



Address to the Co-operative Financial Institutions Indaba on the Role of Co-operative Financial Institutions

20 October 2011

Deputy Minister of Finance, Mr. Nhlanhla Nene, MP

Ladies and gentlemen, it is my pleasure to be invited to deliver this keynote speech at your Co-operative Financial Institutions (CFI) Indaba.

I am informed that the indaba coincides with two very important events in the global co-operatives calendar.

Firstly, today, the 20th of October, we join the global financial co-operative movement in celebrating the International Credit Union day (ICU), where the world celebrates the important economic and social contributions financial co-operatives make to their communities worldwide.

Secondly, on the 31st of October, 2011 the United Nations will officially launch the year 2012 as the International Year of Co-operatives.

The International Year of Cooperatives is intended to raise public awareness of the invaluable contributions of cooperative enterprises, including financial co-operatives, to poverty reduction, employment generation and social integration. The International Year of Cooperatives will also highlight the strengths of the co-operative business model as an alternative means of doing business and furthering socioeconomic development.

The World Council of Credit Unions (WOCCU) reports that globally, financial co-operatives have in excess of US\$1.2 trillion in savings, with over 200 million members. Further, throughout the global financial crisis co-operative financial institutions performed relatively much better than commercial banks. As a result, very few cooperative financial institutions received government recapitalization. Those that may have incurred losses related to the broad economic problems were financially supported by other financial co-operatives in their respective countries. This is in stark contrast to the performance of commercial banks, many of which required public sector support that was financially burdensome to governments and their citizens.

As you are aware, last year the government released the New Growth Path which set job creation as a national priority with a target to reduce unemployment by 10 percentage points by 2020. Among the intended outcomes of this policy direction is the promotion of a more inclusive economy. This was reaffirmed in February this year, when the National Treasury published its policy document titled 'A safer financial sector to serve South Africa better'.

The policy document highlighted that as a country, we cannot achieve social cohesion and sustained economic development unless we work together as South Africans, to address inequalities. That in turn requires above all that we work together to create a sustainable and inclusive financial economy that provides opportunities for more South Africans to engage productively while strengthening financial stability.

We see financial co-operatives as an ideal model to provide space for communities to participate in their own deposit taking financial institutions that can be geared towards their own service needs, in the process allowing for empowerment and self-determination.

However, if the sector is to develop in any significant manner to meet these expectations, your financial co-operatives are going to need to change their mind sets.

For example, to date only Ditsobotla and OSK Co-operative Banks have been registered as co-operative banks since the enactment of the Act. Another fifteen (15) CFIs currently meet the minimum registration requirements of R1 million and 200 members and are in various stages of the application process. The two co-operative banks and these fifteen (15) CFIs have over 85% of the total sector assets. We are also aware of an additional 100 CFIs, which are smaller in size and make up the remaining 15% of the sector's total assets. The onus is on these institutions to grow towards registration as co-operatives banks. It becomes a futile exercise to continue to register financial co-operatives that will end up small, redundant, or worse, lose member savings due to operational and governance weaknesses.

Therefore, we need to move away from this 'small mindset' we don't seem to be able to shake. We do not need lots of weak small financial co-operatives. We should rather have fewer, but larger and stable financial co-operatives. Financial cooperatives need to attract and retain large numbers of active clients to be self-sustainable. You cannot say you are running a financial co-operative, let alone a co-operative bank if membership has remained stagnant at 100 members after 5 years with no discernible growth in savings.

You need to build critical mass, that is, get more members, and build more savings, in order to become successful for the longer term. The objective of every financial co-operative in this room should be to get registered as a co-operative bank, and the first step is meeting the minimum requirements of R1 million in deposits and 200 members. If your financial co-operative is struggling to achieve this, even over a three year time period, then you should pay out the members' deposits and close down, or merge with other financial cooperative to create a larger, growing and more stable financial cooperative.

Secondly, your financial co-operatives need people with the necessary skills to lead and manage member savings. When board members or staff lack the necessary skills, it is the financial co-operatives' responsibility to ensure these officials receive the necessary training. Directors and staff must be fit and proper to run their institutions. This is a legal requirement that Supervisors will be strictly enforcing. The presence of several

government agencies, departments and universities at this Indaba is indicative of their willingness to assist in this regard.

Finally, in order to succeed, financial co-operatives will need to move with the times and afford their members access to IT enabled services through ATMs, cellphones and so forth. Given the prohibitive costs of such IT infrastructure, for the majority of financial co-operatives, this can only be achieved through co-operation to build strength in unity, that is, through a single, vibrant and sustainable movement.

In building this unified movement, members of the primary cooperatives need to abandon their allegiances to the historical secondary cooperatives that were built on the images of the donor organizations that created them. As we all know, these donor driven secondary cooperatives all collapsed when the donors abandoned them in 2002. We now need to build a more unified, inclusive, vibrant and self-sustainable movement by creating a single, new look secondary cooperative for financial cooperatives in South Africa. I hope that by the end of this conference you would have elected an interim leadership structure that will work towards the inaugural annual general meeting of the movement where a new leadership would be elected to drive a new vision with a fresh mandate.

On our part as government, we have created an enabling environment for the activities of financial co-operatives through the Co-operative Banks Act.

In addition, to strengthen your balance sheets and therefore the movement, as well as to increase the repertoire of products you can offer to you members I am glad to announce the launch of the National Treasury's Financial Co-operative Retail Savings Bond specifically for co-operative financial institutions. These 1 year, 2 year and 3 year Co-operative Retail Bonds will provide financial co-operatives with a safe instrument to invest and to earn a competitive return on their members investments with no charges. The bonds also have some additional unique features which take into account the uniqueness of the financial co-operative model, through top ups and early withdrawals. I encourage you to start building up your reserves and strengthening your capital buffers by buying these instruments. We created them specifically for you. Your money is safer with us!

Over and above this, we are aware that the growth and stability of the sector will be greatly enhanced if CFIs are integrated into the national payment system. In this regard, we have already amended the National Payment Systems Act to enable cooperative banks to participate in NPS grid. The Co-operative Banks Development Agency is in advanced stages of assisting to set up an Information Technology platform. This platform will ensure that CFIs get access to the national payment system, essentially allowing them to offer their members additional products such as debit cards and other payment instruments.

Thus, you should take this indaba as an opportunity for building a strong, sound and unified financial cooperatives movement, strengthening the institutional soundness of

the primary financial co-operatives, and foster more constructive relationships between the movement, Government agencies and the Universities. The CFIs, Universities and Government Agencies must use this opportunity to learn from other successful countries present here today on how to better deliver sustainable and inclusive access to financial services.

This conference should also be an opportunity for the sector to proactively increase its partnership, with institutions of higher learning for example, in order to play a more vigorous role in ensuring a sustainable and viable sector focused on long lasting inclusive economic growth.

To conclude, allow me to reiterate that there are significant challenges in the sector, challenges which are not entirely difficult to overcome, if the sector adheres to the co-operative principles i.e. co-operatives co-operating among themselves, member economic participation, concern for the community, among others. It is through adherence to the principles that financial inclusion will lead to higher economic growth and reductions in social exclusion and income inequality.

I look forward to you all registering as co-operative banks.

Thank you.