

**Combined Annual Report
of the
Supervisors of the
Co-operative Banks Development Agency
and the
South African Reserve Bank**

2010/11



Mission

For the Supervisor in the Co-operative Banks Development Agency (the CBDA) to focus primarily on the registration and development of sustainable and responsible co-operative banks and, together with the Supervisor in the South African Reserve Bank (SARB), promote the soundness of the co-operative banking sector through effective regulation and supervision of co-operative banks in the interests of their members and the economy.

Business philosophy

The Supervisors of co-operative banks, appointed by the CBDA and SARB respectively, follow a co-ordinated approach to ensure the consistent application of the Co-operative Banks Act 40 of 2007 (the Act), and to circumvent regulatory arbitrage. The Supervisors' objective is to gain a proper understanding of the operation of all co-operative financial institutions, and to apply and adapt international regulatory and supervisory standards to cater for the unique needs of the local co-operative banking sector. This is done through a relationship of mutual trust and co-operation with all role-players in an effort to promote and enhance the accessibility of sound financial services to all South Africans.

Combined Annual Report of the Supervisors of the Co-operative Banks Development Agency and the South African Reserve Bank for the financial year ending 31 March 2011 in terms of section 52 of the Co-operative Banks Act 40 of 2007. This report mainly presents an overview of the exercise and the performance of the Supervisors' powers and functions for the period ending 31 March 2011.

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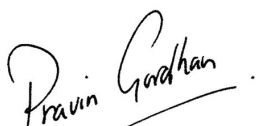
Foreword by the Minister of Finance

The South African Government passed the Co-operative Banks Act 40 of 2007 (the Act) as part of its financial inclusion initiatives. The successful establishment of an appropriate regulatory structure, setting up of the Co-operative Banks Development Agency (the CBDA), and the appointment of the co-operative bank Supervisors by the CBDA and the South African Reserve Bank (SARB) are positive developments for member-based banking in South Africa.

Confidence in the co-operative financial sector has, no doubt, been enhanced by the registration of the first co-operative bank in South Africa, Ditsobotla Primary Savings and Credit Co-operative Bank Limited (Ditsobotla), which provides its members with a limited liability and democratically controlled institutional structure through which a range of regulated financial services are provided. The continued dedication of Ditsobotla's members to applying the co-operative principles and the efforts of all the role-players are acknowledged in achieving this milestone.

Co-operative banks should not be seen as an appendage to the current banking sector, but as an alternative in providing access to sound financial services. The effective implementation and enforcement of the Act, through increased registration of co-operative banks, should not only promote access to finance, but also support the economic and financial empowerment of communities. Organic growth of co-operative banks has the potential to increase effective participation of community members in the economy resulting from responsible member-based funding of new economic activities.

The level and quality of member participation, the skills of members of boards of directors and managers, and general knowledge of co-operative principles are relatively low at present. The extent to which co-operative banks' financial outreach will improve over time, and the level of interaction between communities and the broader economic sectors will largely depend on the success of the CBDA in achieving the development objectives of the Act, and on the Supervisors' role in ensuring that registered co-operative banks are appropriately and effectively regulated and supervised.



Pravin Gordhan
Minister of Finance



Chapter 1: Introduction and the Supervisors' overview

1.1 Introduction

In terms of section 52 of the Act, the Supervisor in the CBDA and the Supervisor in SARB must submit to the Minister of Finance an annual report on the exercise and performance of their powers and functions in terms of the Act, and report on the implementation of their Co-operation and Co-ordination Plan in accordance with section 42 of the Act.

The CBDA, with the approval of the Minister of Finance, appointed D de Jong as Supervisor of primary co-operative banks that hold deposits in the range of R1 million to R20 million (CBDA Supervisor). In a similar manner, SARB appointed A Bezuidenhout as the Supervisor of primary co-operative banks that hold deposits in excess of R20 million, and of secondary and tertiary co-operative banks (SARB Supervisor).

In accordance with the Co-operation and Co-ordination Plan submitted to the Minister of Finance on 9 November 2009, the Supervisors combined their statutory reporting duties on the exercise and performance of the powers and functions conferred on them by the Act. This annual report, the *Combined Annual Report of the Supervisors of the Co-operative Banks Development Agency and the South African Reserve Bank (Combined Annual Report)*, for the period ending 31 March 2011, includes the implementation of the Co-operation and Co-ordination Plan dated 9 November 2009 (Appendix A).

The general functions and powers of the Supervisors are listed in Chapter VIII of the Act. The Act confers on the Supervisors, *inter alia*, the power to

- register and de-register co-operative banks;
- issue rules, guidance notes and directives with regard to any matter that is required or permitted to be prescribed in terms of the Act;
- impose an administrative penalty on a co-operative bank for any failure to comply with a provision of the Act;
- carry out inspections; and
- take any measures considered necessary for the proper performance and exercise of the Supervisors' functions or duties.

While the *Combined Annual Report* focuses primarily on the exercise and performance of the Supervisors' powers and functions, it also covers a brief history of the events that led to the integration of member-based banking into the formal financial sector, and explains the place of this form of banking in the financial regulatory framework. Furthermore, developments in co-operative legislation are discussed, challenges facing the sector are pointed out and the process leading to the registration of the first co-operative bank is explained. The matters that require specific attention during the next financial year are discussed in Chapter 4.

1.2 Brief overview of the history of community-based legislation

According to MNigrini,¹ the first co-operative (i.e., a consumers' co-operative) was established in 1892 in terms of the Companies Act. In 1908 the first Co-operative Act was passed, followed by the Co-operative Societies Act 28 of 1922. Following the recommendations made by the Commission of Inquiry into Co-operatives and Agricultural Credit of 1934, the Co-operative Societies Act 29 of 1939 came into operation on 1 September 1939. This Act was replaced with the Co-operative Act 91 of 1981, which made provision for trading co-operatives. The focus was, however, still on agricultural and farming activities.

¹ *Provision of Financial Services by Means of Financial Service Co-operatives: A Preliminary Investigation into Financial Service Co-operatives in South Africa*, <http://www.essa.org.za/download/papers/007.pdf>.

During the Financial Sector Summit held in August 2002, government, business, community and labour constituencies of the National Economic Development and Labour Council (Nedlac) agreed on strategies to ensure that the financial sector becomes more efficient in the delivery of financial services, which would enhance national savings and access to finance.² It was agreed that the proposed strategies should

- assist the financial sector in providing sustainable and affordable banking services, contractual savings schemes, and credit for small and micro-enterprises and poor households;
- support higher levels of savings and investment overall;
- expand developmental investments that create employment, raise living standards and strengthen the economy; and
- encourage broader and more representative ownership, control and employment in the financial sector itself and in the economy as a whole.

Furthermore, the Presidential Growth and Development Summit held in July 2003 endorsed special measures to support co-operatives as part of strategies for job creation in the South African economy. The responsibility for co-operatives in government was transferred from the Department of Agriculture to the Department of Trade and Industry (dti). The existing Co-operatives Act 14 of 2005 (Co-operatives Act) was implemented, replacing the previous Act, and enabled the registration of financial co-operatives. Before the Act was implemented, all co-operative financial institutions (CFIs)³ and other member-based co-operatives that pooled funds (i.e., took deposits) and utilised them for the benefit of their members could only operate legally if they relied on self-imposed regulation to protect the interests of their members in accordance with exemption notices issued in terms of the Banks Act 94 of 1990.

Exemption Notice No. 2173⁴ allows informal member-based groups to pool funds and utilise the funds for the benefit of their members on condition that a common bond exists between members within the group, relying on self-imposed regulation to protect the interests of their members. The focus of this exemption notice is on *stokvels*,⁵ savings and credit co-operatives (SACCOs), and employee savings clubs. Such deposit-taking institutions must be affiliated with the Savings and Credit Co-operative League of South Africa (SACCOL) or the National Stokvel Association of South Africa (NASASA), being the self-regulating bodies of the deposit-taking financial institutions operating under this exemption notice. NASASA represents the interests of the *stokvel* movement in South Africa, and SACCOL is a registered co-operative that regulates and monitors the activities of SACCOs in South Africa. SACCOL also provides capacity-building services to affiliated members. The limit for holding member subscriptions (savings) was increased to R30 million with the issuance of Exemption Notice No. 1176.⁶

Exemption Notice No. 367⁷ allowed financial services co-operatives (FSCs) to be regulated by the Financial Services Association (FSA). The FSA offered a centralised support structure for FSCs and assumed regulatory responsibility for member FSCs. Financial Solutions (FinaSol) was later included as one of the self-regulatory bodies for FSCs. In 2002, however, FSA and FinaSol had to terminate their operations when grant funding stopped. Between 2003 and 2007, National Treasury (NT) contracted a local audit firm and SACCOL to conduct a detailed audit of the sector with the primary objective of determining the viability of CFIs. NT offered a payout of member deposits of non-viable CFIs registered with the dti that opted to cease operations. As a consequence, a total of approximately

2 Declaration of the Financial Sector Summit dated 20 August 2002.

3 For purposes of this report, CFIs include financial services co-operatives, savings and credit co-operatives, credit unions, and similar types of deposit-taking financial institutions.

4 Published in *Government Gazette* No. 16167 dated 14 December 1994 and subsequently replaced with Exemption Notice No. 1176 published in *Government Gazette* No. 29412 dated 1 December 2006.

5 *Stokvels* are clubs, associations or syndicates in which members contribute regularly and receive payouts in rotation.

6 Published in *Government Gazette* No. 29412 dated 1 December 2006.

7 Published in *Government Gazette* No. 18741 dated 10 March 1998.



R5 million was paid to the depositors of 16 of the 63 CFIs in an attempt to close them down. FSCs that were viable and those that elected to remain functional continued to operate in the absence of a regulatory body. The situation was regularised in 2008 when the South African Microfinance Apex Fund (samaf) was mandated to assume the regulatory responsibilities for FSCs through the issuance of Exemption Notice No. 887.⁸

Following the Financial Sector Summit, the Standing Committee for the Revision of the Banks Act 94 of 1990 discussed ways in which to implement the Nedlac agreements, in particular the need for enabling legislation for deposit-taking financial institutions that would operate according to the co-operative principles and that would enjoy adequate prudential oversight. The first policy paper on co-operative banks and the Co-operative Banks Bill became publicly available in 2004. Following wide consultation and amendments to the Bill, it was finally deliberated and adopted in Parliament on 4 September 2007. The Act was published on 22 February 2008 and implemented on 1 August 2008. The chronology of events that led to the publication of the Act, the Regulations issued in terms of section 86 of the Act (Regulations) and the Rules issued in terms of section 45 of the Act (the Rules) is covered in Chapter 3.

1.3 Organisational developments

1.3.1 Introduction

All CFIs that meet the deposit and membership requirements of the Act⁹ are required to apply to register as co-operative banks. Those that operated under the exemption notices at the time when the Act was implemented had to apply for registration not later than 1 August 2009. Until registered as co-operative banks, CFIs continue to operate under the exemption and are regulated by the designated self-regulatory bodies. To enable the registration of co-operative banks, the CBDA established a Co-operative Banks Supervision Unit. A similar unit was established in SARB, initially in the Financial Stability Department, but it is now situated in the Bank Supervision Department. The respective organisational structures are discussed below.

1.3.2 Current structure of the Co-operative Banks Development Agency

The implementation of the Act enabled the establishment of the CBDA. On 15 August 2008, in terms of section 58 of the Act, the Minister of Finance appointed 11 persons as members¹⁰ of the CBDA Board of Directors (the Board) for a period of two years, followed by the appointment of the existing board members.¹¹

The CBDA, a schedule 3A public entity,¹² was established to support, promote and develop co-operative banks; accredit and regulate representative bodies; support organisations; and to supervise and regulate primary co-operative banks with deposits of R1 million to R20 million, and membership of at least 200.

The CBDA's regulatory and supervisory function is located in its supervisory unit. The unit comprises the Supervisor, D de Jong,¹³ the examiner, M Kuhlengisa, and an administrative assistant, M Mafojane, who provides administrative assistance to both the Supervision

8 Published in *Government Gazette* No. 31342 dated 22 August 2008.

9 A primary co-operative registered under the Co-operatives Act that takes deposits, has 200 or more members, and holds deposits of members to the value of R1 million rand or more must apply for registration. All secondary or tertiary co-operatives registered under the Co-operatives Act, whose members consist of at least two or more co-operative banks or two or more CFIs that take deposits or one co-operative bank and one CFI that take deposits must apply for registration.

10 *Government Gazette* No. 31336 dated 15 August 2008.

11 S Ndwandwe (Chairperson); E J Kuzwayo (Deputy Chairperson); D Hamilton; K Mahuma; V Satgar and J Theron were reappointed as members of the CBDA Board for a period of three years with effect from 1 October 2010. O Matshane and P Koch were appointed as new members of the CBDA Board.

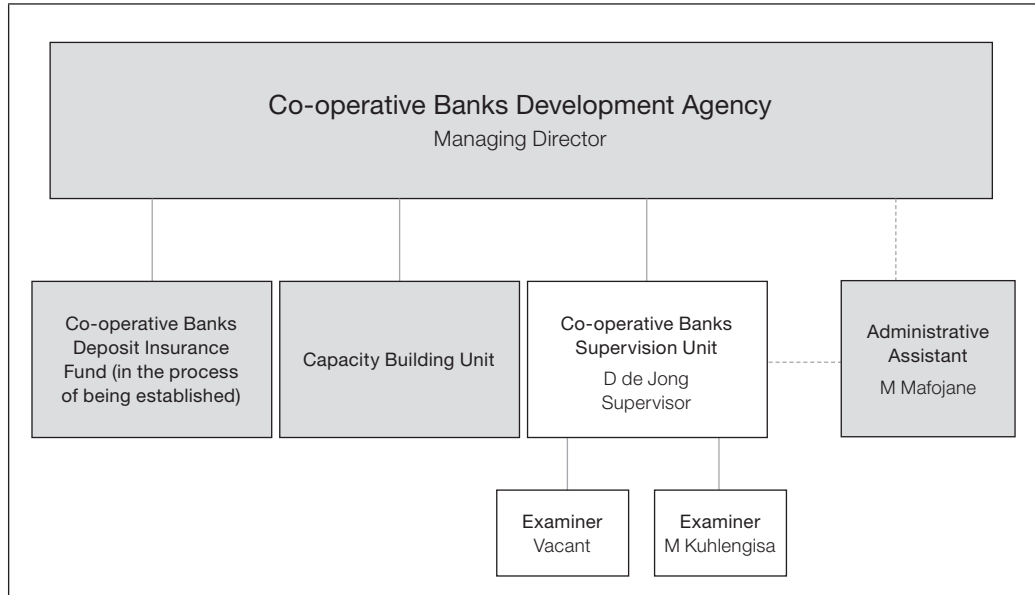
12 Listed as a Schedule 3A public entity in terms of the Public Finance Management Act 1 of 1999.

13 D de Jong has 16 years' experience in the support and regulation of CFIs.



and Development units in the CBDA. The team has a lot of experience in developing and implementing the required framework for regulating and supervising co-operative banks, including on- and off-site supervision. One additional post has been created and will be filled during 2011. The current structure is depicted in Figure 1.

Figure 1: Structure of the Co-operative Banks Development Agency



Further organisational developments are expected once the Co-operative Banks Deposit Insurance Fund has been established in terms of section 25 of the Act (Deposit Insurance Fund). There will be close co-operation between the Supervision Unit and the management of the Deposit Insurance Fund, once established.

The Act also mandates the CBDA to assist co-operative banks with liquidity management and to provide them with financial support.¹⁴ This function must also be catered for within the CBDA and it is expected that, in line with international best practice, it will be separate from the supervisory function.

1.3.3 Current structure in the South African Reserve Bank

SARB's responsibility for regulating and supervising co-operative banks in terms of the Act was initially assigned to a unit in the Financial Stability Department by a Governor's Executive Committee resolution dated 16 September 2008.

SARB Supervisor has the authority to exercise the powers and to perform the functions in accordance with the Act in respect of primary co-operative banks that hold deposits in excess of R20 million, secondary co-operative banks and tertiary co-operative banks.¹⁵ On 24 June 2009, the Minister of Finance approved the appointment of A Bezuidenhout, the then Head: Financial Stability Department, as the Supervisor.¹⁶ On 1 August 2009 P Rossouw and T Gape were appointed to assist the Supervisor with regulatory and supervisory responsibilities respectively in accordance with the Act. Additional posts have been created to assist with the regulation and supervision of co-operative banks registered with SARB. These positions are currently vacant, but once justified by more registrations, suitable staff members will be appointed.

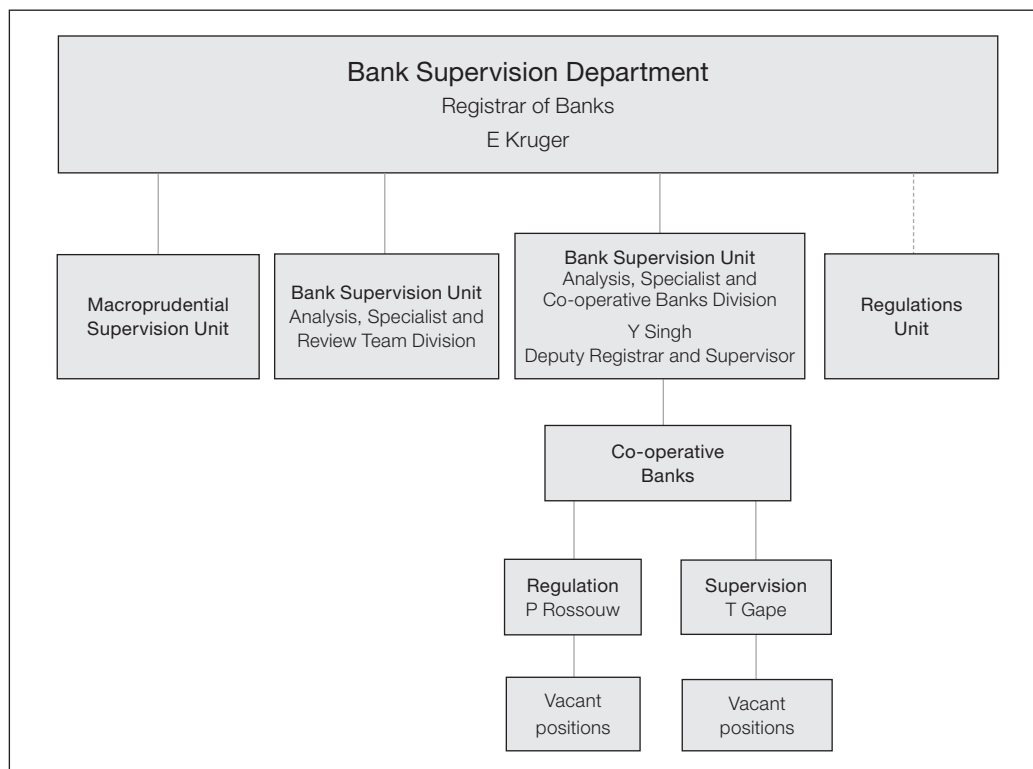
¹⁴ By providing loans and grants to co-operative banks.

¹⁵ The members of secondary or tertiary co-operatives must consist of at least two or more co-operative banks; two or more CFIs that take deposits or one co-operative bank and one CFI that take deposits.

¹⁶ A Bezuidenhout is a Chartered Accountant (SA) and has 30 years' experience in accounting, auditing, and financial regulation.

With effect from 1 December 2010, however, A Bezuidenhout was appointed to the position of Head: Risk Management and Compliance Department; a newly created department in SARB. Furthermore, following the integration of SARB's Financial Stability Department with the Bank Supervision Department in January 2011, the Co-operative Banking Supervision Unit became part of the Bank Supervision Department. On 15 June 2011 the Minister of Finance appointed Y Singh,¹⁷ Deputy Registrar of Banks in the Bank Supervision Department, as the new Supervisor. The current structure is depicted in Figure 2.

Figure 2: Structure of the South African Reserve Bank



1.3.4 Responsibilities

Apart from the registration of co-operative banks, the staff members of both the CBDA and SARB are primarily responsible for the two logical functions flowing from the Act, namely (i) regulation and (ii) supervision:

i Regulation

The primary functions in this regard include establishing and maintaining subordinate legislation in accordance with the Act governing the regulation of co-operative banks; the effective use of powers to enforce compliance with legislation by co-operative banks under the supervision of the CBDA and SARB; and to ensure that the CBDA and SARB comply with the requirements of the Act and other relevant legislation. It is also the aim to influence primary legislation, namely the Act and the Regulations issued in terms of the Act, in order to minimise regulatory arbitrage and to maximise efficiency.

ii Supervision

The primary functions in this regard include on- and off-site supervision of all co-operative banks under the respective supervision of the CBDA and SARB in order to establish whether such entities are financially sound, well managed and do not pose a threat to the interests

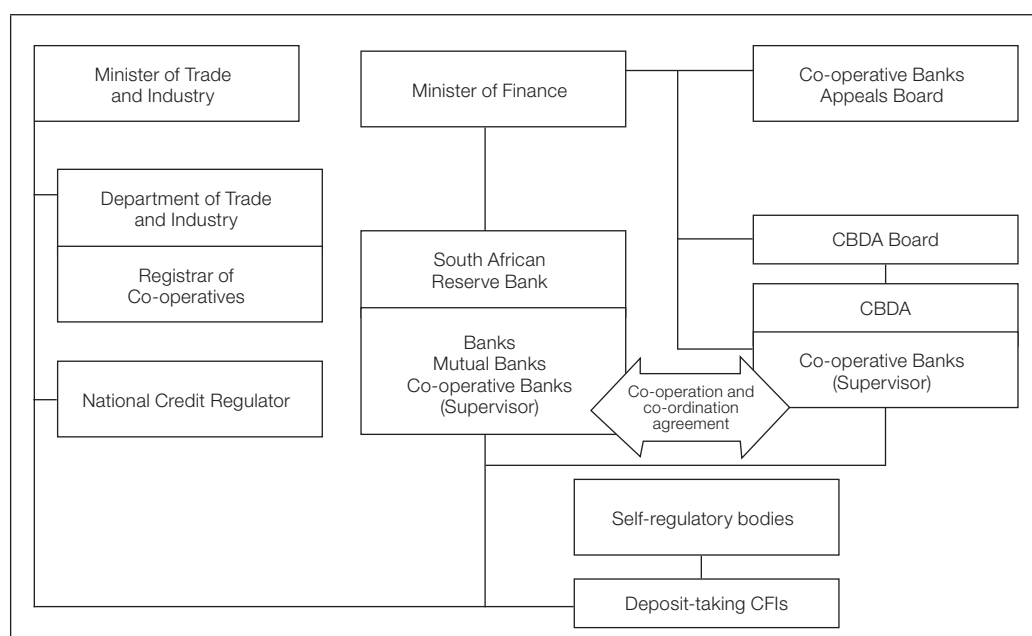
¹⁷ Y Singh has been with the Bank Supervision Department since 1995 and was appointed as Deputy Registrar from 1 April 2006.

of their members. In pursuing these objectives, it is necessary to evaluate the risk to which supervised co-operative banks are exposed; and to evaluate the intangible and tangible resources available to manage and balance the risks identified effectively. The CBDA and SARB engage with the management of co-operative banks on an ongoing basis to ensure that corrective actions are taken when necessary – whether voluntary or enforced – in accordance with the Act. Pursuant to their mission, the Supervisors' approach is in line with international best practice. At this early stage of developing the optimum supervisory approach, the recommendations of the World Council of Credit Unions (WOCCU) and the Basel Committee on Banking Supervision (the Basel Committee) of microfinance activities¹⁸ are duly taken into consideration, bearing in mind the unique nature of the sector at this juncture.

1.4 The financial co-operative sector

The purpose of the Act is to create enabling legislation and supervision that are critical in establishing and developing sustainable co-operative banks. Through the introduction of the Act, member-based CFIs are increasingly being acknowledged as part of the financial sector. Figure 3 depicts the various bodies responsible for the development, supervision and regulation of co-operative banks in the broader financial sector.

Figure 3: Regulations in the financial co-operative sector



There is close co-operation between the Supervisors and the Registrar of Co-operatives, since co-operative banks are required to report to the Supervisors in terms of the Act and to the Registrar of Co-operatives in terms of the Co-operatives Act. Co-operative banks may provide loans and are therefore subject to the provisions of the National Credit Act 34 of 2005.

The Supervisors co-operate in accordance with the Co-operation and Co-ordination Plan submitted to the Minister of Finance at the end of 2009. Since the CBDA must not only promote and develop co-operative banks, but also CFIs operating in terms of exemption notices, there is close co-operation between the CBDA, the Supervisors and the self-regulatory bodies. Any co-operative bank may approach the Appeals Board, which is in the process of being established, should they wish to appeal against any decision taken by the Supervisors.



¹⁸ "Microfinance Activities and the Core Principles for Effective Banking Supervision: 2010", <http://www/bis.org/publ/bcb5167.htm>.

Chapter 2: Developments relating to co-operative banks legislation

2.1 Chronology of main events leading to the publication of the Act, Regulations and Rules

The chronology of events that led to the publication of the Act, the Regulations and the Rules is provided in Table 1. Furthermore, amendments to the Act, the nature of the Regulations and the Rules, the issuance of guidance notes and the establishment of a Regulatory Oversight Committee are discussed.

Table 1: Chronology of events that led to the publication of the Act, the Regulations and the Rules

Date	Event
20 August 2002	Nedlac agreements are signed.
28 August 2007	Public hearings on the Co-operative Banks Bill commence in Parliament.
4 September 2007	The Co-operative Banks Bill is deliberated and adopted in Parliament.
11 September 2007	The Co-operative Banks Bill is agreed to by the National Assembly.
23 October 2007	The Co-operative Banks Bill is agreed to by the National Council of Provinces.
19 November 2007	The NT submits a discussion document titled "Discussion Paper: Proposed Prudential Regulations for Co-operative Banks" (Discussion Document) to SARB for discussion purposes.
28 November 2007	A meeting is held between representatives of samaf, the NT and SARB during which the Discussion Document is deliberated. Matters that should be incorporated in the Regulations are identified.
6 December 2007	Representatives of the NT and SARB attend a meeting to discuss proposed prudential requirements for co-operative banks.
10 December 2007	The NT and SARB agree on the proposed prudential requirements.
18 February 2008	The Act is promulgated.
20 March 2008	A meeting is held between representatives of the NT and SARB to discuss the draft Regulations.
20 March 2008	It is agreed that section 3 of the Act needs to be amended to avoid unintended consequences.
20 May 2008	Representatives of the NT and SARB finalise the draft Regulations.
1 August 2008	Commencement date of the Act.
1 August 2008	The Minister of Finance publishes the draft Regulations for public comment.
15 August 2008	The CBDA Board is appointed.
30 September 2008	The Financial Services Laws General Amendment Act 22 of 2008 amends section 3 of the Act.
17 October 2008	Representatives of the NT and SARB consider the public comments received on the draft Regulations.
24 February 2009	The NT and SARB agree to postpone the drafting of the Rules, pending the appointment of the CBDA Supervisor.
1 March 2009	S Naidoo is appointed as Managing Director of the CBDA.
1 May 2009	D de Jong is appointed as the CBDA Supervisor.
24 June 2009	A Bezuidenhout is appointed as SARB Supervisor.
1 July 2009	The Regulations are published.
1 July 2009	The draft Rules are published for public comment.
14 September 2009	Meeting attended by representatives of the NT, the CBDA and SARB to consider the public comments received and to finalise the Rules.
12 January 2010	The Rules are published.

2.2 Amendments to the Act

After the Act had been promulgated, it was necessary to clarify the issue relating to the interpretation of section 3(1)¹⁹ of the Act in order to ensure legal certainty, and to prevent unnecessary delays in the registration of secondary and tertiary co-operative banks by SARB. Section 3(1) of the Act was interpreted as saying that SARB may only register a secondary or tertiary co-operative bank if that bank has at least 200 primary co-operatives or 200 secondary co-operatives as members respectively. This, however, was never the intention of the Act. On 30 September 2008 section 3(1) of the Act was amended appropriately by means of the Financial Services Laws General Amendment Act 22 of 2008 as follows:

- This Act applies to all co-operative banks registered under this Act and to any
- (i) primary co-operative registered under the Co-operatives Act that takes deposits and
 - (a) has 200 or more members; and
 - (b) holds deposits of members to the value of one million rand or more; and
 - (ii) secondary or tertiary co-operative registered under the Co-operatives Act, whose members consist of at least
 - (a) two or more co-operative banks;
 - (b) two or more financial services co-operatives that take deposits or
 - (c) one co-operative bank and one financial services co-operative that take deposits.

In the drafting of the Regulations and the Rules, it became apparent that certain amendments to the Act were necessary. However, at the time the decision was made to postpone any further amendments to the Act until there was certainty that all unintended consequences of the Act and any further possible amendments had been identified during the implementation phase. Approximately 14 (primarily minor) possible amendments have been identified to date.

The CBDA and SARB submitted their comments to the dti following a call for comments on the Co-operatives Amendment Bill (B-2010) (Co-operatives Amendment Bill).²⁰ It was pointed out to the dti that while consequential amendments to the Co-operative Banks Act would be necessary, it would simplify matters and avoid confusion if the amendments proposed by the CBDA and SARB could be accommodated in the Co-operatives Amendment Act.²¹

A Co-operative Banks Amendment Bill will be drafted in due course to address the necessary amendments as a direct consequence of the amendments to the Co-operatives Act. At the same time, the amendments to the Act, as identified prior to the publication of the Co-operatives Amendment Bill, will also be addressed.

2.3 Regulations and Rules

Following the receipt of public comments, the Minister of Finance published the Regulations in terms of section 86 of the Act.²²

Notwithstanding the fact that the Act allows the Supervisors to publish separate rules, the Supervisors agreed to publish combined rules after the public comments had been incorporated. The Rules were published in terms of section 46(1) of the Act.²³

Since none of the potential primary co-operative banks to be supervised by SARB had deposits that posed a systemic threat to the financial system at the time, it was decided that the Regulations and the Rules should initially apply to all co-operative banks, whether

19 Section 3 (1) of the Act: "This Act applies to all co-operative banks registered under this Act and to any co-operative registered under the Co-operatives Act that takes deposits and (a) has 200 or more members; and (b) holds deposits of members to the value of one million Rand or more."

20 *Government Gazette* No. 33942 dated 21 January 2011.

21 SARB and the NT proposed approximately 40 amendments to the Co-operatives Amendment Bill to the dti.

22 *Government Gazette* No. 32357 dated 1 July 2009.

23 *Government Gazette* No. 32860 dated 12 January 2010.



supervised by the CBDA or SARB. This decision was also taken to avoid regulatory arbitrage and to cater for the specific needs of the sector at this early stage of development.

Furthermore, no differentiation is made with regard to prudential requirements. For the sake of simplicity, such requirements are not based on weighted risks. The development of co-operative banks will, however, be closely monitored by the Supervisors and, if necessary, the Regulations and the Rules will be adapted accordingly. In this regard, the Supervisors are in the process of familiarising themselves with the effect that the CBDA will have on the development of capacity and the level of expertise in the sector. Further valuable information is also being gained through the on-site assessments of applicants and the examinations of co-operative banks, once registered.

2.4 Guidance notes

Guidance notes are published in terms of section 45(e) of the Act to provide guidelines to applicants and registered co-operative banks.

Table 2: Guidance notes issued to date

Applicable to forms	Description	Refer to Guidance Note No.
CBF1	Application Process	1/2010
CBR0	Declaration by Managing Director, Chief Executive Officer or Chairperson in Respect of Returns Submitted to the Supervisor	2/2010
CBR1	Balance Sheet	3/2011
CBR2	Year to Date Income Statement	4/2011
CBR3	Report on Prudential Requirements	5/2011
CBR4	Report on Board and Staff Related Loans	6/2011
CBR5	Report on Large Exposures	7/2011
CBR6	Liquidity Risk-Maturity Ladder	8/2011
CBR7	Credit Risk	9/2011

Guidance notes were issued after due consultation with the sector, taking into consideration the comments received from CFIs, the Registrar of Co-operatives and the self-regulatory bodies.

2.5 Regulatory and Oversight Advisory Committee

The Regulatory and Oversight Advisory Committee (ROAC) is a joint committee comprising the SARB Supervisor, the CBDA Supervisor, the Managing Director of the CBDA, the Registrar of Co-operatives and representatives of the CBDA Board. Consideration is currently being given to extend membership to the NT and the Co-operatives Policy Unit of the dti.

The purpose of this committee is primarily to review and develop policy and legislation applicable to CFIs and co-operative banks, and to co-ordinate efforts between the Supervisors, the Registrar of Co-operatives, and the CBDA. The inaugural meeting of ROAC was held on 9 March 2010, which was followed by a meeting held on 22 February 2011.

ROAC reviewed some of the key legislative issues affecting the sector. These included reviewing, on an ongoing basis, the unintended consequences of, and possible amendments to, the Act. Of significance to the sector and committee is the current review of the Co-operatives Act, which could have indirect consequences for the application of the Act. The exemption notices and the application thereof by the self-regulatory bodies were also debated. ROAC also reviewed the Supervisors' minimum registration requirements, set within the ambit of the Act, and the supervisory approach to those not meeting the registration requirements.



Chapter 3: Supervisory activities

3.1 Introduction

The activities of the Supervisors during the period under review focused primarily on the assessment of applications, registration of co-operative banks, and the implementation of the Co-operation and Co-ordination Plan.

Applicant CFIs are expected to meet certain requirements to be considered for registration. In this regard, a comprehensive registration framework is adopted that allows only sustainable CFIs that adhere to the co-operative principles to register as co-operative banks. Given the “supervisory split”, the approach adopted in evaluating applications received by the Supervisors seeks to balance the developmental objectives of the Act with that of full compliance with the regulatory requirements of the Act.

Taking due cognisance of the nature, size and developmental potential of each applicant, the Supervisor concerned will register an applicant as a co-operative bank if, *inter alia*, it has

- the characteristics of a co-operative, adhering to the co-operative principles;
- sufficient human, financial and operational capacity;
- fit and proper directors, and a competent management team, including proper governance;
- adhered to minimum prudential requirements;
- adequate policies and procedures in place, including risk management systems; and
- adequate internal control systems.

3.2 Applications received

3.2.1 Introduction

Shortly after the implementation of the Act, the Supervisors sent a notice to all eligible CFIs to remind them that they had met the criteria and were obliged to apply for registration as co-operative banks. A total of 17 CFIs were eligible to apply for registration as at 31 March 2010. During the period under review, 2 additional CFIs met the minimum requirements and 1 CFI became ineligible for registration as its value of deposits fell below R1 million. As a result, as at 31 March 2011 there were 18 eligible CFIs with a total of 28 034 members and approximately R161 million in deposits as reflected in Table 3:

Table 3: Consolidated statistics for eligible CFIs as at 31 March 2011*

CFI and Province	Type	Members	Assets	Loans	Deposits
Mathabatha	FSC	1 928	1 711 834	350 837	1 654 548
Limpopo (Total)		1 928	1 711 834	350 837	1 654 548
Mayibuye	SACCO	223	1 475 283	1 054 126	1 315 290
Eastern Cape (Total)		223	1 475 283	1 054 126	1 315 290
Alrode	SACCO	1 995	10 314 411	6 948 027	6 865 888
Oranjekas	SACCO	696	33 916 311	19 295 098	32 528 364
Kleinfontein	SACCO	336	36 868 864	31 397 439	36 012 545
Gauteng (Total)		3 027	81 099 586	57 640 564	75 406 797
Ziphakamise	SACCO	764	1 956 691	1 931 691	2 314 630
KwaZulu-Natal (Total)		764	1 956 691	1 931 691	2 314 630
Beehive	SACCO	3 148	1 208 217	333 438	1 350 382
Mpumalanga (Total)		3 148	1 208 217	333 438	1 350 382
Orania	SACCO	369	45 841 725	29 626 882	42 748 721
Northern Cape (Total)		369	45 841 725	29 626 882	42 748 721
Ditsobotla	SACCO	902	6 716 708	5 063 951	6 314 405



Table 3: Consolidated statistics for eligible CFIs as at 31 March 2011*
(continued)

CFI and Province	Type	Members	Assets	Loans	Deposits
Boikago	FSC	614	1 728 608	706 634	1 345 615
Lothlakane	FSC	1 088	1 609 986	15 563	1 349 298
Kraaipan Village	FSC	2 321	3 526 815	Nil	3 250 126
Motswedi	FSC	3 275	6 231 549	31 041	6 219 408
North West (Total)		8 200	19 813 666	5 817 189	18 478 852
Sibanye	SACCO	2 225	6 719 579	4 009 037	5 146 752
Western Cape (Total)		2 225	6 719 579	4 009 037	5 146 752
CFF	SACCO	34	4 342 034	2 567 023	3 502 379
SAMWU	SACCO	2 558	5 973 414	2 208 214	4 324 193
Flash	SACCO	2 804	2 977 128	270 468	2 073 089
NEHAWU	SACCO	2 754	2 777 858	1 451 691	2 680 920
Multi-provincial (Total)		8 150	16 070 434	6 497 396	12 580 581
Total		28 034	175 897 015	107 261 160	160 996 553

* Statistics based on unaudited figures extracted from compliance reports submitted to the self-regulatory bodies SACCOL and samaf.

3.3 Registration of co-operative banks

During the year under review, only 11 applications were completed adequately that enabled pre-registration assessments to be conducted. A summary of the application process is provided in Appendix B.

Ditsobotla was registered as the first co-operative bank on 17 February 2011. Approval for registration was also given to Orania Savings and Credit Co-operative Limited. However, its registration is pending the successful reservation of its name by the Companies and Intellectual Property Commission (CIPC)²⁴ and the publication of the required notice of registration in the *Government Gazette* in compliance with section 8 of the Act.

The remaining 9 CFIs did not meet the registration requirements. The Supervisors have communicated the shortcomings and reasons for non-registration to the applicants. Once these shortcomings have been addressed, the Supervisors will reconsider their applications for registration. The Supervisors requested progress reports to be submitted to the applicants' self-regulatory bodies and copies thereof to be submitted to the Supervisor concerned.

In view of the developmental objectives of the Act, the Supervisors have not yet initiated the winding up of any co-operative that failed to apply for registration in terms of section 92(2) of the Act. There is currently close co-operation with the CBDA Capacity Building Unit and the self-regulatory bodies to ensure that the outstanding applications are received in due course.

Until a clear policy decision has been taken regarding the future regulation of deposit-taking CFIs not registered as co-operative banks, either by not being approved for registration as a co-operative bank or not meeting the minimum criteria to apply for registration, such CFIs will continue to operate under exemption notices and will continue to be regulated by the self-regulatory bodies as designated in terms of the existing exemption notices.

3.4 General assessment findings

CFIs that failed to meet the registration requirements exhibited significant weaknesses and pose risks to the restoration of confidence in member-based banking.

²⁴ On 1 May 2011 the Companies and Intellectual Property Registration Office of South Africa (CIPRO) and the Office of Companies and Intellectual Property Enforcement (OCIPE) merged to form the new Companies and Intellectual Property Commission (CIPC).

Following the pre-registration assessments of applicant CFIs for registration as co-operative banks, the Supervisors identified numerous shortcomings. These shortcomings have been brought to the attention of the CBDA Capacity Building Unit and the self-regulatory bodies to enable them to implement appropriate strategies to support such CFIs in addressing these deficiencies as part of its developmental objectives. The following are regarded as the main reasons for the failure of applicant CFIs to qualify for registration as co-operative banks:

3.4.1 Inadequate capital levels

The major reason for failure to register has been a weak capital position, with most of the applicants failing to meet the 6 per cent of total assets minimum capital-adequacy ratio. For purposes of calculating the minimum capital-adequacy ratio referred to in regulation 4(2), only the following qualify as capital:

- (i) Membership shares issued by the co-operative bank
- (ii) Indivisible reserve requirement in terms of the Act
- (iii) Non-distributable reserves created or increased by appropriations of surpluses (retained earnings)
- (iv) Any other non-distributable funds of a permanent nature not subject to a legal claim by any person held by a co-operative bank approved by the Supervisor in writing.

Table 4 reflects the consolidated capital structure from 2008 to 2011 of the 11 CFIs that were assessed during 2010/11.

Table 4: Capital structure of eligible CFIs (2008–11)

Structure	2008	2009	2010	2011
Qualifying capital	R608 181	R903 715	R1 590 784	R4 244 153
Total assets	R37 218 214	R56 206 957	R80 247 085	R108 708 228
Capital-adequacy ratio	1,63 per cent	1,61 per cent	1,98 per cent	3,90 per cent

It is clear that the sector is inadequately capitalised, with the consolidated capital-adequacy ratio averaging 2 per cent over the four-year period. The poor capital position is attributable to the low member capital base and losses, which resulted in negative institutional capital. It should be noted that if the capital position indicated above is adjusted to factor in under-provisioning,²⁵ which is prevalent in the sector, the ratio will be negative. Nonetheless, the improvement in the capital-adequacy ratio from 1,63 per cent to 3,90 per cent from 2008 to 2011 is encouraging.

Some applicants regard the capital-adequacy requirements as relatively high at this early stage, since some are in a rapid growth phase and the self-regulatory bodies are not imposing similar prudential requirements.²⁶ Nevertheless, the Supervisors are concerned about the weak capital position in general, compared to international standards. WOCCU, for example, recommends that the minimum capital-to-asset ratio for credit unions should be 10 per cent of total assets. Proposals to enhance the capital position of the sector will be discussed with the CBDA Capacity Building Unit and the self-regulatory bodies to be considered for implementation as part of their developmental objectives.

3.4.2 Inadequate credit risk management practices

Given the nature of their business, credit risk is arguably one of the main risks facing CFIs. Out of the 11 CFIs that were assessed, 2 are financial services co-operatives, which are rural based and regulated by samaf; and 9 are SACCOs, which are primarily urban

²⁵ Under-provisioning is the difference of the actual amount provided for with regard to expected losses and the minimum statutory requirement.

²⁶ It should be noted, however, that applications for registration as co-operative banks are not summarily declined if they do not meet the minimum capital-adequacy requirement, but their potential to meet all prudential requirements over time is taken into consideration.



based and regulated by SACCOL. At the time of the assessments, the loan portfolios of both financial services co-operatives comprised less than 5 per cent of total assets. They adopted a conservative approach towards lending and no credit committees were established to provide additional oversight on the credit processes.

The SACCOs, however, have a more robust approach towards lending, with loan portfolios averaging 71 per cent of total assets. While credit risk is mitigated to some extent in instances where repayments are made by means of payroll deductions, they remain exposed to significant credit risk. It is clear that additional training is required to improve the understanding of loan officials in certain areas, especially affordability appraisals and the effective utilisation of credit insurance and collateral to mitigate credit risk.

Training is also required as far as the monitoring and management of delinquent loans are concerned. In some of the pre-registration assessments conducted, it was clear that management reacted too late, especially in instances where no provisions for bad and doubtful debts had been made. In addition, as evident from the management accounts that were scrutinised, bad debts were often not appropriately written off to reflect the true financial position of some of the applicant CFIs.

Finally, while credit committees were generally found to be active, there were often cases where credit committee members had approved loans that exceeded their authorised limits in terms of the applicable loan policies that were in place at the time of the assessments.

3.4.3 Weak governance structures

Generally, corporate governance in the co-operative banks sector is very weak. Members of supervisory and audit committees seldom meet. Some of those committees that meet on a regular basis often fail to provide effective oversight. Furthermore, members' active participation through annual general meetings (AGMs) is generally inadequate, with some of the CFIs not holding AGMs at all. Members are in need of training, especially in respect of committee and board responsibilities. Training should not be limited to existing board members, but should be extended to all interested members in order to increase the pool of suitable members²⁷ who could be appointed to the board.

3.4.4 Weak operational capacity

While credit and savings policies are available, they are often outdated or not implemented. Evidence suggests that CFIs merely adopt policy templates provided by the self-regulatory bodies, without the necessary expertise to implement the relevant policy proposals successfully. The majority of institutions that were assessed did not have liquidity or cash-flow policies to guide them in managing their liquidity positions.²⁸

3.4.5 Lack of accounting expertise

There are hardly any members with the required experience and qualifications, especially in the rural areas, where the need for access to finance and economic development is the greatest. Financial statements and management accounts are often found to be in disarray. Providing basic training in accounting skills and accounting software to such CFIs will be crucial for the development of member-based banking, especially in the rural areas.

²⁷ The CBDA Capacity Building Unit has conducted various training sessions and has completed a board governance training module in an attempt to address the governance shortcomings. The team has also assisted CFIs in their strategic sessions and in focusing on their strategies.

²⁸ In some instances, notably the rural-based CFIs, funds are locked up in retirement annuity products which may result in substantial losses once redeemed. These products are not prescribed investments in terms of the Regulations. The NT, however, is in the process of developing co-operative bank retail bonds, as a prescribed investment product that could be liquidated easily.

3.4.6 Poor management information systems

Urban-based CFIs use basic computerised accounting and management information systems (MISs). These are, however, in most instances considered inadequate for basic banking operations. For example, loan portfolio performance is not monitored in many instances. Rural CFIs are using manual systems to open accounts and record transactions. Such institutions will not be able to submit their prudential returns on time to the Supervisors to conduct effective off-site supervision. It is evident that they are in need of technical support to provide accurate and effective management information in a timely manner.

3.5 Key success factors for co-operative banks

The factors summarised below have been identified as crucial to the sustainability of fledgling co-operative banks.

3.5.1 Adherence to co-operative principles

It is a pre-condition that applicants must be registered in terms of the Co-operatives Act. 'A co-operative' is defined in the Co-operatives Act as "an autonomous association of persons united voluntarily to meet their common economic and social needs and aspirations through a jointly owned and democratically controlled enterprise organised and operated on co-operative principles". Consequently, it is imperative that a co-operative bank adheres to the co-operative principles.²⁹ In addition, it should foster ethical values of honesty, openness and social responsibility. The adoption and maintenance of co-operative principles and values contribute to the stability and growth of CFIs, and improve the co-operative image and reputation that should restore confidence in the sector.

3.5.2 Corporate governance

The ability to establish and maintain adequate and effective processes of corporate governance that are consistent with the size, nature, complexity and inherent risks of the activities and the business of the institution is crucial. This includes the proper evaluation of the processes that have been established to achieve the institution's strategic and business objectives efficiently, effectively, ethically and equitably. Co-operative banks must have proper governance structures in place, including the implementation of a supervisory committee, governance committee and audit committee. The success of AGMs is also important to ensure active member participation in the establishment of appropriate structures of governance.

3.5.3 Adherence to prudential requirements

Co-operative banks are required to meet and maintain minimum prudential requirements. As already mentioned, the capital-adequacy requirement is set at 6 per cent of total assets. Additional capital, calculated as 2 per cent of all loans, is also required for co-operative banks that provide loans to members. Adequate provisioning for delinquent loans³⁰ and sufficient liquidity are essential. Minimum liquidity requirements prescribe that at least 10 per cent of total deposits must be held in liquid investments and loans may not exceed 80 per cent of total assets. The potential of applicants to reach these levels within a reasonable period is taken into account for registration purposes.



29 The seven principles are (i) "voluntary and open membership"; (ii) "democratic member control"; (iii) "member economic participation"; (iv) "autonomy and independence"; (v) "education, training and information"; (vi) "co-operation among co-operatives" and (vii) "concern for community".

30 Provision must be made for 35 per cent of loans delinquent from 1 to 6 months, 50 per cent of loans delinquent from 6 to 12 months and 100 per cent of loans delinquent for a period longer than 12 months.

3.5.4 Staff training and capacity building

Matters relating to human resources, such as capacity building and staff training, are critical for the effectiveness and sustainability of co-operative banks. Succession planning is also pivotal, especially at senior management and board levels. It is a requirement that every co-operative bank must have sufficient human capacity to operate efficiently and competently. Each co-operative bank has to appoint suitably qualified and experienced members as directors and executive officers. Once again, the nature and size of the co-operative bank are taken into consideration when determining whether directors are considered to be “fit and proper”.³¹

3.5.5 Risk management

Co-operative banks should be fully committed to sound risk management standards and practices commensurate with their nature and size. A co-operative bank must, *inter alia*, ensure that

- policies and procedures that are in place are consistent with its vision and business strategies;
- realistic benchmarks and limits have been set to guide its risk appetite;
- appropriate systems are in place for reporting, monitoring and controlling risks; and
- independent checks and balances are in place to monitor compliance with prudential requirements.

3.5.6 Management information systems

Co-operative banks must have appropriate means to interact effectively with their members, suppliers, regulators and counterparties. Furthermore, an appropriate MIS must be in place to support their business operations. More advanced technology is required by larger co-operatives, especially those operating closer to cities and towns, to cater for the needs of their members. This would also enhance their competitiveness ability and result in improved access to finance for members.

3.6 Examination of registered co-operative banks

On-site examination is a critical component of the supervisory process, and may range from an examination of specific areas (targeted examination) to a comprehensive review (full-scope examination) of an institution’s operational activities. In line with the risk-based approach, the supervisors concerned conduct a full-scope examination as soon as a co-operative bank is registered. Thereafter, on-site examinations are tailored to the risk profile of the specific institution, and institutions with higher risks are placed under more vigilant surveillance.

The Supervisors have adopted the internationally recognised Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity (CAMEL) rating system in the evaluation of the performance of co-operative banks. The standardised CAMEL rating system also facilitates the identification of those institutions whose financial, operational, managerial or compliance weaknesses require special supervisory attention or warrant a higher-than-normal degree of supervisory concern. The rating system, which operates on a scale from 1 to 5, is an important tool for determining the frequency of on-site supervision. As a general rule, the existing minimum frequency for conducting on-site examinations based on the rating of co-operative banks is as follows:

³¹ The criteria, for purposes of assessing whether a director, managing director or executive officer of a proposed co-operative bank is a fit and proper person, are set out in section 9(1) of the Act.

Table 5: Rating and frequency of on-site examinations

Safety and soundness rating*	Frequency of on-site examinations
1	Once every 12 months
2	Once every 6 months
3	Once every 3 months
4	Once every 2 months
5	Once every month

* 1 = strong, 2 = satisfactory, 3 = fair, 4 = weak, 5 = critical

During the year under review, Ditsobotla was registered and, consequently, a full-scope examination of the institution was undertaken. The examiners were satisfied with the outcome, details of which will be reported in a consolidated manner in the next annual report on co-operative banks.

3.7 The Supervisors' Co-operation and Co-ordination Plan

3.7.1 Introduction

Section 42 of the Act provides that “the Supervisors appointed under sections 41(1) and 41(2) of the Act must co-operate with each other and co-ordinate their approach to exercising their powers and functions in terms of the Act to ensure the consistent application of this Act” and that the Supervisors must “engage with each other in activities of research, publication, education, staff development and training; engage with each other in staff exchanges or secondments and provide technical assistance or expertise to each other”.

In terms of section 52 of the Act, the Supervisors must report on the implementation of the Co-operation and Co-ordination Plan referred to in section 42 of the Act. In this regard, details are given in the following appendices:

i Appendix A: Report on the Implementation of the Supervisors' Co-operation and Co-ordination Plan dated 9 November 2009 for the period ending 31 March 2011³²

Some of the activities that were conducted in a joint manner include

- weekly co-ordination meetings;
- meetings with stakeholders and regulatory authorities;
- input into Regulations;
- publication of Rules;
- comments on relevant financial Bills;
- issuance of statutory reports and guidance notes;
- comments on discussion documents;³³
- assessment and evaluation of applications; and
- co-ordination of manuals and administrative systems.

ii Appendix C: Supervisors' Co-operation and Co-ordination Plan for the period 1 April 2011 to 31 March 2012



³² In compliance with Regulation 7(b).

³³ Such as the “Conceptual Design for the Deposit Insurance Fund” and the “Microfinance Activities and Core Principles for Effective Banking Supervision”.

3.7.2 Co-operation and co-ordination between the CBDA and SARB³⁴

There is good co-operation and co-ordination between the Supervisory units of the CBDA and SARB. The Supervisors have been working jointly on the operational parameters and the drafting of the Regulations and Rules. Joint work was conducted on establishing an ongoing legislative review process, a document management system to enable the storage of records, and the joint submission of statutory reports to the Minister of Finance.

The two units have also held joint discussions with various financial regulatory authorities, including the Financial Services Board, the Financial Intelligence Centre (FIC) and National Credit Regulator (NCR) in order to familiarise themselves with the statutory responsibilities of co-operative banks and to verify compliance therewith by applicant CFIs during the conduct of pre-registration assessments.

During 2008, samaf established a CFI Regulatory Unit, which established a Regulation, Registration, Supervision and Stabilisation Committee (RRSSC). The CBDA Supervisor attended the RRSSC meetings in an advisory capacity. The RRSSC is chaired by the samaf Regulator who is responsible for CFIs' registration, regulation and supervision. The off-site supervision of such CFIs is primarily done through the analysis of quarterly reports submitted by members. samaf's provincial co-ordinators are responsible for monitoring the performance of member CFIs in their respective provinces. The RRSSC met 7 times during the period under review, during which 12 first-time applicants were considered for membership. A similar arrangement between SACCOL and the CBDA Supervisor is envisaged. General information obtained during these meetings is shared by the CBDA Supervisor with SARB and the dti during the ROAC meetings.

3.7.3 Participation in national and international regulatory or supervisory forums

The Supervisors are expected to participate in the activities of international bodies and authorities whose main purpose is to develop, advance and promote the sustainability of co-operative banks, and to co-operate with these international bodies and authorities in respect of matters relating to co-operative banks.

While the participation in events is listed in Appendix A of this *Combined Annual Report*, the following forums should be highlighted:

- i African Confederation of Co-operative Savings and Credit Associations (ACCOSCA) (United in Tackling the Challenges Facing SACCOs in Africa), Benoni, 24–26 March 2010

The forum was conceived by the African Confederation of Co-operative Savings and Credit Associations (ACCOSCA). Its objective was to contribute to discussions on managing effective leadership of SACCOs in Africa. Deliberations focused on encouraging the adoption of best and workable management practice on the African continent. Thirteen countries were represented at the forum.

During a panel discussion on "Laws and Regulatory Framework of SACCOs", D de Jong (CBDA Supervisor) presented the South African experience and his Kenyan counterpart, C Ademba,³⁵ presented the Kenyan experience. Both presentations covered the purpose of implementing legislation in their respective countries.³⁶

³⁴ Refer to Appendix B for detail on the co-operation and co-ordination between the CBDA and SARB.

³⁵ Chief Executive Officer of the SACCO Societies Regulatory Authority in Kenya.

³⁶ Messrs de Jong and Ademba have respectively taken South Africa and Kenya through the development process of co-operative law and regulatory framework. Against this background, the participants were taken through the history of legislative development in South Africa and Kenya, as both countries had recently established legislation for co-operative banks.

ii Annual Savings and Credit Co-operative Association of Africa (Fostering the Culture of Entrepreneurship and Innovation in SACCOs), Swaziland, 4–8 October 2010

Hosted by ACCOSCA and the Swaziland Association of Savings and Credit Cooperatives (SASCCO), 309 participants representing eighteen countries were present at this meeting. The objectives were to review the current status of financial co-operatives in Africa; deliberate on aspirations of stakeholders in the co-operative movement in Africa; understand the challenges affecting financial co-operatives' regional growth; and to deliberate on the form and strategy for future financial co-operative development.

The session on “Challenges Facing Financial Co-operatives Regulatory Framework in Africa” was presented by D de Jong and C Ademba. This subject generated much interest as most of the African countries had not as yet implemented specific legislation for CFIs.³⁷

iii The 3rd African SACCO Regulators' Roundtable, Malawi, 1–3 December 2010

This event was hosted by WOCCU and the Malawi Union of Savings and Credit Co-operatives (MUSSCO). Its purpose was to gather senior officials from the ministries of finance and co-operative central banks, and the savings and credit co-operatives industry from fifteen countries in Africa for a focused and practical discussion on how to legislate, regulate and supervise SACCOs. D de Jong gave a presentation on the licensing and supervisory requirements for CFIs in South Africa.

iv SACCOL's Annual General Meeting, East London, 16–18 September 2010

The meeting resulted in the CBDA Supervisor and SACCOL agreeing to sign a memorandum of understanding with regard to co-ordinating and supporting each other in carrying out their respective functions.

v samaf Capacity Building Workshop, Pretoria, 1–3 September 2010

The CBDA Supervisory Unit participated in an in-house workshop over three days. The workshop, which targeted provincial managers and outreach co-ordinators, covered topics such as co-operative principles and financial modelling of CFIs. D de Jong and M Kuhlengisa gave presentations on the legislative and registration requirements, which included the Act, Regulation, Rules and exemption notices.



³⁷ The session covered the necessary steps required for financial co-operative registration and effective monitoring. Comparisons were drawn between South Africa and Kenya to give participants a contextual framework that was required to address legislative issues.

Chapter 4: Issues requiring particular attention during 2011/12

4.1 Banks Act 94 of 1990 exemption notices

In terms of the Co-operatives Act, all co-operatives, including financial co-operatives, must be registered with the dti. Upon registration of a CFI as a co-operative, the Registrar of Co-operatives requires documentary evidence that its application for affiliation to one of the self-regulatory bodies has been approved by either samaf, NASASA or SACCOL in compliance with the applicable exemption notice. Similarly, in case of the registration of a co-operative bank, the Registrar of Co-operatives requires proof that its application to operate as a co-operative bank has been approved by the Supervisor concerned in compliance with the Act.

Each of the aforementioned regulators has different registration requirements to ensure compliance with the exemption notices or the Act, and with internal administrative requirements and policies. The different minimum registration requirements for the various supervisory bodies can be summarised as in Table 6:

Table 6: Summary of minimum registration requirements for the various supervisory bodies

Type	Minimum registration requirement	Regulatory body/Supervisor	Deposits (regulatory threshold) (R million)
Financial services co-operative (FSC)	<ul style="list-style-type: none"> • 150 members • R100 000 in deposits 	samaf	20
Savings and credit co-operative (SACCO)	<ul style="list-style-type: none"> • 150 members • R100 000 in deposits 	SACCOL	30
Primary savings co-operative bank Primary savings and loans co-operative bank	<ul style="list-style-type: none"> • 200 members • R1 million in deposits 	CBDA Supervisor	20
Primary savings co-operative bank Primary savings and loans co-operative bank	<ul style="list-style-type: none"> • 200 members • R20 million 	SARB Supervisor	n/a
Secondary and tertiary co-operative banks	<ul style="list-style-type: none"> • Members that consist of at least <ul style="list-style-type: none"> – two or more co-operative banks; – two or more FSCs that take deposits; or – one co-operative bank and one FSC that takes deposits. 	SARB Supervisor	n/a

Consideration should be given to the future of the exemption notices governing the activities of CFIs that do not fall within the regulatory ambit of the Act. While the historical development of the exemption notices and the various institutional forms of the self-regulatory bodies should be taken into consideration, it is crucial that the self-regulatory framework of CFIs in South Africa is consolidated in an effort to

- minimise regulatory arbitrage;
- optimise the use of supervisory resources;
- lessen the regulatory burden;
- alleviate confusion in the sector; and
- achieve the developmental objectives of the Act.

The Act does not explicitly give the Supervisors powers to act against CFIs not registered as co-operative banks, unless eligible CFIs do not apply to register in terms of section 3 of the Act. To date, seven eligible CFIs have not submitted their applications for registration in terms of the Act.

The Supervisors may initiate the winding up of any CFI that failed to apply for registration in terms of section 92(2) of the Act. This can be done by advising the supervisory body concerned to inform the CFI concerned to apply for registration as a co-operative bank and that failure to comply may result in deregistration of the CFI with its supervisory body. As a consequence, deposit taking by such CFIs will be regarded as illegal, since it will no longer comply with the provisions of the relevant exemption notice. This will constitute an offence in terms of section 11(2) of the Banks Act 94 of 1990 and the Registrar of Banks will be able to act in accordance with sections 81 to 84 of the Banks Act 94 of 1990 to resolve the matter. In view of the developmental objectives of the Act, the Supervisors have not yet initiated the winding up of any co-operative that failed to apply for registration. Every effort is being made by the CBDA Supervisor and the supervisory bodies to ensure that the required applications are submitted before resorting to the aforementioned remedial action.

Those CFIs that have applied, but are unable to meet the regulatory requirements for registration as a co-operative bank, are currently allowed to continue operating as a FSC or SACCO up to a threshold of R20 million or R30 million held in deposits or subscriptions respectively. In such instances, the onus is on the self-regulatory bodies and the CBDA Capacity Building Unit to continue supervising and assisting them until the required standards are met that would enable them to reapply for registration as co-operative banks. While shortcomings of non-qualifying CFIs have been forwarded to the self-regulatory bodies concerned and the CBDA Capacity Building Unit, the Supervisors do not have any legal mandate to monitor the progress made towards meeting the requirements for registration. However, there is currently good co-operation between the Supervisors, non-qualifying CFIs, supervisory bodies and the CBDA Capacity Building Unit. Progress reports on progress made towards meeting the requirements for registration are submitted to the Supervisors on a voluntary basis. The Supervisors will continue to monitor progress closely. Should there not be sufficient progress within a reasonable period, the Supervisors will initiate the closing down of such CFIs in conjunction with the supervisory body involved and the CBDA Capacity Building Unit.

Given the challenges faced by the self-regulatory bodies, such as capacity, know-how, funding requirements and the complex communication channels between themselves, the Supervisors and the CBDA Capacity Building Unit, consideration should be given to centralising the regulation and supervision of all CFIs within one self-regulatory body. This could be done through the issuance of a new exemption notice, clearly stipulating specific conditions that would support the developmental objectives of the Act. Conditions could include responsibility for liaising and reporting to the CBDA Capacity Building Unit. Consideration may also be given to designating a unit within the CBDA as the self-regulatory body. This would achieve synergy by making use of the resources of the existing self-regulatory bodies and the accreditation of support organisations to assist with the development of co-operative banks as mandated in terms of the Act.

4.2 Deposit Insurance Fund

The Deposit Insurance Fund, as per Chapter IV of the Act, is in the process of being established to enhance financial stability and create confidence in the co-operative banking sector. The Supervisors provided detailed input into a draft discussion paper presented by the NT on a proposed model for the Deposit Insurance Fund. Those co-operative banks approved for registration have been made aware of the fact that their deposits would only be insured once contributions have been paid to the Deposit Insurance Fund. There is, however,



a perception that co-operative banks are developmental in nature and that government has supported the introduction of co-operative banks and, by implication, would support the operation of those co-operative banks that get into trouble. The CBDA, which is responsible for establishing and managing the Deposit Insurance Fund in accordance with Chapter IV of the Act, will communicate details of the mandatory contributions to be paid in terms of section 24 of the Act to the co-operative banks.

4.3 Potential abuse of the Act

The strength of the financial co-operative model is based on its common bond, such as living in the same area or working for the same employer. Knowing and assisting one another with the creation of an entity through which members can collectively satisfy their common need of gaining access to financial services is a powerful motivation for mobilisation. In such an environment, delinquency is generally kept to a minimum due to peer pressure. The growth trajectory of the institution is embryonic through members' demand for additional services and products.

In many instances, however, the Supervisors have been approached to consider the possible registration of entities providing turnkey solutions that are based on technological capacity. These solutions are mostly driven top down, with a commercial model underpinning its development, contrary to the principle of self-help. The underlying objective of some of these solutions is clearly to gain access to the national payment system, while for others the motive is simply to establish a bank with disregard for co-operative principles.

The Supervisors have to interrogate not only the applications received to ensure compliance with the administrative requirements of the Act, but also the driving force behind applications to ensure that profit per se is not the primary reason for the establishment of a co-operative bank and that the benefits to be derived are ultimately shared by all the members in compliance with the co-operative principles.

4.4 Appeals Board

The Act requires that an Appeals Board, consisting of at least three competent members to be appointed by the Minister of Finance, be established.³⁸ Applicants may appeal to the Appeals Board against decisions taken by the Supervisors or the CBDA in respect of the registration of co-operative banks and the accreditation of representative bodies or support organisations.³⁹

Based on submissions received on the draft Regulations and Rules, where public comment had been called for, modest input reflecting a substantive and comprehensive understanding of the sector has been elicited in general. Yet, as the case is with the appointment of members to the Appeals Board, more and more professional people are required to assist as the sector develops. The appointment of the Appeals Board is currently being attended to by the NT. Receiving suitable nominations of people with a sound knowledge of the financial co-operative sector, in both the auditing and legal fraternities, for appointment to the Appeals Board could prove to be challenging.

4.5 Submission of prudential returns

The Supervisors are in the process of developing a system through which all registered co-operative banks will be able to submit their returns electronically, whether supervised by the CBDA or SARB. The objective is to make the completion and submission of returns by registered co-operative banks as easy as possible. The intention is that all financial information relating to co-operative banks will be captured on a single platform, thereby

³⁸ In terms of section 76 of the Act.

³⁹ The CBDA has not accredited any support organisation or representative bodies to date.

alleviating the potential problems associated with the future migration of co-operative banks between the Supervisors and to enable macroprudential analysis of the co-operative banking sector.

4.6 “Twin peak” model for financial regulation

The NT, in the release of its policy document titled “A Safer Financial Sector to Serve South Africa Better, 2011”, proposed reforms that included a shift to a “twin peak” system of financial regulation, namely with (i) the Financial Services Board responsible for market conduct, and (ii) SARB for prudential compliance. While policy implementation is in its infancy, the CBDA Co-operative Banks Supervisory Unit will need to discuss the potential implications of the proposal and the extent to which this policy proposal may impact on the current “supervisory split” between the CBDA and SARB.

4.7 Application of the Basel Core Principles on banking supervision on microfinance activities

In general, microfinance oversight, whether over banks, co-operative banks or other deposit-taking institutions, should weigh the risks against supervisory costs and the role of microfinance in fostering financial inclusion. The Microfinance Workstream of the Basel Committee⁴⁰ has developed guidelines on the application of the Core Principles on microfinance activities⁴¹ to assist countries in developing a coherent approach to regulating and supervising microfinance activities. The Supervisors will use these core principles to conduct a self-assessment during the 2011/12 financial year and report the outcome thereof in the next annual report.



40 The Basel Committee on Banking Supervision (the Basel Committee) is a committee of banking supervisory authorities which was established by the central bank governors of the Group of Ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. It usually meets at the Bank for International Settlements in Basel, Switzerland, where its permanent Secretariat is located.

41 *Microfinance Activities and the Core Principles for Effective Banking Supervision, August 2010.*

Appendix A: Report on the Implementation of the Supervisors' Co-operation and Co-ordination Plan dated 9 November 2009 for the period ending 31 March 2011

Report on the Implementation of the Supervisors' Co-operation and Co-ordination Plan, dated 9 November 2009, for the period ending March 2011 as required in terms of section 42(3) of the Act	
Description	Implementation
Section 42(1): Co-ordination of the Supervisors' approach in exercising their powers and functions in terms of the Act.	
1. Conduct regular meetings between the Supervisors (or designated members) on at least a monthly basis to ensure a co-ordinated approach in exercising powers. Conduct ad hoc meetings whenever it is necessary.	<ul style="list-style-type: none"> The Supervisors conducted weekly meetings before and after the registration of the first co-operative bank in 2011. In addition, liaison took place through the electronic media or telephonically on an ongoing basis between the Supervisory units of the CBDA and SARB regarding matters of mutual interest. Ad hoc meetings were also held whenever necessary to ensure close co-ordination and similar approaches by the Supervisors in the exercising of their duties.
2. Co-ordinate and co-operate with each other regarding the publication and issuance of Rules, guidance notes and directives to co-operative banks.	<ul style="list-style-type: none"> Co-ordination and co-operation took place on the following matters: <ul style="list-style-type: none"> Joint drafting and publication of the Rules Joint drafting and publication of Guidance Notes. No directives have been issued to date.
3. Reach consensus on proposed amendments to the Act, Regulations and Rules for subsequent approval and publication by the Minister of Finance.	<ul style="list-style-type: none"> Consensus has been reached on various amendments to the Act. To date, the proposed amendments have not been regarded as obstructing the day-to-day exercising of duties and will only be proposed once significant amendments to the Act are regarded as urgent. To date, there has been no need to amend the Regulations or the Rules.
4. Reach consensus on the issuance of guidelines on the application and interpretation of the Act, and on the issuance of circulars containing information relating to co-operative banks.	<ul style="list-style-type: none"> Consensus was reached on the issuance of guidance notes following consultation between the Supervisors and with the various stakeholders. On 4 December 2009 the Supervisors hosted a workshop, explaining the application and registration process. The necessary process was incorporated in Guidance Note No. 1/2010. Further guidance notes explaining the completion of returns by co-operative banks have been issued.
5. Consider applications to register as co-operative banks in a co-operative manner.	<ul style="list-style-type: none"> The Supervisors agreed to consider applications to register as co-operative banks in a co-operative manner. A panel, consisting of both the Supervisors and their team members, considers pre-registration assessments reports of applicant CFIs on an ongoing basis and makes recommendations to the Supervisor concerned for consideration.
6. Establish a committee to review and develop policy and legislation applicable to CFIs and co-operative banks to co-ordinate efforts between the Registrar of Co-operatives, the CBDA Board and the Supervisors.	<ul style="list-style-type: none"> The Supervisors agreed to establish a committee to review and develop policy and legislation applicable to CFIs and co-operative banks to co-ordinate efforts between the Registrar of Co-operatives, the CBDA Board and the Supervisors. The inaugural meeting of this committee, named the ROAC, took place on 9 March 2010.
7. Implement similar document management systems to enable the storage of records in accordance with the Act and to co-ordinate the method of transferring information relating to co-operative banks between the Supervisors when it becomes necessary that such co-operative banks alter the Supervisors, based on the threshold of R20 million.	<ul style="list-style-type: none"> The Supervisors implemented similar document management systems that enable the storage of records in accordance with the Act. To date, there has been no need to migrate any co-operative bank between the Supervisors.
8. Establish the necessary procedure and strategy when co-operative banks migrate between the CBDA and SARB Supervision in accordance with section 41(3) of the Act.	<ul style="list-style-type: none"> The necessary procedure and strategy when co-operative banks migrate between the CBDA and SARB in accordance with section 41(3) of the Act will be attended to when it becomes necessary.

Report on the Implementation of the Supervisors' Co-operation and Co-ordination Plan, dated 9 November 2009, for the period ending March 2011 as required in terms of section 42(3) of the Act	
Description	Implementation
9. Co-operate in a crisis situation in order to establish and facilitate the actions and the timely decision-making process of the authorities responsible for the management and resolution of the crisis, including the CBDA Deposit Insurance Fund, once established.	<ul style="list-style-type: none"> The methodology to co-operate in a crisis situation in order to establish and facilitate the actions and the timely decision-making process of the authorities responsible for the management and resolution of the crisis will be finalised once the Deposit Insurance Fund has been established. The Supervisors submitted their comments and suggestions on the <i>Conceptual Design for the Deposit Insurance Fund</i> received from the NT.
Section 42(2) (a): Engaging with each other in activities of research, publication, education, staff development and training.	
1. Co-ordinate discussions regarding compliance by co-operative banks with other financial regulatory authorities such as the Financial Services Board, the FIC and the NCR.	<ul style="list-style-type: none"> The Supervisors met on various occasions with the Financial Services Board, FIC and NCR to discuss the requirements of co-operative banks. Joint comments were submitted on the paper titled "Microfinance Activities and the Core Principles for Effective Banking Supervision".
2. Provide feedback to each other on the matters of interest and concern after the attendance of conferences, workshops and seminars, locally and internationally.	<ul style="list-style-type: none"> The following was attended by representatives of the CBDA and SARB: <ul style="list-style-type: none"> 25 November 2008: The 2nd African SACCO Regulators' Roundtable 18 November 2009: Meeting with the Payment Association of South Africa regarding possible membership by CFIs 1 December 2009: Supervisors' Application and Registration Consultative Workshop 2 December 2009: CBDA Compliance Consultative Workshop 24 March 2010: African Confederation of Co-operative Savings and Credit 1 September 2010: samaf Capacity Building Workshop 16 September 2010: SACCOL's Annual General Meeting 4 October 2010: Annual meeting of the Savings and Credit Co-operative Association of Africa 1 December 2010: 3rd African SACCO Regulators' Roundtable.
3. Submit joint statutory reports to the Minister of Finance whenever possible.	<ul style="list-style-type: none"> The following statutory reports have been submitted or are included as part of the <i>Combined Annual Report</i>: <ul style="list-style-type: none"> The Co-operation and Co-ordination Plan to the Minister of Finance for the period 1 April 2010 to 31 March 2011, dated 9 November 2009 Quarterly feedback on the performance and operations of co-operative banks for the periods ending 31 March 2010, 30 June 2010, 30 September 2010 and 31 December 2010 respectively have been submitted to the Minister of Finance Feedback on the implementation of the Co-operation and Co-ordination Plan for the period 1 April 2010 to 31 March 2011 Co-operation and Co-ordination Plan for the period 1 April 2011 to 31 March 2012 (See Table A).
4. Encourage research relating to co-operative banks, whether conducted by the CBDA or SARB, or by third parties or institutions/persons appointed as consultants.	<ul style="list-style-type: none"> The Capacity Building Division of the CBDA conducted research on existing financial services co-operatives and supplied the Supervisors with its findings. M Kuhlengisa (examiner at the CBDA) presented a research report titled "Evaluation of the Regulation and Supervision of Co-operative Financial Institutions in South Africa" in partial fulfilment of the requirements for the degree of Master's in Development Finance in the Faculty of Economic and Management Sciences at Stellenbosch University.

Report on the Implementation of the Supervisors' Co-operation and Co-ordination Plan, dated 9 November 2009, for the period ending March 2011 as required in terms of section 42(3) of the Act	
Description	Implementation
5. Provide relevant training to staff members of the CBDA and SARB.	<ul style="list-style-type: none"> The CBDA provided specific training to the examiner appointed in 2009. On-the-job training is conducted as joint evaluations and inspections take place.
Section 42(2) (b): Engaging with each other in staff exchanges or secondments	
1. Learn from each other and gain knowledge in the process of conducting assessments or inspections of proposed or registered co-operative banks, and the joint conduct of training workshops and road shows. During the start-up phase no staff exchanges or secondments are envisaged.	<ul style="list-style-type: none"> The following has been achieved in this regard: <ul style="list-style-type: none"> Joint training workshop on the application and registration process, 1 December 2009 Joint assessments of proposed co-operative banks and joint examination of Ditsobotla.
Section 42(2) (c): Provide technical assistance or expertise to each other	
1. Conduct joint pre-registration assessments of proposed co-operative banks.	<ul style="list-style-type: none"> Joint pre-registration assessments were conducted in respect of numerous applications received.
2. Collaborate with each other on the design of on-site examination processes of co-operatives banks.	<ul style="list-style-type: none"> The design of an on-site examination manual is in the process of being finalised.
3. Collaborate with each other on the design of off-site examination process of co-operative banks.	<ul style="list-style-type: none"> The design of the off-site examination process is in the process of being established.
4. Share information on the methods of analysis of the various co-operative banks.	<ul style="list-style-type: none"> To date, the same method of analysis has been followed by both the Supervisors.

Appendix B: Summary of the application process

Process	Description
1. Preliminary evaluation of the submitted application documents	<ul style="list-style-type: none"> Entails assessing whether all the required forms and appendices have been received as per sections 6 and 7 of the Act. If some documentation is outstanding, the Supervisors request the outstanding documents and place a deadline on submission.
2. Detailed evaluation of the application	<ul style="list-style-type: none"> Entails assessing submitted information, using a checklist based on the application form (CBF1) to determine whether the submissions meet the requirements as per Guidance Note No. 1/2010.⁴² The following are considered material and the application will not proceed to the next stage unless the submissions are in compliance with the requirements of the Act, the Rules and Guidance Note No. 1/2010: <ol style="list-style-type: none"> Be in compliance with the definition of a co-operative bank as per section 1 of the Act; Have the required deposits and number of members as per section 3 of the Act; Submit annual financial statements signed by an auditor and accounting officer for the current financial year in terms of section 6 of the Act; and Submit a constitution of the applicant in terms of section 13 of the Act. Failure to comply with all the above requirements will result in the rejection of the application. If an applicant at this time does not meet the definition of a co-operative bank, or cannot provide an annual financial statement for the past year, these would be considered material weaknesses and a meeting will be set up with the applicant to discuss the reasons for the delay in submitting outstanding information and the action the Supervisor intends to take. If the applicant complies with the aforementioned requirements, a pre-registration on-site assessment is scheduled.
3. Pre-registration on-site assessment	<ul style="list-style-type: none"> The objective of the pre-registration onsite assessment is to validate that the information submitted correlates with the vision and practices of the institution, and to assess the readiness of the applicant to begin operations as a co-operative bank. The Supervisors make use of the pre-registration onsite assessment questionnaire to obtain additional clarity on the strategic intentions and operations of the applicant and on the risks inherent in the proposed co-operative bank.
4. Development of a detailed institutional profile	<ul style="list-style-type: none"> The information submitted by the applicant and verified with the on-site assessment is used to develop an institutional profile (IP) of the prospective co-operative bank. The IP provides a concise portrait of the applicant's structure and activities, common bonds, summary financial status, and the nature and level of risk. The IP is updated continually to keep track of significant developments that may occur.
5. Development of a risk assessment narrative and matrix	<ul style="list-style-type: none"> A risk assessment narrative is developed which identifies the inherent risks of the applicant, the risk management systems for each risk category and the trend of each risk category. This is reflected graphically in a risk matrix.
6. Recommendations	<ul style="list-style-type: none"> The application checklist, institutional profile and risk matrix form the basis for recommendations made by members of the Registration Panel. The issuance of the certificate is subject to the applicant institution successfully reserving its proposed name and approved constitution with CIPC. If the application is declined, the Supervisor concerned informs the applicant and the CBDA of the reasons in accordance with the Promotion of Administrative Justice Act 3 of 2000.



⁴² Guidance Note No. 1/2010 was issued by the Supervisors to assist CFIs with the application process and is aligned to the requirements of the Co-operatives Act and the Act.

Appendix C: Supervisors' Co-operation and Co-ordination Plan for the period 1 April 2011 to 31 March 2012

Supervisors' Co-operation and Co-ordination Plan for the Period 1 April 2011 to 31 March 2012 as required in terms of section 42(3) of the Act
Section 42(1): Co-ordination of the Supervisors' approach in exercising their powers and functions in terms of the Act
1. Conduct regular meetings between the Supervisors (or designated members) on at least a monthly basis to ensure a co-ordinated approach in the exercising of powers. Hold ad hoc meetings whenever necessary.
2. Co-ordinate and co-operate with each other regarding the publication and issuance of Rules, guidance notes and directives to co-operative banks.
3. Reach consensus on proposed amendments to the Act, Regulations and Rules for subsequent approval and publication by the Minister of Finance.
4. Reach consensus on the issuance of guidelines on the application and interpretation of the Act and on the issuance of circulars containing information relating to co-operative banks.
5. Consider applications to register as co-operative banks in a co-operative manner.
6. Attend ROAC meetings and other committees concerned to co-ordinate efforts between the Registrar of Co-operatives, the CBDA Board, and the Supervisors.
7. Establish the necessary procedure and strategy when co-operative banks migrate between the CBDA and SARB Supervision in accordance with section 41(3) and (4) of the Act.
8. Co-operate in a crisis situation in order to establish and facilitate the actions and the timely decision-making process of the authorities responsible for the management and resolution of the crisis, including the CBDA Deposit Insurance Fund, once established.
Section 42(2) (a): Engaging with each other in activities of research, publication, education, staff development and training
1. Co-ordinate discussions regarding compliance by co-operative banks with other financial regulatory authorities such as the Financial Services Board, the FIC and the NCR.
2. Provide feedback to each other on matters of interest and concern after the attendance of conferences, workshops and seminars, locally and internationally.
3. Submit joint statutory reports to the Minister on the following basis: <ul style="list-style-type: none"> - The 2011/12 Annual Report to be submitted by 31 May 2012. This report will incorporate the implementation of the Co-operation and Co-ordination Plan for the period 1 April 2011 to 31 March 2012 in terms of section 42 (3) of the Act. The possibility of incorporating the report of SARB Supervisor in terms of section 52 of the Act into the annual report relating to banks and mutual banks will be considered.
4. In accordance with Regulation 7(a), submit joint quarterly feedback regarding the performance and operations of co-operative banks on the following basis: <ul style="list-style-type: none"> - Quarter ending 31 May 2011 to be submitted by 31 July 2011 - Quarter ending 31 August 2011 to be submitted by 31 October 2011 - Quarter ending 30 November 2011 to be submitted by 31 January 2012 - Quarter ending 28 February 2012 to be submitted by 30 April 2012.
5. Encourage research relating to co-operative banks, whether conducted by the CBDA or SARB, or by third parties or institutions or people appointed as consultants.
6. Provide relevant training to staff members of the CBDA and SARB Supervision.
Section 42(2) (b): Engaging with each other in staff exchanges or secondments
1. To learn from each other and to gain knowledge in the process, the plan includes the joint conduct of examinations, assessments or inspections of proposed or registered co-operative banks, and the joint conduct of training workshops and road shows. No staff exchanges or secondments are envisaged.
Section 42(2) (c): Provide technical assistance or expertise to each other
1. Conduct joint pre-registration assessments of proposed co-operative banks.
2. Collaborate with each other on the design and implementation of on-site examination processes of co-operatives banks.
3. Collaborate with each other on the design and implementation of an off-site examination process of co-operative banks.
4. Share information on the methods of analysis of the various co-operative banks.
5. Conduct a joint self-assessment based on the Basel Principles of microfinancing activities.

Abbreviations

ACCOSCA	African Confederation of Co-operative Savings and Credit Associations
AGM	annual general meeting
CAMEL	Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity
CBDA	Co-operative Banks Development Agency
CFF	Central Fund Facility
CFI	co-operative financial institution
CIPC	Companies and Intellectual Property Commission
CIPRO	Companies and Intellectual Property Registration Office of South Africa
dti	Department of Trade and Industry
FIC	Financial Intelligence Centre
FinaSol	Financial Solutions
FSA	Financial Services Association
FSC	financial services co-operative
IP	institutional profile
MIS	management information system
MUSSCO	Malawi Union of Savings and Credit Co-operative
NASASA	National Stokvel Association of South Africa
NCR	National Credit Regulator
Nedlac	National Economic Development and Labour Council
NEHAWU	National Education, Health and Allied Workers Union
NT	National Treasury
OCIPE	Office of Companies and Intellectual Property Enforcement
ROAC	Regulatory and Oversight Advisory Committee
RRSSC	Regulation, Registration, Supervision and Stabilisation Committee
SACCO	savings and credit co-operative
SACCOL	Savings and Credit Co-operative League of South Africa
samaf	South African Microfinance Apex Fund
SAMWU	South African Municipal Workers Union
SARB	South African Reserve Bank
SASCCO	Swaziland Association of Savings and Credit Cooperatives
WOCCU	World Council of Credit Unions

Glossary

<i>Combined Annual Report</i>	<i>Combined Annual Report of the Supervisors of the Co-operative Banks Development Agency and the South African Reserve Bank</i>
Co-operatives Act	Co-operatives Act 14 of 2005
Co-operatives Amendment Bill	Co-operatives Amendment Bill (B-2010) <i>Government Gazette</i> No. 33942 dated 21 January 2011
Deposit Insurance Fund	Deposit Insurance Fund to be established in terms of section 25 of the Act
Discussion Document	“Discussion Paper: Proposed Prudential Regulations for Co-operative Banks”
Ditsobotla	Ditsobotla Primary Savings and Credit Co-operative Bank Limited
Orania	Orania Savings and Credit Co-operative Limited
the Act	Co-operative Banks Act 40 of 2007
the Basel Committee	Basel Committee on Banking Supervision
the Board	Board of Directors
the Regulations	Regulations issued in terms of Section 86 of the Co-operative Banks Act 40 of 2007
the Rules	Rules issued in terms of section 45 of the Co-operative Banks Act 40 of 2007

