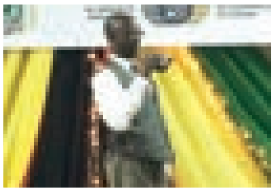
For information on how to apply for the next Africa DE training program, please visit *www.accosca.org.za*

THE SACCO LEADERSHIP FORUM

By David de Jong, Supervisor CFIs

THE SACCO LEADERSHIP FORUM





The Savings and Credit Co-operative (SACCO) Leadership Forum held on the 25-27 March 2015 at the Cresta Lodge Conferencing Centre, Pasango, Harare, Zimbabwe focused on the theme Promoting Effectiveness of SACCO's Service Delivery to Enhance Financial Inclusion. The forum was presided by the two workshops on Strategic management; operational management of CFIs, and Financial Management.

The Forum was intended to impart trending modern ways of operations as well as instilling co-operative values to ensure that co-operative identity is maintained as SACCOs transition through the growth stage. This was an opportunity to network with international delegates, partners, government officials and legislators. The forum which had participation from over 19 countries was facilitated by renowned speakers who have vast experience in the co-operative sector.

The 158 delegates, from sixteen African countries, as well as USA, Canada and German were welcomed by the newly elected Chairperson of African Confederation of Co-operatives Savings and Credit Association (ACCOSCA), Ms Josephine Nabuyungo, and the forum was officially opened by the Hon. Sithembiso Nyoni (MP), Minister of Small and Medium Enterprises and Co-operative Development.

As an invited speaker, I spoke on the importance of governance for directors and management in a supervised environment. The key message I tried to impart on delegates was that, when working well, a reciprocal beneficial relationship will develop between the supervisory authority and the financial co-operative, which will ensure its long term stability for the benefit of members. Fortuitously, my input followed an input by a principle bank examiner, Mr Simbarashe Mshonganyika from the Reserve Bank of Zimbabwe (RBZ), who advised delegates, that the RBZ was investigating the positives and negatives of various options for the regulating of SACCOs in Zimbabwe. These included direct supervision, auxiliary supervision or self-regulation as the primary options that they were looking into. He agreed with the forum, at which there were many Zimbabwe SACCO leaders that they would engage with them going forward.

Furthermore on the stability theme, there was an input from the Credit Union Association (CUA) Ghana, on the home grown Ghanaian Deposit Guarantee Scheme (DGS) the movement has developed and is currently rolling out. The Credit Unions decided to contribute 0.15% of their accumulated savings/deposit at the end of every financial year, toward establishing a "stabilisation fund". Thirteen years later, in 2013, the fund was finally launched, and Credit Unions, who are part of the fund, can guarantee their members deposits.

The organisers are in the process of trying to differentiate the Sacco leaders forum (SLF) (normally held in March) from the Congresses (normally held around October) with the former focussing more on operational issues and the latter on CFI strategic and thematic issues that may arise. Around the operational theme, SACCO growth, trending innovations, the role of the National Association, promoting agri-business to enhance financial inclusion and the role of manager vs. the board were discussed. The forum also looked at some very operational issues such as using staff performance appraisals, loan delinquency, investment strategies, ICT investment and SACCO profitability for improving capacity and performance of CFIs.

The workshops are very beneficial to participants, and I would love to see more South African CFIs budgeting for their directors and staff to attend these continental forums. There is a glaring absence of a South Africa presence, even when they are held on our doorstep.

Cards & Payments AFRICA

The workshops were conducted in stream sessions and roundtable discussions.

By Hlengiwe Kheswa and Alan Pugh-Jones

A platform for payment innovators to showcase their solutions on Africa's key banking, payments, and retail and enterprise professionals took place on 10-11 March 2015 at the Sandton Convention Centre. The purpose of the conference was for Africa's payments community to meet and discuss challenges and opportunities and to make decisions to invest in new solutions.

The focus was on everything the sector needs to know e.g. how are mobile payments changing the payments landscape? What innovations do new entrants have to offer? How can retailers take advantage of the payment innovation explosion? How payment innovations can change the ways your business operates and what the future of payments look like.

The workshops were conducted in stream sessions and roundtable discussions with topics such as Cloud as the high speed payment processing. Other presentations and discussions were based on how to use the latest technology (Digital Technology) to keep abreast
The highlight was the presentation by Nicholas Franchet, the Global Head of Retail & E-commerce for FACEBOOK. See trends identified below.

The trend in respect of cards and payments is towards mobile, which includes smart phones and tablets. It is estimated that 500 million phones will be sold in Africa in the next 5 years. The average person unlocks their phone 110 times every day.

Another important trend is towards frictionless payment services using Near Field Communication (NFC) technology leading to contactless and virtual cards led by the introduction of Apple, Google and Samsung pay.

In Africa we are seeing a massive shift to Mobile Money and an extensive use of money transfers. South Africa has a population of 51.8 million with a total mobile connection of 66.1 million. That is 128% active connection to population. However CASH is still KING! That is because it is anonymous and cheaper than cards.

Banks are here to stay but the method of payments and cards will evolve as will what banks look like in the future. The traditional "bricks and mortar" branches will become virtual as people adapt to the shift in trends being introduced by new technologies.

Cards & Payments
AFRICA

3 KEY TRENDS FROM FACEBOOK!

- Connectivity is core to reaching customers
- Mobile is not just a technology it is a consumer behavior
- Real estate is shrinking

NUMBER OF FACEBOOK USERS

	Global	Sub Saharan Africa	South Africa
PEOPLE DAILY	1.39B	61M	12M
ON MOBILE	86%	93%	91%
RETURN DAILY	64%	48%	59%

CAPACITY BUILDING PROGRAMMES

4th QUARTER

By Timothy Mutyavaviri

The Capacity Building Unit is responsible for supporting, promoting and developing Co-operative Financial Institutions (CFIs) and encouraging the establishment of representative bodies and support organizations. The capacity building programmes for the 4th quarter included but were not limited to direct technical assistance, training, evaluation of internal controls, pre-registration support, newly registered support, curriculum development, impact assessment and selection of a service provider for the banking platform.

Direct technical assistance was offered to CFIs in the form of manual accounting support, monitoring of action plans and diagnostic assessments. It was evident from the assessments that some CFIs are implementing the capacity building recommendations though at a very slow pace and it came out clearly that most CFIs that use the manual accounting system are still having problems when it comes to loan loss provisioning and allocating expenses and receipts in the payment and collection summaries.

Governance training was conducted in Durban and was attended by twenty-eight board members from six CFIs. The purpose of the training was to equip the board of directors with skills to execute their duties efficiently for the improvement of the CFI. Some of the interesting topics covered included the roles and responsibilities of the board members, chairperson, secretary, treasury and issues around compliance and reporting. Training on manual accounting and audit preparation was conducted in Pretoria and was attended by twelve participants from six CFIs. The training covered basic bookkeeping, loan loss provisioning and preparing the audit files.

Internal controls were evaluated in two CFIs to assess the level risk in their operations. It was worth noting that some CFIs are working towards enforcing some controls that assist in safeguarding their assets. Reports with recommendations on improving internal controls were sent to the CFIs and implementation will be monitored on a quarterly basis.

Pre-registration support was offered to two organized groups to assist them in forming CFIs. Presentations delivered to the groups included topics on the CFI model, developing policies and procedures, the cooperative act & cooperatives banks act and the CFI model constitution. To assist a newly registered CFI to commence operations, newly registered support was offered to one CFI. The support included training the full board and management of their roles and responsibilities, legislative framework, strategic planning, business planning and compliance.

A service provider was appointed to implement a banking platform that will enable the CFIs to connect to the National Payment System. It is expected that CFIs will be connected before the end of the financial year with the hope that the banking platform will be a breakthrough in revolutionizing the operation in the CFIs.

In a bid to have accredited training programmes from accredited institutions, curriculum was developed for a Diploma Course in Cooperative Financial Institutions Management (DCCFIM). The DCCFIM is expected to commence in the last quarter of this financial year. The pre-requisite for enrolment would be the Certificate Course in Cooperative Financial Institutions Management that was offered by the University of Pretoria.

To gauge the impact of capacity building interventions, an impact assessment was conducted on capacity building programmes and tools. An independent service provider was appointed to do the assessment and information was gathered from the CFIs in all provinces. It was explicit from the impact assessment report that the capacity building interventions are yielding positive results and are assisting in changing the sector for the better.

CFI BANKING **PLATFORM STATUS REPORT NOVEMBER** 2014-MARCH 2015

ITEM	DATE	FEEDBACK	OBJECTIVE OF THE TASK	OUTCOME
1.Banking Platform Tender	November 2014/ February 2015	Publishing of the tender for the Banking Platform.	Issue a tender to procure a service provider that will provide the banking platform solution. The implementation of solution is divided into two phases: Phase 1: IT system and Customer Support Services Phase 2 : Connecting to the National Payment System	Tender published in the gazette bulletin on (16/01/2015) and the CITY PRESS Newspaper (18/01/2015) The deadline for bids submission 16th February 2015 A non-compulsory briefing session held at National Treasury offices
2.Appointment of Banking Platform Interns	Jan- March 2015	Recruitment of interns	Recruit interns to work with the project team during the implementation of the solution, training of the CFI's during the migration phase and also to assist with troubleshooting	Advert published on the CBDA website Closing date for applications is 30th January 2015 5 Interns were appointed on the 8th April 2015.
3. Selection of the Banking Platform Service Provider	Feb/Marc 2015	The bid evaluation/ adjudication process completed in March 2015 and approval of service provider is pending internal processes of Supply Chain Management	Appoint Banking Platform service provider.	In progress

CO-OPERATIVE CAPITAL STRUCTURES AND INSTRUMENTS

By McIntosh Kuhlengisa (adapted and summarized from Survey of Co-operative Capital- A Michael Andrews)

Securing co-operative capital while guaranteeing member control is one of the five themes of the International Co-operative Alliance's Blueprint for a Co-operative Decade, and an issue the amended CBDA rules tries to address.

Historically, co-operatives had been funded by withdraw able share capital provided by members and retained earnings (or reserves comprising undistributed earnings). As growing co-operatives have outstripped the funding ability of members and retained earnings, or alternative funding has been sought for start-up cooperatives, the question has been how to access external capital or additional member capital while still adhering to co-operative principles.

CO-OPERATIVE PRINCIPLES

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training, and information
6. Cooperation among co-operatives
7. Concern for community

Accumulating capital using a traditional structure of modestly priced member shares may require attracting a large number of members before operations commence—a potentially daunting challenge. As the co-operatives grow, expansion opportunities i.e. demand for loans, can arise that outstrip the financing ability of co-operatives reliant on member shares and internally generated capital. Membership shares and internally generated capital are often insufficient to meet the need for regulatory capital for financial co-operatives.

As a result, co-operatives are reviewing alternative capital instruments and structures such as these provided below:

a Base Capital Plans-, also known as adjustable capital, adjustable balances, permanent capital, or modified revolving funds, are not a distinct capital instrument, but a means of providing the needed capital for the business of the co-operative. Member capital contributions are determined in proportion to membership usage for an annual or multiyear period. The member's base capital requirement can be met in a range of ways, depending on the co-operative. It can be a direct investment in shares proportionate to usage, retention of earnings that otherwise would have been rebated to the member as patronage, or "per unit retains"—amounts deducted from the interest proceeds that would have been due to the member.

b Innovative Member Share Structures - There are two common ways for co-operatives to raise capital through innovative share structures. One is to use multiple classes of shares, issuing one or more in addition to the basic or qualifying shares required as a condition of membership. The other is to structure the basic or qualifying shares to permit members to share in the appreciation of the value of the co-operative over time, rather than the traditional approach of having such shares issued and redeemed at par.

c Multiple share classes - There are countless variations of the basic approach of using multiple classes of shares to preserve co-operative ownership and voting rights while also attracting additional capital investment from members and nonmembers. The additional classes of shares are distinguished from the shares required as a condition of membership by being voluntary investments. Depending on the specifics of the instrument, these shares can resemble debt, or be more akin to common equity, or be somewhere on the continuum in between. To make the shares attractive to investors, they offer a dividend or interest rate competitive with investment alternatives, and/or the possibility of participating in the increase in value of the co-operative by providing a means to sell or otherwise transfer ownership at a price that may exceed the purchase price.

d Appreciable/Tradable shares - Providing members with a means to share in the growth of the value of the co-operative can help attract larger initial share investments as well as encourage members to support retaining earnings for internal capital generation. This can be done using a multiple share structure whereby the appreciable shares are distinct from the basic or qualifying shares, or, as in the case of many American new generation co-operatives, by structuring the basic shares with appreciation and/or tradability features.

e Patronage and Bonus Shares - Patronage or bonus shares are a type of internally generated capital, as they are a form of undistributed earnings. Co-operatives that make patronage distributions—a type of dividend or rebate that accrues to members based on the volume of business conducted with the co-operative—may pay some or all of the distribution in the form of patronage or bonus shares.

f Special Investment Vehicles - An SIV is an entity typically wholly owned by a co-operative or mutual parent, existing solely as a conduit for the purpose of issuing securities to nonmember investors.

Should co-operatives contemplate implementing some of these options, they would need to review local legislation and regulations as to whether it is permissible, and seek regulatory approval before implementation.

PRE-REGISTRATION ASSISTANCE

By Poppy Thubana

> WE GUIDE THE GROUP ON THE MINIMUM REQUIREMENTS OF POLICIES, BUSINESS PLAN AND MODEL CONSTITUTION

Pre-registration Assistance is one of the tools used by capacity building in supporting organised groups to open a CFI. The purpose is to assist groups who have potential to open a CFI. The potential is identified by meeting the two of the minimum requirements of which is two hundred (200) or more members and the total share capital of hundred thousand rand (R100 000) or more. The assistance is done in a form of training by the junior technical analysts for the week. The group elects the steering committee who will be part of the training.

The training firstly involves a start-up guide presentation that defines the concept of the CFI, break down the steps to organise a CFI and all the requirements needed to form a CFI. Secondly, a legislatives framework presentation which outlines various legislatives that requires all the CFIs to comply with. Lastly the policy development workshop, where we guide the group on the minimum requirements of policies, business plan and model constitution using the CBDA guidance notes.

So far the capacity building assisted three (3) organized groups. The first group is formed by ninety three (93) arts and craft co-operatives in four provinces: Mpumalanga, Limpopo, Eastern Cape and KZN. The office of the CFI will be situated in KZN. The group was supported by the Department of Rural Development and Land Reform. Each co-operative contributed R10 000 towards share capital and the members of these co-operatives R20 each.

The second group is formed by different co-operatives members who are employed by Eastern Cape Road and Public Works Department. The group members started to save R40 each member in 2002 until now; it has a potential membership capacity of around 360.The third group is formed by agricultural co-operatives in Eastern Cape supported by the Chris Hani Co-operative Development Centre. The group has twelve (12) secondary cooperatives each has more than six (6) primary co-ops. All cooperatives including secondary and primary made a total of around 250 of which is currently regarded as their membership. All groups provided with assistance in process of submitting application form to CBDA.

NATIONAL ASSOCIATION OF CO-OPERATIVE FIANCIAL INSTITUTIONS OF SOUTH AFRICA

2015 CFI INDABA FORECAST(14-16 OCTOBER 2015)

The fifth annual CFI National Conference (Indaba) for the year 2015 will be held in Free State province as announced in the 2014 conference. We hope to improve the standard of the event after learning from the 2014 indaba experience. It has become the culture of the Financial Co-operative sector to hold such events since 2011. Since 2014, responsibility was shifted from Co-operative Bank Development Agency (CBDA) to National Association for Co-operative Financial Institutions of South Africa (NACFISA) in terms of organizing the Indaba.

Upon realizing the experience gained by the sector, CBDA management approve that the sector organize national events. The previous CFI Indaba was held in East London in Eastern Cape Province. The success of the 2014 event was attributed to the charitable support of the Eastern Cape Department of Economic Development & Tourism.

South African Financial Co-operative sector is part of the Global Co-operative Fraternity, which is why we must continue to learn from other successful credit unions in other parts of the world to promote our sector and inform local Co-operators and all Stakeholders about changes needed in the South African context. We wish to join hands with all stakeholders in planning for the 2015 conference as soon as the beginning of May to ensure the smooth running of our Indaba.

NACFISA BEEFS UP ITS HUMAN CAPACITY

As a new entity, NACFISA has been challenged by human incapacity for the past two years since its inception in 2013. We acknowledge with gratitude the opportunity of using CBDA Graduate Interns who were rotating between the two entities during the course of 2014. When the CBDA Internship program ended towards the end of 2014, as NACFISA we were left wanting with only two staff members and two casuals. In February 2015 we managed to improve our capacity with five Graduate Interns through our partnership with BANKSETA.

The need to train our Graduate Interns became imminent as there was a need to deliver the services needed by NACFISA. This apparent need prompted CBDA to provide the facilitator for training of our five interns on aspects of CFI Financial Reporting and Management. Notwithstanding the internal training we had from the beginning of March this year, we managed to train our five Interns through the facilitator support we received from CBDA. We therefore believe that our human based incapacity will be a thing of the past considering the possibility of retaining some if not all of the Graduate Interns at the end of the program in November this year.

In addition to this latter achievement and through partnership with German Co-operative and Raifessen Confederation (DGRV), we have been offered the service of Mr. Tonny Otieno who is a CFI expert from ACCOSCA in Kenya. Mr. Otieno has been employed by DGRV in January 2015 to strengthen the pool of DGRV Co-operative Professional Trainers who in many occasions help NACFISA on technical issues. Mr. Otieno is playing a critical role in our Internship program as a Mentor to our Interns.

By Lucky Gamede

RESEARCH ON DESIGNING AND IMPLEMENTING DEPOSIT INSURANCE FUND

BACKGROUND

Cooperative Financial Institutions (CFIs) are a part of the financial system of any country, and as a result, the failure by CFIs in South Africa, while systemically low, may have negative severe impact on the financial ecosystem of the community involved. As a result, there is need to introduce additional safety nets to ensure that members' deposits are protected.

During the early 2000s, most CFIs failed and that necessitated pay-outs and subsequent closure of CFI's by the National Treasury after paying approximately R5m to depositors. It is for this reason that the CBDA has conducted an extensive research on how to design and implement deposit insurance fund in order to protect members' deposits.

This article aims to firstly outline the components of designing and implementing deposit insurance fund to deal in a more orderly and less costly way with the failure of financial institutions, and secondly to conduct a comparison of some deposit insurance fund used in other countries and lastly the article will conclude by addressing some frequently asked questions relating to designing and implementing deposit insurance fund.

OBJECTIVES, MANDATES & POWERS

The first task when designing and implementing deposit insurance fund is to align the fund with the relevant and specific policy objectives. When designing and implementing the fund, most countries tend to include and align the policy objectives below. In most cases, the objectives strive to:

a Protect depositors and contribute to financial system stability;

b Enhance the orderly resolution of financial institution failures, and

c Ensure that all banks contribute to resolving the cost of failures and financial crisis.

GOVERNANCE STRUCTURE

Deposit insurance institutions are mainly established and regulated by governments. In most cases they are operated by a country's central bank, while some are private entities with government backing or completely private entities. The governance structure of the fund may involve legally setting up a separate organization, relying on a governing committee, or set up the insurer as a department of the central bank, supervisor or government.

Government administered schemes tend to be the most commonly used by many countries, followed by combination of public and private system mechanism. Within the South African context, the CBDA is both the development agency and regulator of the sector therefore it has the responsibility to monitor CFI performance. The monitoring function is best placed with the regulator and that is the trend globally.

FUNDING & FUND MANAGEMENT

Funding of the Fund could be provided in many ways; such as government appropriations, levies, premiums assessed against member banks, government / market borrowing or a combination thereof.

Most countries charge premiums (ex-ante) as a way to build up a fund but they also retain the authority to charge members levies or other charges if required. Other countries (minimal) prefer to rely on ex-post levies.

While flat rate premiums are the most commonly used across the globe, differential premium systems are becoming increasingly prevalent over time. The implication for the sector is that the amount of the premium would be adjusted to take account of the nature, scale and complexity of CFIs and the level of risk associated with each CFI or category of CFIs.

DEPOSIT INSURANCE FUND COMPARISON

COUNTRY/ YEAR ESTABLISHED	TYPE OF DEPOSITS COVERED	COVERAGE NATIONAL CURRENCY	BASIS	TYPE	SOURCE OF FUNDING	BANK'S PREMIUM
Kenya 1985	All deposits	K Sh 100,000	Per depositor	Funded	Banks & loans	0.15% of deposits
Finland 69/92/98	All deposits	100 percent	Per depositor	Funded	Banks & loans	Between 0.01% and 0.05%of total assets
Canada 1967	Demand, time, retirement and pension (excluding interbank)	Can.$60,000	Per depositor	Funded	Banks & loans	0.16 of 1% of insured deposits
Columbia 1985	Domestic currency	25% of total or Col.$10 million	Per depositor	Funded	Banks	On short term liabilities savings and housing 0.09%
Venezuela 1985	Domestic currency	Bs. 4 million	Per depositor	Funded	Banks & loan	0.5% of total deposits every 6 months

DESIGNING AND IMPLEMENTING DEPOSIT INSURANCE FUND FREQUENTLY ASKED QUESTIONS

QUESTIONS	ANSWERS
Are all CFIs forced to be part of the membership?	Membership in the deposit insurance system is made compulsory by many countries and they also tend to subject membership to effective supervision and regulation.
What is covered by the fund? Are there any exclusions?	Most systems cover core demand and savings deposit products and excluded coverage of non-deposit products.
When are depositors reimbursed?	Most systems attempt to reimburse depositors as quickly as possible. Reimbursement periods vary depending on the quality and security of bank deposit records.
Why is Information Sharing & Interrelationships important between Safety-Net Players?	Information sharing and co-ordination of the deposit insurer activities is important and given high priority – most countries use both formal and informal mechanisms to exchange information and coordinate their activities.
Who is responsible for Public Information & Awareness?	Member institutions must be responsible for providing information provided by deposit insurers to the general public through public awareness campaigns and other initiatives.

Companies and Intellectual Property Commission

WHEN CIPC DEREGISTERS YOUR COMPANY

Should the Companies and Intellectual Property Commission (CIPC) did not receive your CFIs annual return on the due date, it will assume that the co-operative is inactive and will start the deregistration process – the legal effect of which is that **the CFI ceases to exist.** *Deregistration is disastrous*

THAT HAS SERIOUS CONSEQUENCES –

- Anything you do as a director is automatically void (putting both you personally and your company at significant risk), and
- All the company's assets automatically become owned by the State.

Although CIPC says it will notify you before deregistration, many companies are deregistered without their knowledge. Our courts have been faced with many disputes arising from such companies innocently continuing business when no one - neither the directors nor the third parties with whom they transacted - had the faintest clue that the company had in fact ceased to exist.

REINSTATEMENT – THE PITFALLS

If it happens to you, apply for re-instatement of your company immediately. You are in for cost, hassle and delay. More seriously, you risk failure - for example interested third parties must be given the opportunity to object to the reinstatement (you have to advertise, giving 21 days' notice of your application).

IS REINSTATEMENT RETROSPECTIVE? THE SCA HAS SPOKEN

Does a reinstatement order validate contracts, sales etc. entered into by a deregistered company during its period of non-existence? It's an important question, with for example directors risking personal liability for "corporate actions" whilst no company actually existed, innocent buyers of company assets at risk of losing them, etc. Until recently, conflicting High Court decisions led to much concern and confusion in this regard.

Fortunately the Supreme Court of Appeal (SCA) has now settled the matter - reinstatement is fully "retrospective", the company's actions during deregistration are automatically validated, and its assets automatically revest in it.

Inevitably though, trading in a non-existent company leaves a mess which may require more clean up than just simple reinstatement. For example if anyone has been prejudiced, you or an affected third party may have to apply for a special court order to remedy the situation.

DIRECTORS – YOUR ESSENTIAL ACTION LIST

Don't risk all that uncertainty, delay and expense in the first place. You certainly don't want to be trying to run your business in a non-existent company with the millstone of a prolonged and uncertain reinstatement application around your neck!

DO THESE TWO THINGS NOW -

1. Ensure that you have in place a rock-solid process for always lodging your annual returns with CIPC every time, on time; and
2. Check that your company's status is reflected by CIPC as "In Business" on www.cipc.co.za (use the "Name/ Enterprise Search" section).

EVENT CALENDER

EVENT	LOCATION	DATES
Regulatory Roundtable	Accra, Ghana	3 – 6 June 2015
WOCCU Conference	Denver, USA	12 – 15 July 2015
ICURN Annual Conference	Denver, USA	15 – 17 July 2015
Performance Management Conference	Nairobi, Kenya	3 – 7 August 2015
CFI Indaba	Free State, South Africa	14 – 16 October 2015

WORDS OF WISDOM

"The greater danger for most of us lies not in setting our aim too high and falling short; but in setting our aim too low, and achieving our mark." – *Michelangelo*

"The function of education is to teach one to think intensively and to think critically. Intelligence plus character - that is the goal of true education." – Martin Luther King, Jr.

"Attitude is a little thing that makes a big difference." – Winston Churchill

CO-OPERATIVE
BANKS DEVELOPMENT AGENCY

27th Floor, 240 Madiba Street | Private Bag x115 Pretoria 001 | Tel: 012 315 5367 |
Fax: 012 315 5905 | eMail: cbda@treasury.gov.za