The Contribution of Co-operatives to Rural Economic Growth and Poverty Alleviation in South Africa: Lessons from Bangladesh

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Abstract: *Developing countries, particularly in Africa are on a constant bid to discover and find ways to improve the living standards of their citizens, particularly those that are living in the rural remote areas. Co-operative societies and banks are one of the many forms of business that are being formed to empowereveryone in the society especially women and the youth in order to increase steady economic growth and alleviate poverty. In South Africa, co-operatives have been given full recognition by the state as a lucrative form of business to assist Historically Disadvantaged People to participate in the new economy, hence the introduction of the Co-operatives Act of 2005 and recently the Co-operative Banks Act of 2007. This article examines the impact ofco-operatives in South Africa and the contribution they are making towards economic growth and poverty alleviation.Ithighlights the problemof registration challenges that potential co-operative banks face in meeting requirements for the establishment of a cooperative bank. More importantly, it draws useful lessons from the Grameen Bank in Bangladesh for the purposes of improving and strengthening operations and sustainability of co-operatives in South Africa. Bangladesh is chosen against the backdrop that it has similar socio-economic challenges with South Africa in terms of chronic and extreme poverty, particularly in the rural areas and amongst women.*

Keywords: cooperative bank and society, economic growth, rural areas, poverty alleviation, South Africa, Bangladesh

Introduction

South Africa is still undergoing socio-economic development to remedy the injustices brought about by the apartheid in order to improve the quality and standard of living of its citizens (Huschka and Mau, 2006). The government, since attainment of independence in 1994 has introduced policessuch as the Reconstruction Development Policy (RDP) and introduction of the Broad Based Economic Empowerment (BEE) to empower and emancipate Historically Disadvantaged People (HDP) (Khatleli, 2009).These policies are meant to allow black people to participate in the new economy and improve their living conditions. The legislature has also promulgated acts meant to allow economic equality in South Africa and these include the Co-operatives Act of 2005 and the Co-operatives Banks Act of 2007. These acts were inspired by the traditional*stokvel* in South Africa.*Stokvel* is defined as “an informalsavingspool or syndicate, usually among Blackpeople, in which funds are contributed in rotation, allowing participants lumpsums for family needs (esp. funerals).”*Stokvels* are usually on the invitation of people who come together say for instance about 12 in number to form a club where members contribute fixed sums of money to a central fund on a weekly, fortnightly or monthly basis.

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The name "*stokvel"* originated from the term "stock fairs", as the rotating cattle auctions of English settlers in the Eastern Cape of South Africa during the early 19th century were known (WBS, 2012).

The *stokvel* movements emerged as an attempt by black people to create co-operatives back in the mid-19th century and amidst a hostile legislative environment (DTI, 2012).The movements are practised by average South Africans in communities, thus the Government deemed it fit to provide them with a regulatory framework that allows for the registration and management of these movements into co-operativesin order to monitor their development and ensure their sustainability.

The Co-operatives Banks Act was drafted to regulate and manage financial co-operatives and to ensure that after registration they graduate to become Co-operative Banks. The Act made provision for the establishment of the Co-operative Development Agency (CBDA) which oversees all Co-operative Financial Institutions (CFI) and assist them in the process of acquiring the requirements for registration and recognition. However, the supervisors of the CBDA have noted challenges debilitating such institutions from registering to become co-operative banks. These challenges range from inadequate capital levels, poor management of information systems, and lack of accounting expertise to weak governance structures. With such challenges affecting CFI, only two banks have managed to registersince the Act came into force about 10 years ago.

Since its inception in 2007, the Act has made an insignificant impact towards its goal of promoting socio-economic development in South Africa, majorly due to the inability of most Co-operative Financial Institutionsto meet the requirements outlined in the Act to qualify for registration as Co-operative Banks. It must be pointed out that there has been relatively low public awarenessin disseminating the opportunities of forming and joining co-operatives and the people mostly affected by the Act are mainly poor black people who are illiterates and do not understand the procedures to meet the registration requirements. This article identifies some of the challenges preventing CFI from meeting the requirements for registration as Co-operative Banks. More importantly, the article highlights that while registration is the first step, operation and sustainability of a co-operative bank is critically imperative for the purposes of delivering credit and loan assistance to the poor. Bangladesh's approach to poverty alleviation was the establishment of a credit programme known as the Grameen Bank for the extreme poor (Hossain, 1988). The word Grameen means village. Against the backdrop of this and in order to ensure sustainability in operation, lessons were drawn from Grameen Bank in Bangladesh. Grameen Bank is a perfect model of a successful co-operative bank till date that had been established in a developing country. The article also showcases and highlights the economic potential of co-operatives in reducing poverty and creating self-employment.

Theoretical Framework

A co-operative is defined by the International Co-operative Alliance as an autonomous association of persons united voluntarily to meet their common economic, social, cultural needs and aspirations through a jointly owned and democratically-controlled enterprise (Birchall, 2004). Co-operatives differ from joint-stock companies primarily in their governance because in a co-operative, voting right are based on membership as opposed to the size of shareholding in joint-stock companies (Bernardi, 2007). Co-operatives also differ from philanthropic foundations in that they are set up to benefit the needs of their members rather than the needs of others (Novkovic, 2008). There are several types of co-operatives and most of them focus on a particular economic sector, but others focus on the nature of membership. Major types include agricultural cooperatives, financial cooperatives, housing cooperatives, health and social care cooperatives, consumer cooperatives, and worker cooperatives (Nair and Todd, 2007).

Co-operatives exist under various guises in South Africa. Sometimes they are referred to as 'projects', 'self-help groups', 'mutual societies', 'village banks', 'credit unions' 'consumer store' and sometimes even the word 'association' is used to describe cooperatives (Birchall, 2010). Essentially, "co-operatives are member-owned and democratically controlled institutions"(Novkovic 2008). They are not-for-profit in the sense that voting in a co-operative is not based on the number of shares owned but instead on the universal principle: one member, one vote (Satgar, 2007).

Literature Review

Co-operative Financial Institutions have been in existence in South Africa for decades.The Cooperative Banks ActAct 40 of 2007 was enacted to regularise these types of financial institutions. The Preamble of the Act clearly states that it is meant:

> To promote and advance the social and economic welfare of all South Africans by enhancing access to banking services under sustainable conditions; to promote the development of sustainable and responsible co-operative banks; to establish an appropriate regulatory framework and regulatory institutions for co-operative banks that protect members of co-operative banks; to provide for the registration of deposit-taking financial services co-operatives as co-operative banks; to provide for the regulation and supervision of co-operative banks; and to provide for the establishment of co-operative banks supervisors and a development agency for co-operative banks; and to provide for matters connected therewith.

The Actrecognises the importance of co-operatives in South Africa, in that a viable, autonomous, self-reliant and self-sustaining co-operative movement can play a major role in the economic and social development of the Republic of South Africa, in particular by creating employment, generating income, facilitating broad-based black economic empowerment and eradicating poverty.

The role being played by co-operatives in South Africa is very significant as they are formed to eradicate poverty and unemployment (Philip, 2003). Co-operatives have been promoted in many developing countries as a mechanism for driving agricultural growth and rural development (Nganwa et al., 2010). In terms of Financial Co-operatives, they are regarded as the third-tier of banking in South Africa which is made up of member-based financial institutions; across a spectrum that includes *stokvels*, burial societies, savings and credit unions, village Banks, and Mutual Banks

(Henama, 2012). While not all of these would define themselves as co-operatives, many in fact meet the essential criterion-of member ownership and control. A lot has been made of the role and potential of *stokvels*as forms of 'rotating savings and credit' associations (Philip, 2003).

The National *Stokvel* Association of South Africa (NASASA) estimates that there are a total of 800,000 *stokvels*, burial societies and rotating savings and credit associations in South Africa, with about 8.25 million members, and an estimated R400 million a month in savings(Philip, 2003). While NASASA's membership of 15,000 *stokvel*s is significant, the formalisation of a wider membership network of *stokvel*s has proved elusive, making accurate data hard to come by (ECI Africa, 2003). The statistics demonstrate the economic potential of financial co-operatives in South Africa once given proper corporate governance, skills development and research.

According to Lyne and Collins (2008), "the availability of dedicated support suggests that cooperatives will also play an important role in the management of community-owned resources acquired through land reform, including reforms planned for the country's communal areas. The Cooperatives Act explicitly targets black people in rural areas.

Mpalwha (2005) points out that "African intellectuals and leaders favour cooperatives to empower marginalised communities because African society is ideally suited to working in cooperatives." South Africa's 2003 Presidential Growth and Development Summit endorsed special measures to support development-oriented cooperatives. Following this commitment, government responsibility for co-operatives was transferred from the Department of Agriculture (DoA) to the Department of Trade and Industry (DTI). The DTI drafted new policy on co-operatives and a Bill that was gazetted in 2003, the Bill was enacted in August 2005. (Mpalwha, 2005).

The Finance Minister, Pravin Gordhan in the 2010/11 published a Combined Report of the Supervisors of the Cooperative Bank Agency and the South African Reserve Bank where it was stated that, "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 Minister went on to point out the challenges being faced currently by the sector.and remarked that "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"(CRSCB, 2010).

The Supervisors of the CBDA in their 2010-11 report stated that, “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 CFI 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 CFI 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 (CRSCB, 2010).

These challenges are still being encountered presently, thus a way forward has to be put forward to allow for the registration of co-operative banks. Internationally, Cooperative Financial Institutions play a pivotal role towards the socio-economic development of their countries. According to Phillip, “a few international case studies of co-ops have been selected to give some context to the debates taking place here. These include the Italian *LegaNazionaledelle* Cooperative (Legacoop)-which is the largest co-op federation in Italy, where co-ops are sufficiently influential in the economy to be defined as ‘the third sector’; the Mondragon Co-operative Corporation, in Spain – probably the most famous success story of all; the role of co-ops and ESOP’s in China’s transition economy; and the case of Kerala, in India.”

According to the Department of Trade and Industry, “international studies reveal that countries which have created an environment conducive to promoting co-operatives, by developing legislative instruments, supportive programmes and delivery institutions, grow rapidly and contribute positively to economic development, employment creation, economic ownership by local communities, and human resource development. Canada, Spain, Kenya, Italy, India and Bangladesh have proven to be successful in the development of co-operatives and best practice was drawn from their experiences to inform the Strategy” (CRSCB, 2010). It is against the backdrop of the successes achieved through these co-operatives that this article utilisedGrameen Bank in Bangladesh to amplify the intrinsic role and contribution of cooperative banks to poverty reduction, job creation and rural economic growth.

Rationale and Methodology

Co-operative banking is a business venture that can contribute significantly towards socio-economic development and growth in South Africa (P Agupusi 2007). Therefore, the study aims to highlight the economic potential of co-operative banks once effective and appropriate supervision of CFI is put in place to monitor and advise them on ways to maintain liquidity and capital adequacy. This in turn would ensure that co-operative banking acts as a powerful drive for development in South Africa by providing employment, alleviation of poverty and increased participation of the HDP in the commercial business sector. The research methodology used in this study is qualitative where secondary data sources such as textbooks, reports, legislations, regulations, case laws, articles and so on were robustly reviewed and applied for the purposes of addressing and offering solution to the problem. It also draws success story from Grameen Bank in Bangladesh and presents useful lessons that would help shape co-operatives in South Africa so that they can be profitable and sustainable. Bangladesh is chosen because it has similar socio-economic challenges similar to that of South Africa where there are chronic and extreme poverty particularly in the rural areas and among women.

Challenges facing Cooperative Banks and Societies in South Africa

The state and nature of co-operative banks in South Africa exhibits challenges in the application of the Cooperative Banks Act as a tool to drive socio-economic development and growth. Co-operative banking has for the last 10 years failed to grow. This is attributed to certain factors that have been noted by the supervisors of the CBDA as major concerns preventing CFI from becoming potential co-operative banks. For example, CFIwere givenopportunity to apply for registration, however, every year they exhibited the same weaknesses which prevented them from registering as co-operative banks. In their reports, the Supervisors also mentioned that they offer support to the CFI in order to allow them to meet the prudential requirements for registration, but the situation has remained the same, applications for registration have been denied on one or more grounds. The reasons for failing to register are discussed below:

Inadequate capital levels

The Supervisors of the CBDA noted thatmajority of CFI lack capital to sustain their business. This poses risks to the restoration of confidence in member-based banking. The regulation (Gazette No. 9110, 1 July No. 32357 Vol. 529 Pretoria, 2009) passed by the Minister of Finance stipulated that the minimum capital adequacy ratio must be 6% of the total assets held by the co-operative bank. However, most of the applicants fail to meet this requirement.

For purposes of calculating the minimum capital-adequacy ratio referred to in regulation 4(2) of the gazette 2009, 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.

It is clear that the sector is inadequately capitalised with the consolidated capital-adequacy ratio averaging 2% per over the four-year period. The poor capital position is attributable to the low member capital base and high losses of loans which resulted in negative institutional capital. This means that CFI still need to grow their capital base by increasing the number of members, and finding ways to recover losses in order to meet the minimum capital adequacy ratio.Coupled with this is the fact that most applicants regard the capital adequacy ratio as too high, and are failing to meet the requirement. They further alleged that they are concerned about the weak capital position in general, compared to international standards

Inadequate credit risk management practices

CFI credit risk is one of the aspects that need to be considered based on the nature of business of these institutions. According to the Supervisors of the CBDA, credit risk is arguably one of the main risks facing CFI. The Supervisors further state that, training is also required as far as the monitoring and management of delinquent loans is 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 CFI.

The 2010/11report further observed that, 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.This in simple terms means that granting loans in excess of the amount prescribed would pose a great risk to the CFI in the event that the loan is not repaid. This is one of the major challenges facing CFIs.

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 the 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 CFI 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 members who could be appointed to the board.

Therefore, the CBDA should conduct training exercises for developing CFI to ensure that there is corporate governance.Principles of corporate governance as outlined in the King III report should be taught and applied thus: "Ethical leadership and corporate citizenship, Boards and directors,Audit committees,The governance of risk, The use of information technology, Compliance with the laws, codes, rules and standards, Internal audit, Governing stakeholders relationships, and Integrated reporting and disclosure."

Effective application of these principles would assist towards proper governance of CFIs.

Weak operational capacity

The Supervisors also stated that another challenge facing CFIs is 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. For example, the majority of institutions that were assessed did not have liquidity or cash flow policies to guide them in managing their liquidity positions.

Lack of accounting expertise

There is hardly any member in the CFI with the necessary accounting experience and qualifications for keep the financial records of the institution, especially in the rural areas, where the need for access to finance and economic development is the greatest. Consequently,financial statements and management accounts are often found to be in disarray. Providing basic training in accounting skills and use of accounting software to CFI will be crucial for the development of member-based banking, especially in the rural areas.

Poor management of information systems

Urban-based CFI 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 properly monitored in many instances. Rural CFI 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.

Addressing registration Challenges facing cooperative banks and Societies in South Africa

Over and above, more needs to be done to address the situation preventing CFI from meeting the requirements for co-operative bank registration. It is also crystal clear that the CBDA Capacity Building Unit (the Capacity Building Unit determines the training needs for the cooperative banking sector and develops appropriate capacity enhancement programmes in conjunction with relevant stakeholders) is not doing enough to ensure that these institutions receive the necessary guidance to meet registration.

According to Padi (2016), the major challenge facing CFI is the fact that there is poor growth in terms of membership. This means that a lot of people are unaware of the services provided by these institutions. As a result of a low membership base, the CFI may not be able to meet the capital adequacy ratio; hence it would eventually fail to register. Therefore, aggressive and effective marketing is needed so that the CFI reaches out to a large number of members. This will increase the capital base and build on capital adequacy which is a requirement for registration.

Adherence to co-operative principles is also an important aspect which will eventually persuade the Supervisors to grant the application for registration. Supervisors state that such adherence is a precondition for registration. In addition, the CFIs 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 CFI, and improve the co-operative image and reputation that should restore confidence in the sector.

Padi asserted that CFIs should be guided by the seven cooperative principles namely:

> voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and information, cooperation among co-operatives and concern for community

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 (Tricker and Tricker, 2015).

There is need for proper governance which places greater responsibility on the Board and the management. The board of a co-operative bank must craft a strategic plan with vision, mission and objectives and should organise an Annual General Meeting. The board should make sure financial statements are prepared and the co-operative bank is audited.Management and board should also develop policies and revise the policies to suit the operations and principles of the bank. The policies include savings policy, loan policy, liquidity management, membership recruitment, investment, training, performance appraisal, procurement, information technology, and security. All these should conform to the corporate governance principles.

Co-operative banks are required to meet and maintain minimum prudential requirements. In South Africa, 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 loans 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.

Also, there is a need to comply with all the prudential regulations, the cooperative banks act and the cooperative act. This however has been a huge impediment to CFI because they state that the prudential requirements are difficult to comply with since the percentages are too high, and it is almost impossible to meet them. This has been the major reason why most applications have been denied.

Furthermore, matters relating to human resources, such as capacity building and staff training, are critical for the effectiveness and sustainability of co-operative banks. To this end, education and training are one of the key factors affecting the growth 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 hasto appoint suitable 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.”

The Supervisors also noted in the 2010/11 report that, 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.

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 as information technology is vital for the sustenance of a co-operative bank.

More advanced technology is required by larger cooperatives, especially those operating closer to cities and towns to cater for the needs of their members. This would also enhance their competitive ability and result in improved access to finance for members., Some of the challenges experienced in the industry are the ways in which co-operative banks are regulated. They went further to also outline that amendments in co-operative legislation will go a long way in ensuring the survival of co-operative banks, since the current regulations make it difficult for upcoming CFI to thrive. Competition from major banks in the country is also one of the major reasons preventing the growth of more co-operative banks in South Africa.

Overcoming Challenges facing Cooperatives in South Africa: Lessons from Grameen Bank, Bangladesh

Cooperative Banks are formed to offer institutional credit facility to the poor tobe able to partake in the developing entrepreneurial activities (Hossain, 1988). In Bangladesh, one of the most inspiredco-operative banks is the Grameen Bank which was established in 1983 to provide credit to the rural poor for the purposes of improving their economic condition (Egger 1986). Though the bank faced some management challenges at the initial stage just like what co-operative banks are experiencing now in South Africa, Grameen has progressed rapidly over the years. Remarkably, loans are issued without any collateral and with little interest rate. This is contrary to what obtains in South Africa where the interest on loans might be as high as 300% making repayment difficult or impossible (Hietalahti and Linden,2006). More importantly, women are at the centre of the lending activity in Bangladesh in order to empower them (Rahman and Milgram 2001). These credit facilities and loans help women, especially poor women to generate new employment in the activities of their choice. Majority of these women are now economically and socially empoweredto be self-employed. They are also able to create employment for others as their enterprise blossoms.

Usually, in Bangladesh, Credit facilitiesare issued to different groups for collective enterprises such as investing in irrigation machines, rice hullers, oil mills and power looms and so on (Hossain, 1988). The reasons for lending to these groups are for the groups to take advantage of improved technology and economies of scales.

Gameen bank sources and develops its liquidity portfolio by bringing large numbers of low-income people into the discipline of economic development derived from a credit system that has virtually no overdues or bad loans (Harper and Arora, 2005). Bad loans are being controlled and contained because the bank has an approach that keeps overdues and loan losses at close to zero. This is done through strong management style and approaches which utilises skilled people and experts in managing credits and loans portfolios of the bank. Robust capacity is at the fore front of the management style.However, this does not mean that there are not instances of repayment defaults. The ability of the bank however to confine credit services to the extremely needy; strong management; provisions of loans for activities that generate regular incomes; the collection of repayments in small amounts suitable to the circumstances under which the poor earn and live has madeloan recovery effective and excellent.

Grameen bank is a rare success story in the history of rural credit programmes in developing countries amidst policy makers who would like to use credit programmes as an antipoverty programme (Bateman, 2011).The bank has made positive contributions to the alleviation of poverty in its area of operation. What makes this programme very remarkable is the concept of generating self-employment for the poor through availing credit facilitieswithout collateral. South Africa should adopt this approach in view of the widespread poverty, inequality and unemployment/underemployment the country is currently going through.

South Africa can draw useful lessons from Bangladesh by improving and strengtheningtheir cooperatives societies and banks by encouraging many people to participate in the scheme. Ensure that the interest rate chargeable on loans facilities is very low unlike what obtains in South Africa currently. The loans should be channelled to productive use. Engaging experts and skilled persons in the management of loans/credit facilities and also skilled and experts in managing defaults and challenges sometimes faced by enterprises that was initially thriving but on the brink of failing. Women should be at the centre of credit advances in order to capacitate them as self-employed entrepreneurs. There is need to address the challenges that affect the co-operative bank in order to sustain continuity, safe and sound bank.

The nexus between co-operative banking and socio-economic development

The introduction of the Co-operative Banks Act has made tremendous strides towards uplifting socio-economic development in South Africa. The Act has managed to provide a platform wherein Financial Co-operatives may develop and thrive. The Act targets people in communities, by giving them access to member based banking and affordable loans through their own co-operatives. This in turn ensures that people in communities can emancipate themselves through projects that improve their standard of living. The Act, through the Co-operative Banks Development Agency continues to give guidance and training to current and newly emerging Financial Co-operatives.

The Government recognizes that the main purpose of co-operatives is to render services to members. Co-operatives contribute to the development of the communities and the nation at large through the improvement of the socio-economic situation of their members (DTI, 2004). It further acknowledges the specific potential of co-operatives, as enterprises and organizations inspired by solidarity, to respond to members' needs and ensure greater black participation in the mainstream economy, especially persons in rural areas, women, persons with disability and youth. The Government shall also continuously engage with stakeholders in the youth and women sectors to design appropriate support programmes (DTI, 2004).

The CBDA records show that there are currently only two registered co-operative banks regulated by the South African Reserve Bank. These contribute toward 40 per cent of the sector's total assets. Eleven institutions are eligible for registration as co-operative banks as they have met the Act's regulatory threshold of more than 200 members and R1million in deposits. However, they have not met other prudential requirements, regulated by the CBDA. They make up 53 per cent of the assets of the sector. The CBDA also supervises and regulates thirteen 'other' CFIs. The industry has a total of 24 722 members, and a combined total of R236 533 481 in assets. This clearly shows the economic potential of financial co-operatives and how they contribute to socio- economic growth in the country. The main deterrent has been the failure to meet the requirements for registration as co-operative banks which the CBDA must address. It is dominated by women and the youth which makes it the perfect tool to emancipate and develop communities.

The Department of Trade and Industry also noted that the Government shall also consider introducing support measures for the activities of co-operatives that meet specific social and public policy outcomes, such as employment creation and the development of activities benefiting disadvantaged groups or geographical areas (DTI, 2004).

Promoting co-operative enterprises is a key programme component of the Government's Broad-Based Black Economic Empowerment (BEE) strategy that seeks to address the imbalances of the past and equitably transfer the ownership and control of economic resources to the majority of its citizens. The BEE strategy will, among other things, encourage and support efforts by co-operatives and other forms of enterprise that support broad-based economic empowerment (Broad-based empowerment models-ESOPs, community trusts/groups, worker co-operatives, *stokvels*, burial societies and so on.To assert ownership and control of economic activities in new and existing enterprises and break into new sectors of the economic activity, government is committed to work with the co-operative movement to ensure that an increasing portion of the ownership and control of the economic activities is vested amongst co-operative enterprises (DTI, 2004).

Conclusion

Thisarticle clearly shows that there is still need to develop and ensure growth in the co-operative banking industry in terms of new policy frameworks, research and training. The industry has so much potential in terms of socio-economic growth, as such; the government must dedicate more support for this industry. More co-operative financial institutions need to register, therefore the Co-operative Banks Development Agency (CBDA) and Capacity Building Unit must ensure that all CFI are properly trained and understand the legislative frameworks that regulate their industry.Grameen Bank in Bangladesh operations have shown that with the right skills and expertise integrated into the sector, cooperative banks and societies will thrive and deliver essential socio-economic empowerment to the poor in the rural areas. By so doing, there will be increase of economic activities because there is access to credit and loan facilities, self-employment, poverty reduction and increase in the quality and standard of living in the rural areas.

Recommendations

It is evident that the regulatory threshold of minimum of 200 members and R1million in deposits imposed by the Act oseems to be too high since most CFI are failing to meet these criteria It is therefore recommended thatsince, the industry is still developing, the threshold should be reduced to allow more Co-operative Banks to be registered, however they canbe placed under a probationary period to evaluate if they are able to sustain themselves. The Supervisors wouldalso have to pay close attention to such banks and give them the necessary guidance.

Furthermore, there should be more public awareness of services provided by Co-operative Banks. As it stands, most CFI have small membership size and the increase in membership numbers is very sluggish since people are not aware of such banks, resulting in the failure to meet the 200 member threshold. The CBDA must come up with advertising campaigns about what these institutions have to offer.

The situation is made worse by the competition such banks receive from the big established commercial banks. Thus, more awareness must be made about CFI.

It is also recommended that further training must be given CFI, to acquaint them with corporate governance, especially on the roles and duties of the board of directors to allow them to exercise practical and ethical leadership. This would ensure the development and sustainability of such banks because they would have knowledge of risk management, audit, and information technology.

The lessons drawn from Bangladesh should be used to improve and strengthen weak aspects of *stokvels* and cooperatives so that they can be self-sustaining, give more credit and loan facilities to the poor and more importantly the indigent women in the rural areas.

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