




SOUTH AFRICA:

COOPERATIVE FINANCIAL INSTITUTION AND COOPERATIVE BANK MEMBER SURVEY

South Africa FSDRP II

2020 | Report No: AUS0002080



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State Secretariat for Economic Affairs SECO

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EXECUTIVE SUMMARY¹

With the help of the World Bank, the Cooperative Banks Development Agency (CBDA) conducted a survey to understand the status and needs of cooperative financial institution (CFI) and cooperative bank (CB) members in South Africa. The intention of the survey was to document how members of CFIs and CBs across South Africa perceive the sector and their views about its future development.

The survey was conducted online between July and October 2020 and it involved 63 quantitative entries. In addition, 25 respondents were engaged on telephone and online video calls (20 minutes each) to expand on their qualitative insights obtained from the online survey. The survey was conducted in seven of South Africa's nine provinces, namely: Gauteng, KwaZulu Natal, Limpopo, Eastern Cape, Northern Cape, North West, and Western Cape. The World Bank also visited and conducted a face-to-face focus group discussion with members of a CFI for an in-depth discussion in Gauteng.

The main purpose of this survey is to feed into the cooperative banking vision and options identified in the discussion paper: Potential Visions and Implementation Strategies for Growing Financial Cooperatives in South Africa. However, this survey will also serve as an important voice for the CFI and CB members that will contribute to the development of the strategy, with the survey aiming to provide insights from the perspective of CFIs and CBs on the ground.

Key survey insights include:

- **General feedback and participation:** CFI and CB members are engaged; they are looking for opportunities to raise their issues, ideas and identify opportunities for the growth of the CFIs and CBs in the sector.
- **General views of CFIs and CBs in South Africa:** Survey respondents indicated that CFIs and CBs give members an opportunity of ownership which they otherwise would not get anywhere else. "It is about people looking after their own" – Survey respondent.
- **Policies:** Members are under the impression that regulatory policies are restrictive and the requirement on CFIs to obtain an additional license to lend funds from the National Credit Regulator, after already obtaining a CFI license, creates false expectations among the institutions' members and severely affects CFIs' ability to generate income and reach self-sufficiency. This is especially true among newer CFIs. Many criteria must be met before an entity can be registered as CFI or a CB.

- **Marketing:** Marketing is an important tool for consumer education, particularly to bring across the knowledge and understanding of what a CFI or CB is. It would be easier for CFIs and CBs to attract more members if the concept is understood by more people outside the sector. Word of mouth between family and friends is currently the key driver in creating awareness.
- **Financial inclusion versus growth potential:** Older generations of South Africans understand what a stokvel² is and therefore want savings and pay-outs. They mostly see CFIs/CBs as an introduction to more formalized financial services. The younger, professional segment tends to be financially included and is looking for a clear value proposition their CFI/CB membership rather than just being part of a saving scheme. They are looking to grow their wealth and are willing to "shop around" for the right financial services provider.
- **The role of the ombudsman:** This is an important role for the CFI sector as it represents an objective and fair process that entities can turn to with complaints. However, some CFI members believe that the sector is too small to have an ombudsman at this stage. CFI members currently look to -- and trust -- their own board members to facilitate conflict resolution. This has been an effective way of resolving disagreements, as these members appear to be happy with the resolution of any issues they have raised.

KEY WORDS AND PHRASES WORD CLOUD

- People investing in people
- People looking after their own
- Unrealistic Policies No Loans license
- Community bank
- Digitization
- Bank for the people
- CFIs want growth
- Member owned
- Formalized stokvel
- Dependence on big banks
- Loy interest loans
- Membership trust
- Sufficient training but not used
- Requirements are too harsh
- No marketing

¹This report was prepared by Mgorosi Mashilo with input from Dave Grace, Juan Buchenau, Claudia Meek and Julian Casal.

²In South Africa a stokvel is a savings society to which members regularly contribute an agreed amount and from which they receive a lump sum payment after an agreed period.

1 — OBJECTIVES

- Provide insights from South Africa's CFI and CB board, management and ordinary members on their perception of the sector, as well as their views about its future development.
- Provide insights on the services provided by CFIs and CBs in South Africa
- Support the preparation of an options paper for the CBDA and National Treasury incorporating a wide range of stakeholder views.

2 — METHODOLOGY

QUANTITATIVE APPROACH

The fieldwork was conducted using the following methods:

- Quantitative online surveys: The project team used an online survey platform where a questionnaire was uploaded, and a link sent to CFIs and CBs to share with their members. Total respondents: **63**.
- Qualitative interview surveys: Video calls and phone calls made to respondents for deeper discussions. Total respondents **25**

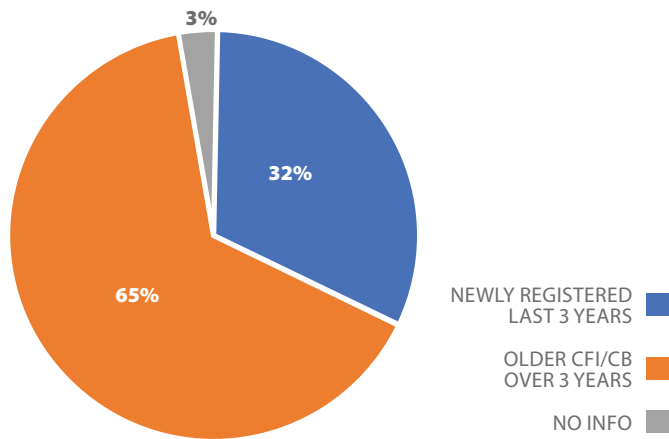
3 — MEMBER DEMOGRAPHICS

The below table is a list CFI/CB who agreed in taking part in the survey. The survey was anonymous with respondents not entering their CFI names thus cannot be verified, however demographics breakdown of age, dwelling and position in CFI/CB are available below.

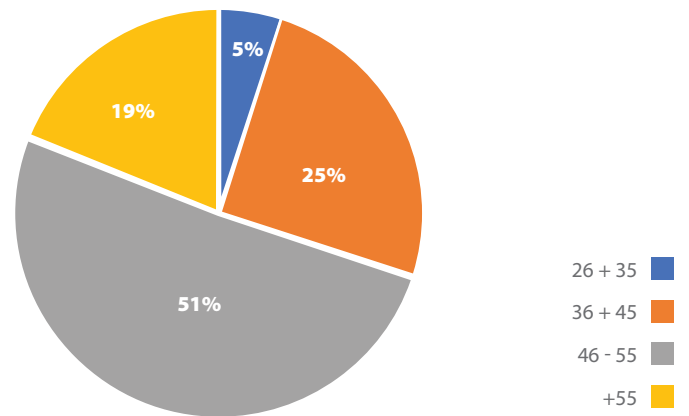
| REGISTERED CFIs | NUMBER OF YEARS | DATE OF REGISTRATION CBDA/PA |
|---|-----------------|------------------------------|
| KWAZULU NATAL | | |
| Kwa Zulu Ladies Empowerment FSC/ Peoples empowerment | 3+ years | 27/03/2013 — 01/01/2020 |
| Ziphakamise Co-operative Bank | 3+ years | 27/03/2013 — 01/01/2020 |
| King Grange | 3+ years | 04/04/2014 |
| Ndlovukazi CFI | Less 3 years | 16/07/2020 |
| King Cetshwayo | Less 3 years | 07/05/2019 |
| Mzansi Rural Arts and Crafts CFI | 3+ years | 25/05/2016 |
| Londoloza FSC | Less 3 years | 30/07/2019 |
| NORTH WEST | | |
| Boikago SACCO | 3+ years | 12/04/2013 — 08/05/2020 |
| Ditsobotla Co-operative Bank | 3+ years | 22/11/2010 — 22/11/2010 |
| Motswedi FSC Ltd. | 3+ years | 14/01/2014 — 08/04/2019 |
| LIMPOPO | | |
| 1.7 mm | 3+ years | 16/04/2013 |
| KuVhanganyani FSC | 3+ years | 04/04/2013 |
| Mutapa FSC | 3+ years | 16/04/2013 |
| EASTERN CAPE | | |
| Kingdom CFI | Less 3 years | 19/03/2020 |
| Imvelo Agricultural CFI | 3+ years | 16/3/2016 |
| NORTHERN CAPE | | |
| "Orania Co-operative Bank (OSK Koöperatiewe Bank Beperk)" | 3+ years | 11/07/2011 |
| GAUTENG | | |
| Webbers SACCO | 3+ years | 09/04/2013 |
| NEHAWU SACCO | 3+ years | 27/08/2013 |
| Umnotho CFI | Less 3 years | 28/05/2019 |
| South African Democratic Teachers Union (SADTU) CFI | | |
| Nagrik CFI | 3+ years | 30/05/2013 |
| General Inheritance Group Financial Co-operative (GIG) | 3+ years | 0/2/2015 |
| Kleinfontein Spaar en Krediet Kooperatief | 3+ years* TBC | |
| Oranjekas Spaar en Krediet Kooperatief | 3+ years | 19/02/2015 |
| SA Primary Medical Financial Co-operative | 3+ years* TBC | |
| Tshwane Community FSC | Less 3 years | 22/11/2017 |
| Ndzhakeni South Avenue Co-operative Financial Services 0 | Less 3 years | 07/04/2020 |
| Young women in Business Network (YWBN) | 3+ years | 02/12/2015 |
| POPLAR frontline Foundation CFI | Less 3 years | 12/09/2017 |
| NEW INITIATIVES | | |
| South African Municipal Workers Union (SAMWU) SACCO | TBC | |
| Worcester Community SACCO | TBC | |

| | | |
|----------------------------------|----|------------|
| Registered over 3 years | 20 | 65% |
| Newly registered in past 3 years | 10 | 32% |
| No information | 1 | 3% (SADTU) |
| Total | 31 | 100% |

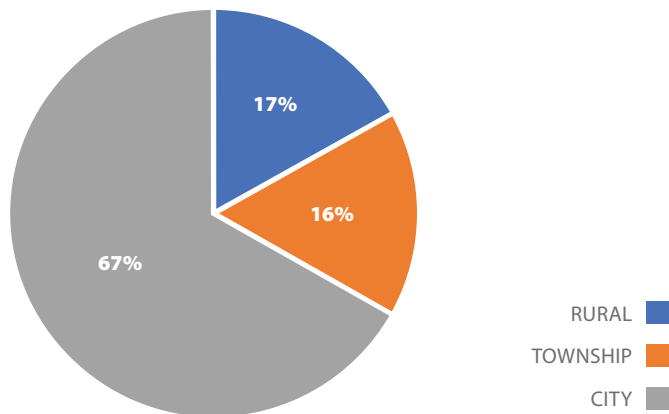
CFI/CB BREAKDOWN



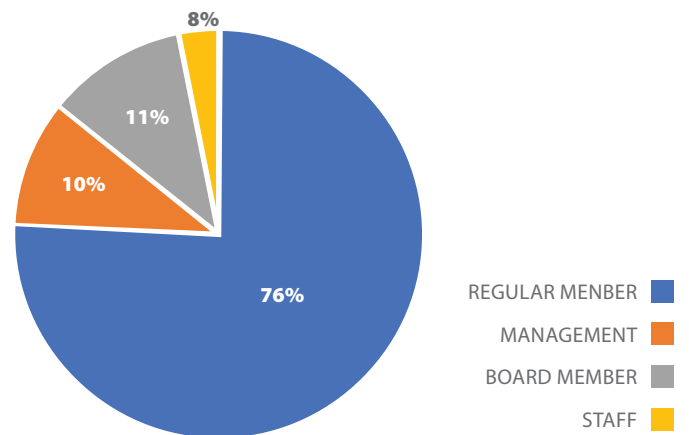
AGE



SETTLEMENT



MEMBERSHIP



Respondents came from the following provinces: Gauteng, KwaZulu-Natal, Eastern Cape, Limpopo, North West, Northern Cape, and the Western Cape.

QUALITATIVE APPROACH

Our qualitative approach mostly focused on conversation with board members. The below list of CFI/CB were personally interviewed for a discussion.

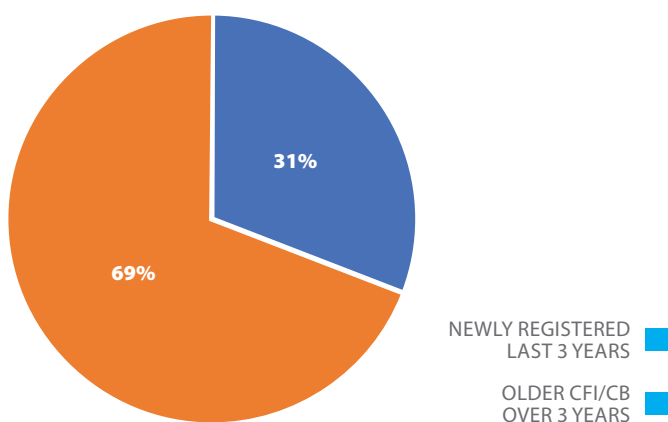
The list in the below table highlights all CFI/CB's that were personally interviewed. We believe this is a representative list of the CF/CB sector in SA

Note: The elaborative comments and quotes on the overall survey are heavily influenced by our qualitative survey discussions from the list below:

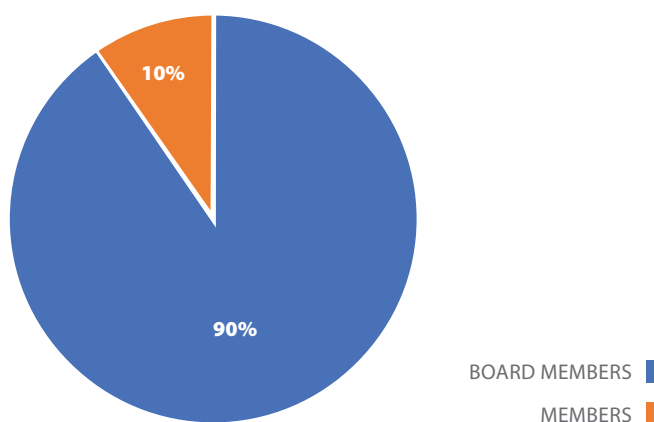
| REGISTERED CFIs | NUMBER OF YEARS | DATE OF REGISTRATION CBDA/PA |
|---|-----------------|------------------------------|
| KWAZULU NATAL | | |
| Ziphakamise Co-operative Bank | 3+ years | 27/03/2013 — 01/01/2020 |
| Ndlovukazi CFI | Less 3 years | 16/07/2020 |
| Londoloza FSC | Less 3 years | 30/07/2019 |
| NORTH WEST | | |
| Boikago SACCO | 3+ years | 12/04/2013...08/05/2020 |
| Motswedi FSC Ltd. | 3+ years | 14/01/2014...08/04/2019 |
| LIMPOPO | | |
| Mutapa FSC | 3+ years | 16/04/2013 |
| NORTHERN CAPE | | |
| "Orania Co-operative Bank (OSK Koöperatiewe Bank Beperk)" | 3+ years | 11/07/2011 |
| GAUTENG | | |
| Webbers SACCO | 3+ years | 09/04/2013 |
| NEHAWU SACCO | 3+ years | 27/08/2013 |
| Umnotho CFI | Less 3 years | 28/05/2019 |
| Nagrik CFI | 3+ years | 30/05/2013 |
| Kleinfontein Spaar en Krediet Kooperatief | 3+ years *TBC | |
| SA Primary Medical Financial Co-operative | 3+ years *TBC | |
| Young women in Business Network (YWBN) | 3+ years | 02/12/2015 |
| POPLAR frontline Foundation CFI | Less 3 years | 12/09/2017 |
| The Black Bank Initiative | Less 3 years | New initiative |

| | | |
|----------------------------------|----|------|
| Over 3 years | 11 | 69% |
| Newly registered in past 3 years | 5 | 31% |
| Total | 16 | 100% |

CFI/CB BREAKDOWN



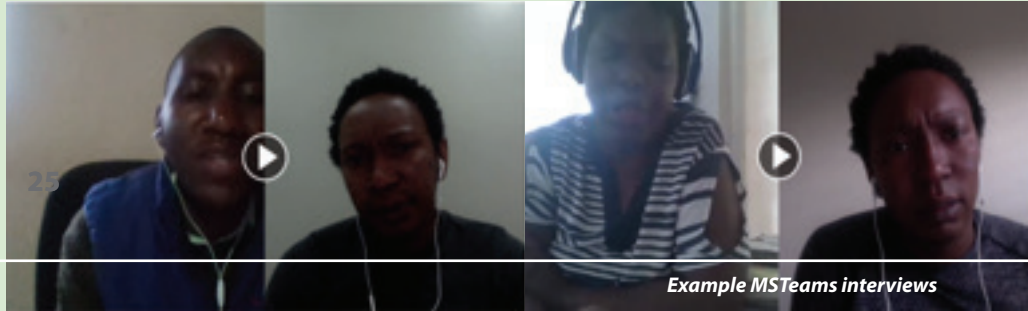
MEMBERSHIP



TOTAL RESPONDENTS:

25

- 14 video calls
- 7 phone calls



Example MSTeams interviews

FACE-TO-FACE FOCUS GROUP DISCUSSION AND SITE VISIT INVOLVING FOUR RESPONDENTS.



Umnotho face-to-face focus group session, Mogale City.

4— SURVEY ANALYSIS AND TOP THEMES

4.1 DEFINING A COOPERATIVE FINANCIAL INSTITUTION OR COOPERATIVE BANK

QUESTION: In your own words how would you define a cooperative financial institution or cooperative bank?

Common themes:

A community bank: A bank for the people by the people.

A bank where people save. A place where people save together.

A bank owned by people with a common bond or purpose

An institution owned by its members. Co-ownership of the bank

Quotes

“People looking after their own”

“We bank together with a common purpose, which is to develop ourselves.”

“Bank that you partly have ownership of”

CFIs and CBs are mostly defined as the people’s bank with most survey respondents understanding the co-ownership concept of what these institutions are. One respondent noted: “It is people looking after their own.”

• Member owned:

A key element of a CFI/CB is that the financial institution is owned by its members, and it is well understood that a CFI/CB’s main goal is to give people the opportunity of ownership and to benefit from the value that it creates. The benefits of

ownership may vary according to what each CFI/CB offers its members; however, the commonality is that members are the owners of the institution.

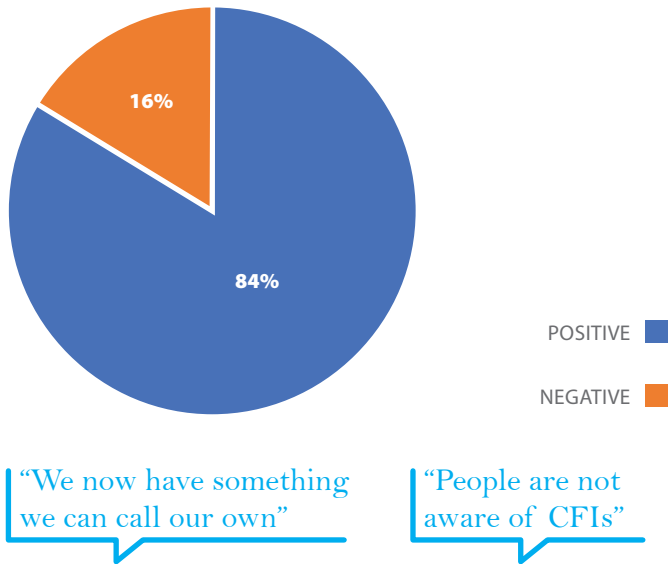
• A collective with a common goal:

Just as stokvels bring together people with a common interest to save for a goal, some members see CFIs/CBs as a formalised stokvel, meaning they facilitate people coming together to save. However, unlike stokvels, CFIs/CBs bring more structure and accountability than a stokvel normally does.

4.2 PERCEPTIONS OF COOPERATIVE FINANCIAL INSTITUTIONS AND COOPERATIVE BANKS

QUESTION: Do you perceive a Cooperative Financial Institution or Cooperative Bank to be positive or negative?

PERCEPTION



84 Percent of respondents had a positive perception of CFIs/CBs:

Most respondents felt that a CFI/CB, sometimes referred to as a "community bank", is seen as a positive financial institution that is beneficial to people. A CFI/CB is seen as a good place to obtain financial assistance for personal and business loans if the CFI/CB is actively lending. Getting a business loan for a small business is perceived to be easier as the CFI does not require the applicant to submit a business plan and projection, which would usually be required from a commercial bank before releasing money for a business loan.

Only 16 percent of respondents had a negative perception of CFIs/CBs:

Negative perceptions of CFI/CBs are usually driven by a lack of information and knowledge about what they are. Some respondents noted that community CFIs/CBs can be perceived as a poor man's alternative to banking, which in turn does little to attract young professionals. Members also highlighted that the term CFI is foreign and needs to be explained to the public, as few people are aware of what these financial institutions are, and if they are legitimate. This perception is compounded as many CFIs have shut down and people, especially the poor, have suffered great losses from the ones that have failed. This has led to a lot of mistrust and speculation

regarding the legitimacy of CFIs. There is also a perception that they are often run by older people who may have little or no knowledge of financial operations and processes.

QUESTION: Is there anything a CFI/CB offers that you cannot get anywhere else?

"Shared economy and empowerment"

"Low rates and quick turnaround process"

"Sense of belonging"

Yes:

Most importantly, CFIs and CBs give members an opportunity of ownership. In addition to ownership, some CFIs/CBs can provide more tangible benefits. For example Umnotho, a CFI, supports its members to purchase land. Over time, it also supports them to build on a plot and own a home. They claim that this homeownership approach is not provided by other commercial banks.

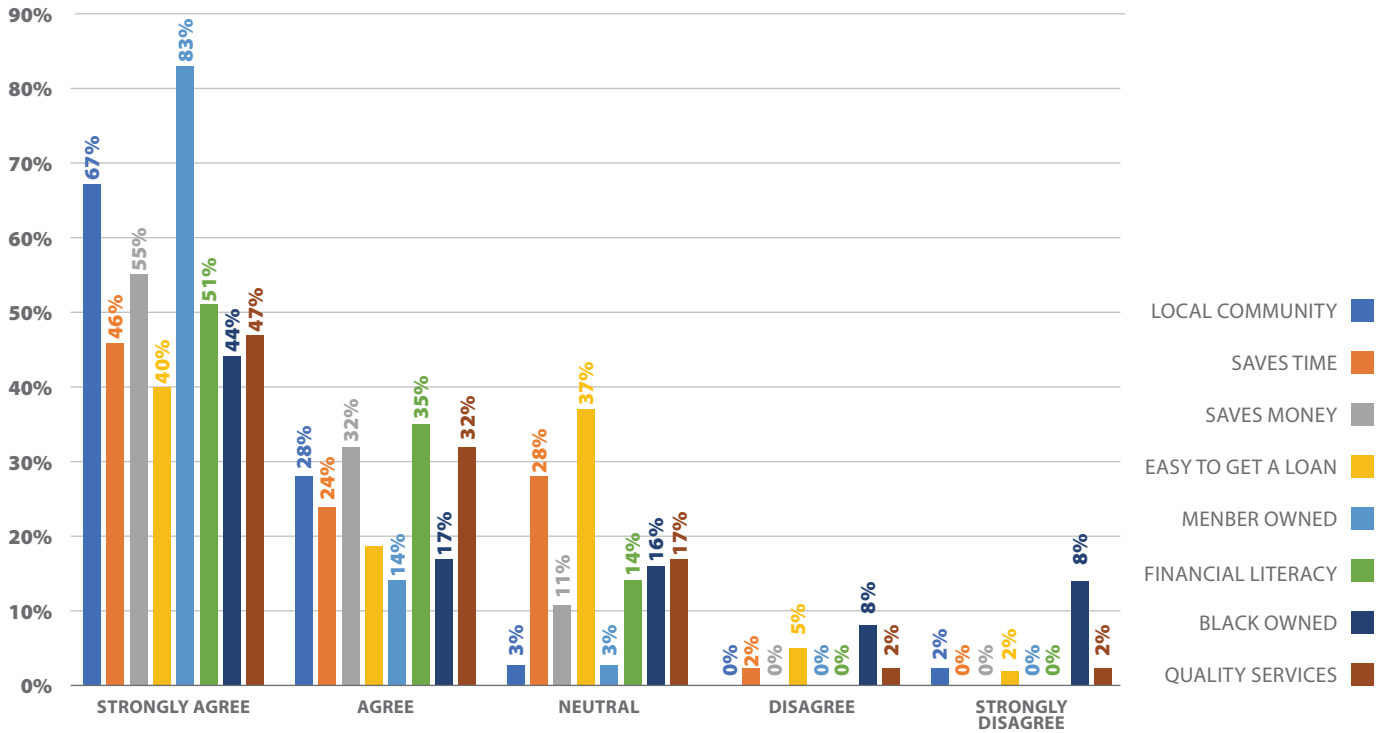
Respondents also noted that the collective savings that one sees in CFIs/CBs is also that of a stokvel approach where members expect a certain return of investment to purchase or fund what they have been saving for with their contributions over a specified period of time. Members feel that CFIs/CBs have a better understanding of their members' needs and can create tailor-made solutions to meet them. This creates a sense of community and family, where members sometimes even know each other by name. CFIs/CBs are also perceived to offer competitively priced loans and are not as strict as traditional banks. CFIs/CBs are also perceived to be a great place to get loans to fund small start-up businesses for their members.

4.3 VALUE PROPOSITION

This section intends to find out the value proposition of a cooperative institution

QUESTION: Why do you use a CFI/CB? (five-point scale)

WHY DO YOU USE A CFI/COOPERATIVE BANK?



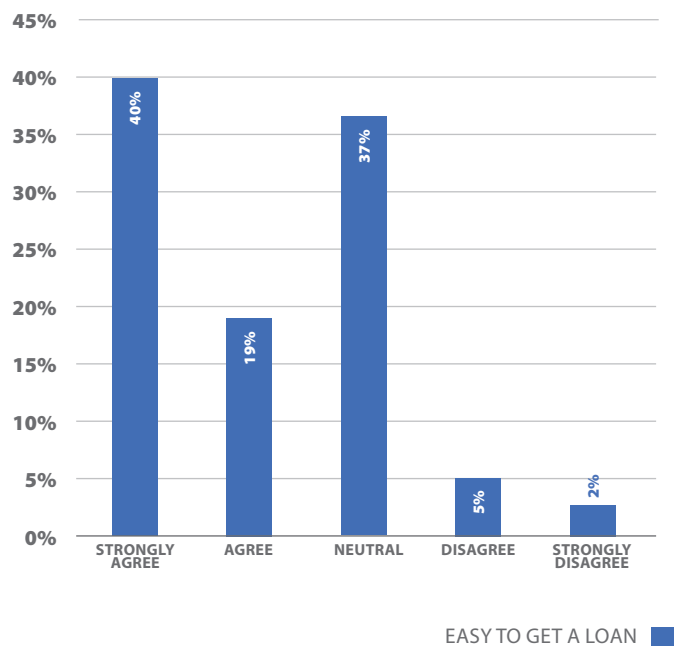
We surveyed members to find out the answer to the question: “why do you use a CFI/Cooperative Bank?”. When comparing the overall results, we see “member owned” and “local community” are the highest drivers in people’s considerations to become CFI/CB members.

“Easy to get a loan” shows an interesting pattern with a very high neutral score, as many of the new CFIs/CBs are still waiting for loan licenses or do not have them, and therefore cannot loan money.

“Blackowned” is considered important by the respondents; however, when compared to other considerations, it is slightly lower due to the members’ point of view that it is good for CFIs/CBs to empower black people but the entities must not be exclusive or discriminatory (22 percent of respondents either disagree or strongly disagree that being “black owned” is the reason they use a CFI/CB).

QUESTION: It easy to get a loan from a CFI/CB

EASY TO GET A LOAN



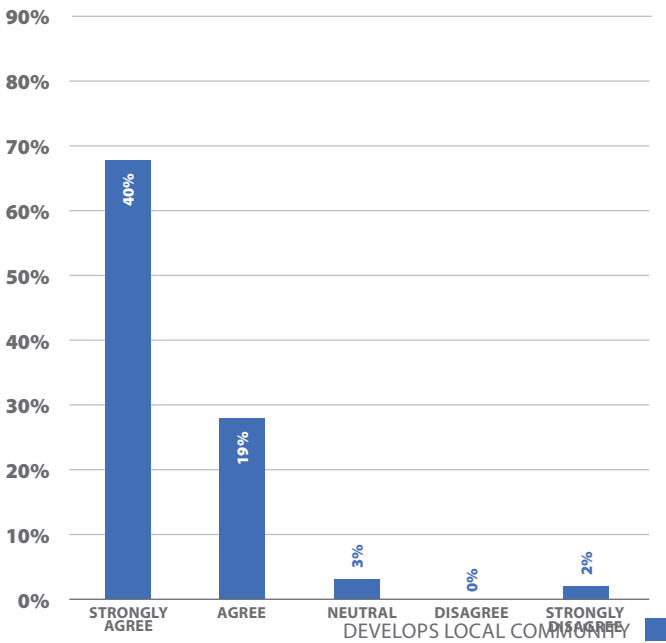
37 percent of respondents were “neutral” on whether it was easy to get a loan from their CFI. It is theoretically easy to get a loan from CFIs/CBs.

However, the long process for these institutions to obtain a loan license from the National Credit Regulator³ means that some of the recently founded CFIs have not yet been issued a license to lend.

The high incidence of “neutral” responses reflects that many CFIs are not licensed for loans or simply do not offer loans. This is a key finding of the survey and has important ramifications for the sustainability of many CFIs.

QUESTION: Using a CFI/CB develops my local community

DEVELOPS LOCAL COMMUNITY



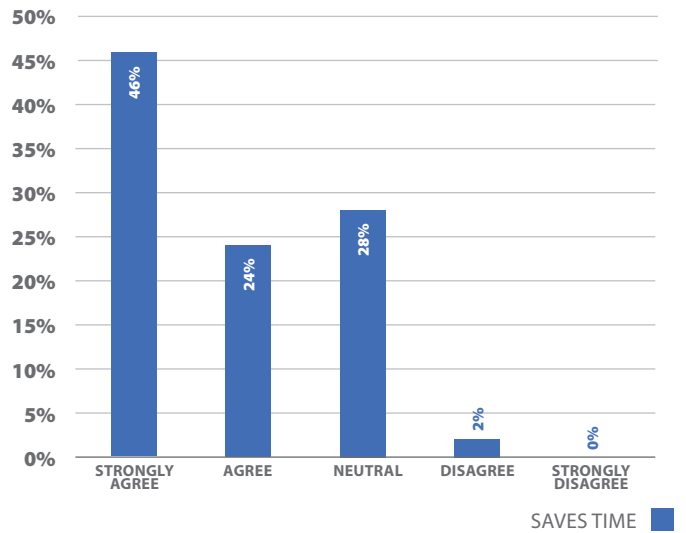
95% of respondents either agreed or strongly agreed that CFIs/CBs do develop their local communities.

This perception is more apparent in institutions where the common bond is geographical, or community based.

Members get to share and assist one another, and CFIs/ Cooperatives are seen to address the needs of their specific community.

QUESTION: Using the CFI/CB saves time (e.g. travel time)

SAVES TIME



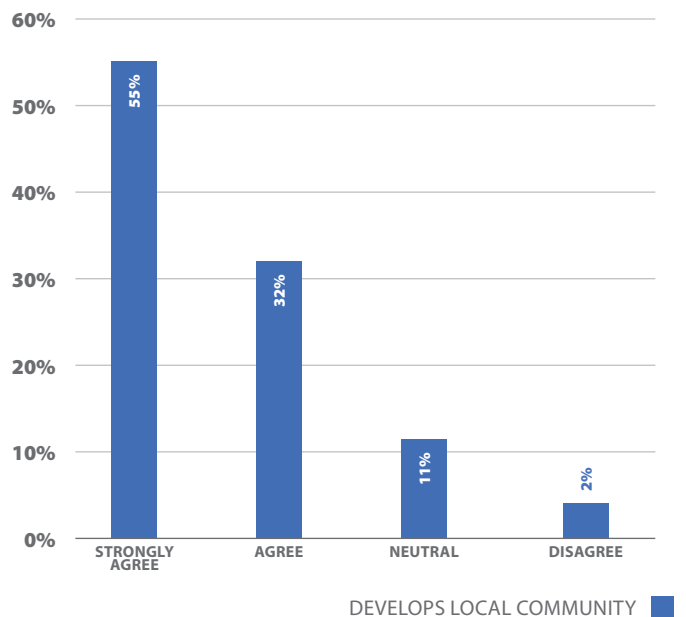
80% of respondents either agreed or strongly agreed that CFIs/CBs save them time.

This is apparent in rural areas where the nearest commercial bank can be kilometers away from an individual’s home, and it may be locally inaccessible.

Other CFIs/CBs who use digital models find this to be convenient and timesaving for members. For others, it is as easy as making a phone call to your local CFI/CB.

QUESTION: Using the CFI/CB helps me to save money

SAVES MONEY



³Although the National Credit Regulator is the reason for needing the additional license to lend, none of the survey participants mentioned this regulator by name. Which is indicative that many board members were not even clear on the channels needed to be fully licensed and that there is a special exemption for developmental finance.

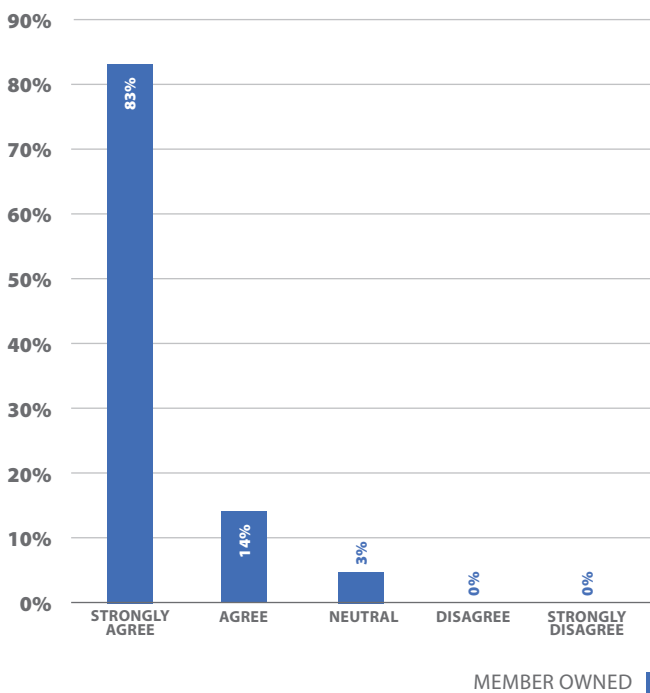
87% of respondents either agreed or strongly agreed that CFIs/CBs save them money.

Respondents who strongly agreed indicated that this is because there is no transaction or monthly fee on savings products, and it is also compulsory for members to save.

They also indicated that members encourage one another to save because the benefits come to them, as owners of the institution.

QUESTION: I use a CFI/CB because it is member owned

MEMBER OWNED



97 percent of respondents indicated that they agree or strongly agree that they use a CFI/CB because it is member owned.

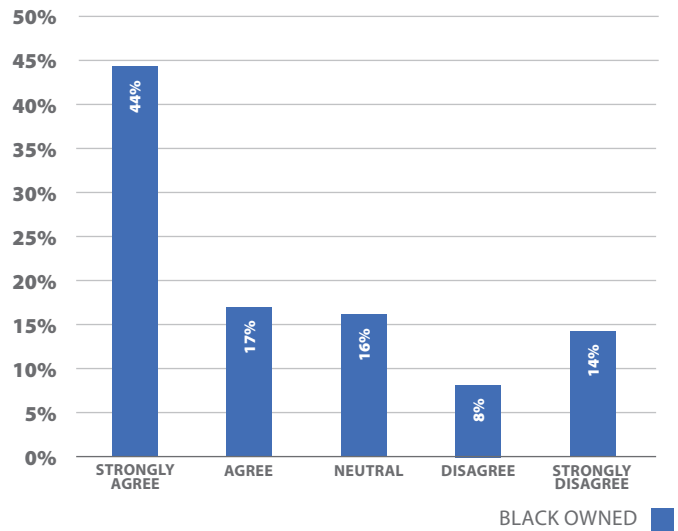
Members strongly agree because they believe that this is the primary function of a CFI/CB and the reason for its existence.

All members are shareholders and can vote in meetings and appoint directors who represent their interests.

Each member has a say and share in the bank and everyone is a part of the decision-making process.

QUESTION: I use a CFI/CB because it is black owned

BLACK OWNED

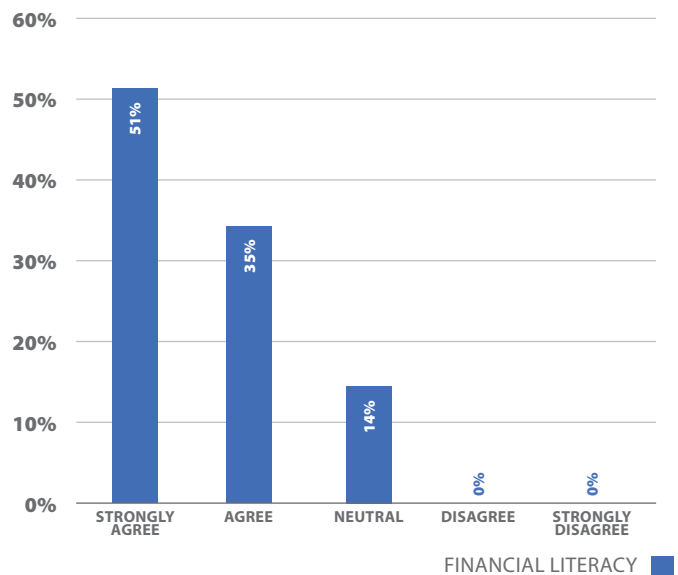


While 61 percent of respondents indicated that they use a CFI/CB because it is black owned, 22 percent of respondents indicated that they disagreed or strongly disagreed with this statement.

Members love the idea that CFIs/CBs give black people a chance to become owners and help the black community to participate in the formal financial sector, as they were previously disadvantaged as a result of the apartheid regime. However, they also believe that CFIs/CBs should not discriminate according to race.

QUESTION: I use a CFI/CB because it provides financial literacy

FINANCIAL LITERACY



86 percent of respondents agreed or strongly agreed that they use their CFI/CB because it provides financial literacy.

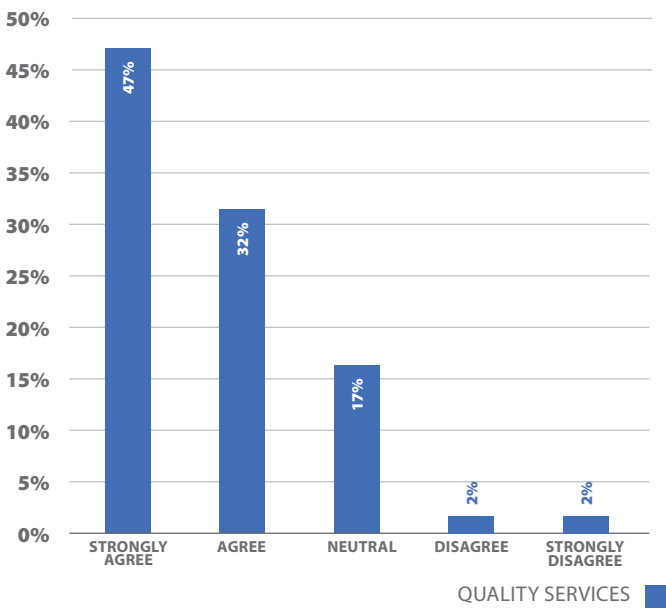
Respondents indicated that new CFI/CB members receive information about the institution and its products and there is advice given regarding loans and savings products. There are also ongoing educational programs, webinars and regular member meetings.

CBDA information and training materials are highly regarded but need to be better timed to match when CFIs have the particular needs for training and that the correct people are being trained.

“The education committee always tries hard to educate members” – member.

QUESTION: I use a CFI/CB because it provides quality services

QUALITY SERVICES



79 percent of survey respondents agree or strongly agree that they use their CFI/CB because it provides quality services.

These members feel that they receive better services compared to commercial banks, and they also appreciate the personal relationships that are formed between members.

For the neutral members, this was usually because the CFI/CB were still in their infancy.

4.4 OTHER NAMES FOR COOPERATIVE FINANCIAL INSTITUTIONS

QUESTION: Is there any other name/s that people call cooperative financial institutions/cooperative banks?

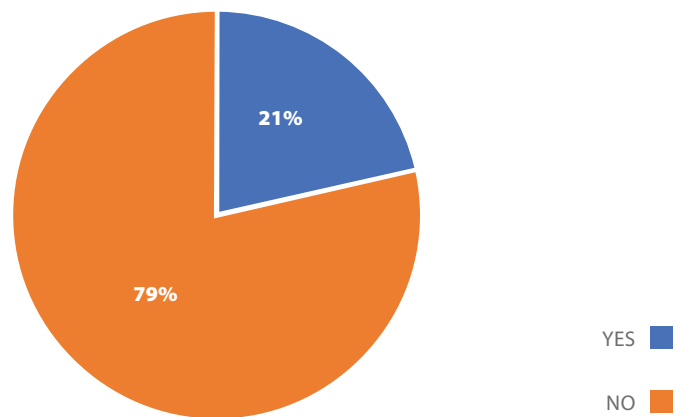
Some respondents indicated that the term corporate financial institution (CFI) is foreign, which often needs explaining. The following are some of the names that some members use to refer to a CFI:

- Community bank
- Formalized stokvel
- Investment club
- Credit union

4.5 CHALLENGES AND OPPORTUNITIES FOR LOANS AND SAVINGS

4.5.1 QUESTION: Do you have a loan from your CFI/CB?

LOAN



“No, we are still waiting for our loan licencing”

“No, I had a loan already before the bank existed”

“No, Our CFI is new and isn’t issuing out loans yet”

Only 21 percent of respondents indicated that they currently had a loan with their CFI/CB, while 79 percent indicated that they do not⁴.

Some recently founded CFIs are currently waiting for loan licencing, and members say this is one of the main reasons they do not save or get loans directly from them. Others do not have a loan with their CFIs as they already

⁴ In comparison, 33% of non-members of CFIs/CBs had loans.

had existing loans elsewhere before they joined their CFIs. Of note is that some members also choose not to save additional funds with their CFI because they also cannot borrow there yet.

- **Loans: Opportunities**

Respondents indicated that CFIs/CBs provide business and personal loans where most financial institutions would not help. This is because the people trust and know one another. Respondents also indicated that the borrowing process is easier through a CFI/CB than it is through a traditional bank. This is, they say, because people are borrowing money from their own people.

- **Loans: Challenges**

Members, in particular board members, believe that their CFI applications for a loan licence were time consuming and create the impression that CFIs/CBs cannot deliver the requested products. This drives members or potential member to seek out loans from the commercial banking system or informal loan facilities, such as informal lenders. This is especially apparent with newer CFIs.

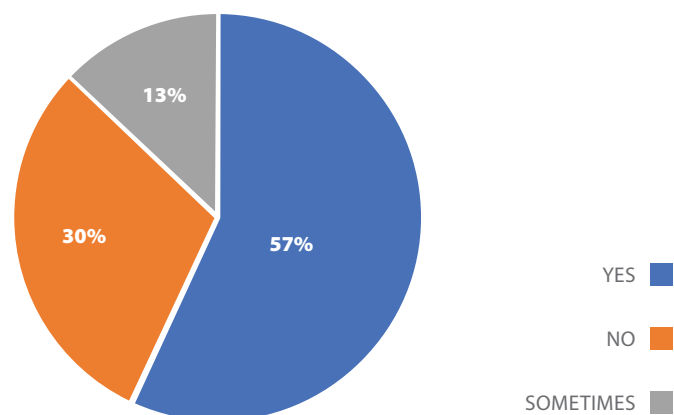
Some respondents mentioned that CFIs and CBs do not have the processing and infrastructure to conduct the appropriate credit assessments. As a member-owned institution, some CFIs/CBs and members work on a “handshake trust basis”, which sometimes may not be a feasible approach to running the institution. This leads to some CFIs/CBs being unable to return members’ savings because of unpaid loans by other members.

Respondents indicated that some structure is needed for members to understand the loaning process without taking away the flexibility of a CFI/CB’s ability to allocate loans more conveniently than a traditional financial institution.

For the bigger and more established CFIs, they still face the issue of not having their own loan collection and debit order deduction facility. This means they must use big third-party banks for this activity. Their fees are high, which ends up costing the CFIs an enormous amount of money, with one CFI stating they pay around R800,000 annually to their third-party bank for the debit order service to collect funds from members.

4.5.2 QUESTION: Are you currently saving with your CFI/CB?

SAVE



57 percent of survey respondents indicated that they are currently saving with the CFI/CB, 13 percent indicated that they sometimes save, and 30 percent indicated that they are not currently saving with their CFI/CB.

- **Savings: Opportunities**

Members indicated that they know they are saving with an entity they own, and the more they save, the more they can contribute to not only their own funds, but also the institution’s and their shares. One member mentioned that a common bond allows for people to save towards a common goal.

- **Saving: Challenges**

Members want high returns over a short period of time – when the concept of a CFI/CB is not well understood, members sometimes expect a quick return and do not fully understand that, just like other institutions, growing money requires patience. When this patience runs out, the members lose interest in participating in the CFI/CB.

Some respondents indicated that in an ideal world, there would be other members who want to save with their CFI/CB but, with some of these entities relatively new and in their growth phase, these members are waiting to see the benefits of their decision to join a CFI and have a sense of security in relation to their funds before starting to save more with their CFIs/CBs.

Surety is one of the key barriers to saving, as past members have lost money through failed CFIs/CBs. This is because, with little or no guarantee for their savings secured, they stand to lose money should the CFI/CB be unable to pay-out to its own members.

4.6 OTHER CHALLENGES AND ISSUES

When the survey team probed further from its original questionnaire to uncover the other underlying needs of the CFI/CB member, the following insights and themes arose in the qualitative discussions: restrictive policies, lack of start-up resources and funds, lack of financial literacy and low levels of management experience, ineffective training, lack of independence, need for greater digitisation and differing ambitions from younger versus older members.

• Restrictive policies and licensing process

Members, and board members alike, believe that the regulatory environment needs to be realistic. They noted that CFI/CBs sometimes do not have the right information or are unaware where these regulations come from and feel restricted by them. Some CFI/CBs have found it a difficult process to register and operate because of the many requirements and processes they must follow in order to become operational. After what CFI/CBs consider a daunting registration process, they then have to go through another long licensing process to issue loans. Some respondents believe that this has limited the CFIs' growth potential due to the number of policy requirements they must overcome⁵. They feel that the process of registration is time consuming. They also noted that by the time a CFI/CB is registered and ready to operate, members have often lost their patience and enthusiasm for the CFI/CB.

One survey respondent gave the following example: "It is like taking a driver's license test. Instead of Treasury trying to help with the process as much as they can, they are instead looking at the reasons why not to give you the certification. It is an elimination process rather than an inclusive process."

"The policies need to be realistic" – CFI board member.

Members feel the policies that are set in place need to reflect the interests of the CFIs/CBs and not hinder their growth. A need to design policies that relate to the needs of the CFIs/CBs is what members are looking for. CFIs/CBs who are currently not operational often cite the lengthy registration process they must go through.

• Lack of start-up resources and funds

Many respondents believe that it is too expensive to start a CFI, even CFI/CBs that are operational feel the pressure from their running operational costs and the need for more proportional regulations. To resource and run a CFI/CB is costly as they need to have the funds to pay their staff monthly salaries and manage their operational expenses. Office space and rent costs are also another factor. The little interest income that the CFIs/CBs make is used for paying these running costs, meaning little or no returns for its members.

• Lack of financial literacy and management experience

Financial literacy training is available, however its implementation is sometimes ineffective, especially among the older generation of CFI/CB members, who might be dealing with formal financial structures and processes for the first time. However, many members are happy with the current financial literacy material supplied by the CBDA. They have access to different formats of financial literacy, including workshops, webinars, and training. The issue is not the material and the training, but it is more to do with the implementation of the lessons they receive. Waiting periods of registering and licensing means, members can wait for months to practice what they have been taught. Without the training's practical application, the recipients' financial literacy deteriorates over time.

Some members also lack the knowledge on how to run a business. Member engagement may not be as high as many CFIs/CBs would like. Although people like the idea of ownership, some are passive and not actively interested in running the CFI/CB. This leaves the task to only a few members who must carry the load for everyone.

Some respondents have been in situations where their CFI/CB is led by members doing their "own thing", which is often not in the interest of the whole CFI/CB but their own personal interests. The common bond of bringing these people together is the same, but the vision of where they want the CFI/CB to be or develop towards is different. This often leads to conflict. In some cases, respondents mentioned that other members within the CFI/CB do not take responsibility for their organization.

• Targeting training better

Training is seen as a valuable tool to assist CFIs/CBs to learn the systems and processes necessary to operate

⁵ Nonetheless, it is significantly easier to obtain a license for a CFI or CB to operate than a commercial bank.

effectively. Because this is the first time that many of their members are running and owning such an institution, many of them need guidance to run the entities efficiently.

Training material provided by the CBDA is seen to be of a high standard, containing valuable information to help members run their CFIs/CBs. However, in some cases training delivery is a challenge. For instance, some of the CFIs attending CBDA training and workshops, which they find informative and empowering, are still in the process of registering their operations, therefore they cannot function. This leads to members getting training they will not use in the short-to-medium term.

There is a perception by some members that other CFI/CB members are flown to different parts of the world to learn best practice from similar institutions. However, they believe that people take these trips mostly for leisure reasons and do not bring this much sought-after information back to share with other local CFIs/CBs. In addition, there is a belief that these funds could be better used for a range of other purposes that are more impactful for local CFIs.

- **Independence and capabilities:**

Another issue raised by CFI members and board members alike is their ambition to be an independent CFI. One respondent indicated that in order to take deposits, their CFI was required to open an account with one of the five big banks, which then dictated the interest rate that they, in turn, charge to their members. Many feel they are given the false belief that their CFI is independent, but they are, in fact, dictated to by the commercial banks that they intend to compete with.

Members discussed the need to be able to receive salary transfers from their employers directly into their CFIs/CBs, as is done in some other countries, but is not possible in South Africa.

“We are expected to follow the stringent policies of banks, but not allowed to call ourselves a bank” – CFI member and board member,

- **Differing ambitions between younger and older members**

Institutions such as Young Women in Business, Umnotho, Nehawu Sacco and other young professional organizations believe that CFIs/CB have far greater potential than just introducing people to

the formalized financial industry. Their members are young ambitious and seeking to grow their wealth. They believe the current policies and structure of the CFI sector are just serving the poor and missing a big growth opportunity to cater for professionals who really want to make an impact on the sector. They still believe in a common bond, but rather their common bond is not geographically limited to a specific community.

Most of the older CFI members strongly resonate with the formalized stokvel sentiment. However, this explanation does not resonate with the younger and more ambitious generation who see a stokvel as an entity for older unbanked people, and so will not want to be part of it. Young people are looking for more growth and something that speaks to them as intellectuals.

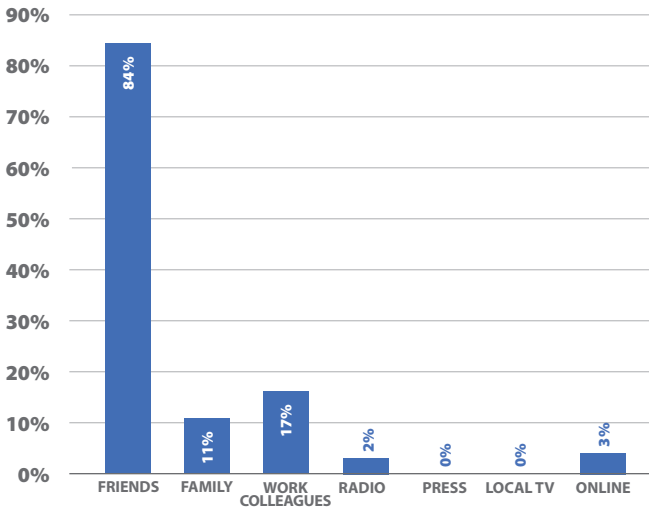
- **Need for greater digitization**

Processes and systems are crucial to improving efficiency in CFIs/CBs, and this can help with the day-to-day running of the business. Some CFIs have developed or adopted third-party IT infrastructure to help them run processes, while others have little or no technology. Some respondents felt that the sector needs an exclusive digital platform that is centralized in order to train CFIs/CBs. The COVID-19 pandemic has highlighted the need for the sector to go digital. It was noted that brick and mortar CFIs/CBs where members physically go into a bank every time they want to conduct a transaction could be more effectively handled digitally. This would allow members to easily transact from the comfort and safety of their homes.

4.7 OPPORTUNITIES FOR COOPERATIVE FINANCIAL INSTITUTIONAL GROWTH

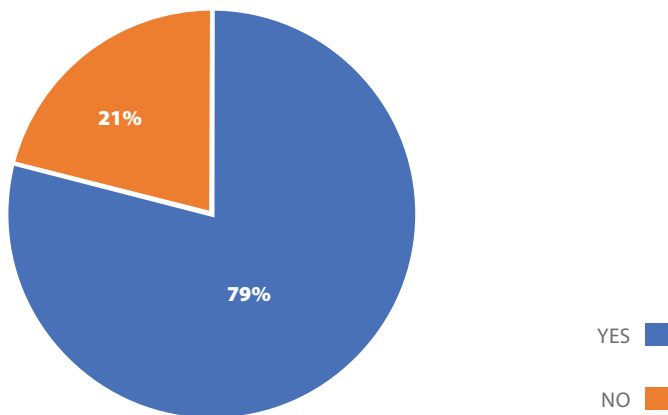
QUESTION: How did you find out about your cooperative financial institution or cooperative bank? (Multiple selection)

HEARD OF CFI



Most members heard about their CFI/CBs through the word-of-mouth process from their friends (81%), work colleagues (17%) and families (11%). Some respondents also mentioned that they had secured work with the institutions and then became members thereafter. Many members feel marketing is lacking, and opportunities lie in local publications and radio stations to amplify the communications around the benefits of CFI/CBs to communities.

QUESTION: Even if the services were to cost a bit more, and were not so convenient would you still use a cooperative financial institution or cooperative bank because it is community owned and black owned? Yes/No



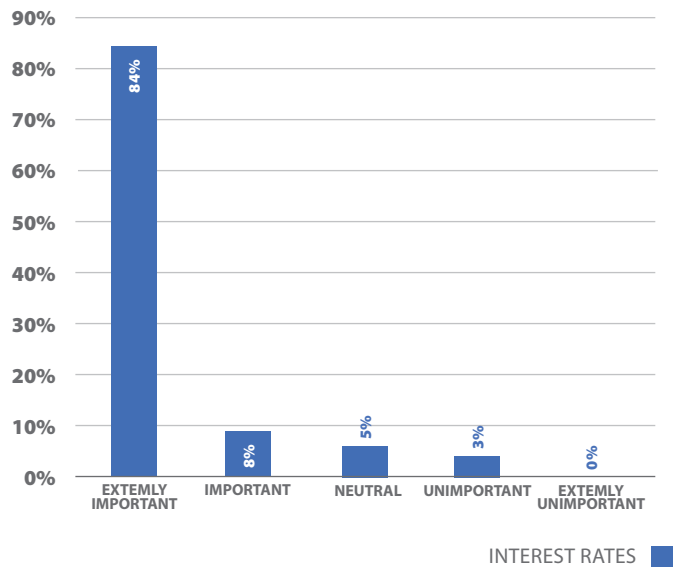
79 percent of respondents agreed that they would still choose a CFI/CB mostly because it was member owned.

QUESTION: What is the primary obstacle that prevents new members from joining a CFI/CB?

Members felt that there is lack of information and understanding of what a CFI/CB is and does. A lack of confidence in CFI/CBs, such as occurred in the VBS Mutual Bank saga, has made people more sceptical about these entities. In many cases members still need a commercial bank account for some transactions. It also emerged that some people think that CFIs are a pyramid scheme.

QUESTION: How important is the interest rate when deciding where to borrow or save money?

INTEREST RATES



84 percent of respondents said that interest rates were an extremely important factor to consider when borrowing money.

Respondents said that reputation and interest rates are the highest factors to consider when people save or borrow money. Black economic empowerment is also considered very important.

For additional services and products from both the financial and non-financial aspects, CFI/CB members would like to see most of the products introduced by their institution. However, they see these as long-term additions, as they are currently struggling with providing basic services like loans.

4.8 ROLE OF THE COOPERATIVE BANKS DEVELOPMENT AGENCY (CBDA)

Members feel that the CBDA's role is to help CFI/CBs prosper. Respondents noted that the CBDA has been of great help in educating and providing information for the sector however its role is still not clearly defined in the eyes of the CFI/CBs. This sentiment stems mostly from board members.

Board members of new CFIs indicated that they have found it a much harder process to open a CFI/CB account for their institution at one of the big banks than to open an account for any other business or NGO because of stringent policies and regulations. They feel that this is where the CBDA can potentially lend a helping hand with easing the process and becoming the voice for the CFI/CBs.

There are many reasons and common bonds that bring about the existence of CFI/CBs. One successful CFI that was interviewed did not start off as a CFI, but rather as an NGO in their community. Others were groups of individuals who wanted to save money together for a common reason but became so big they were told that in order to operate, they needed to comply with the policies, and become registered CFIs. Some of these entities are using money from other initiatives to get by and believe they would otherwise not succeed if they operated solely as a CFI. The inability to generate income in CFI is exacerbated by the low amount of successful lending that many CFIs are engaging in.

4.9 COMPLAINTS PROCEDURE

The following key insights were highlighted from the question that asked if there is a need for a specific ombudsman for CFIs:

- Members indicated that they trust their board members to deal with their claims procedure.
- In scenarios where a claims procedure took place, the CFI/CB was able to handle them successfully without any further complaints.
- There is some knowledge of the Financial Sector Conduct Authority (FSCA) among CFI/CB members, but some of them have not gone to it with complaints, but rather to their own institution's board members.

- Some members felt that an ombudsman for CFIs/CBs would be valuable as they have experience with different complaint scenarios and situations.
- Some members felt that it is a good initiative, but not practical, as the CFI industry is too small for an ombudsman.
- Another respondent indicated that "the whole point of a CFI is for people to govern themselves".
- CFIs are people-focused, and an ombudsman might take away the humanity and trust that members have in their organisations.



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