

EMPOWERING POOR RURAL VILLAGES THROUGH THE  
PROVISION OF FINANCIAL SERVICES BY MEANS OF  
FINANCIAL SERVICE COOPERATIVES: A PRELIMINARY  
INVESTIGATION INTO FINANCIAL SERVICE COOPERATIVES  
IN SOUTH AFRICA \*

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Rural people have little if any access to financial services. The high costs and low returns associated in addressing their savings, loans, transmission and insurance needs prevent commercial banks from serving this segment of the market. Many researchers emphasise the importance of utilising a community's resources such as villagers' skills, imagination, initiatives and financial potential to establish self-help institutions that address the community's needs. The community by identifying their own potential has greater confidence in them and their capacity in meeting their economic demands.

Village Banks, founded by the International Fund for Agricultural Development in 1994, are self-sustaining financial institutions owned, financed and managed by the community with the purpose of providing deposit, credit, banking and other financial services to their members. Village banks are found throughout Africa, including South Africa, Bénin, the Congo-Brazzaville, Gabon, Guinea, Mauritania, Uganda and Kenya. In South Africa village banks are registered as Financial Service Co-operatives (FSCs) while in the rest of Africa they are registered as companies limited by shares or guarantees (so called Financial Services Associations (FSAs)).

In this discussion of South Africa's FSCs, the focus will fall on the financial needs of the rural population (section 1); how these needs are addressed through village banks (sections 2 and 3), the financial and social success (section 4) they have and some concluding remarks (section 5) on the success FSCs have in empowering the poor in rural areas. Throughout, the village banks of Uganda and Kenya will be referred to for comparison purposes.

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## 1. FINANCIAL NEEDS WITHIN RURAL AREAS

Currently 16.71 million South Africans live in rural areas, which represents about 38% of the population (Schoeman, undated (c)). Despite these numbers, formal financial institutions do not provide financial services within these areas. The income derived from these services does not warrant the cost of provision due to the limited extent of services and the remoteness of most of the rural villages. Furthermore, characteristics of the rural areas such as poor infrastructure, low population density, high levels of illiteracy, and limited business activities further restrain formal financial institutions from addressing the financial needs of the rural population. Rural villagers on the other hand, face high transaction cost in travelling to the nearest bank and often do not adhere to the minimum requirements set by the bank for either opening a savings account or obtaining a loan.<sup>1</sup> If, however, commercial banks do provide financial services, it must be delivered sustainably. Experience shows that many communities were left vulnerable due to the closure of branches in rural areas that resulted from the unsustainable cost structures involved. Any rural financial institution therefore must address not only the risk and cost restraints, but also the specific needs of their rural clients in a sustainable manner.

The services rural people need or demand is as follow:

- The safe keeping of cash and saving opportunities. Studies by Spio *et. al.* (1995) as well as Yaron *et. al.* (1997) indicated that rural people have the ability to save. Often the importance of savings in rural areas has been neglected since it was assumed that rural people cannot and will not save due to low income levels and a high propensity to consume. In many instances, the demand for saving facilities is greater than that for credit.
- Short term credit. Credit is needed for unforeseen consumption expenses, for example, marriage, birth, and burials, and is often obtained from local moneylenders at high interest rates.
- Transmission services. Extended family networks found in the rural areas and extensive rural-rural and urban-rural migration lead to the demand for better electronic transmission services. Such services will allow transmission between urban and rural areas as well as within and between rural areas. Electronic transmission facilities are

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<sup>1</sup> It is estimated that a trip to the nearest bank may cost a person between R10 and R50, plus a day or two on the road (Schoeman, undated (c):4)

especially important since many pensioners as sole income earners are found within the rural areas (Spio *et. al.*, 1995; Strauss Commission, 1996a and 1996b; Jazayeri, 1996; Schoeman, undated (c); Yaron *et. al.*, 1997).

Given the financial needs of rural villagers and the problems of adverse selection and moral hazard associated in providing these services,<sup>2</sup> Graham and Von Pischke (Cross and Coetzee, 1995) advocate the importance of decentralised financial services, i.e. financial services that are organised by the local community. These self-help groups emphasise intermediation at the local level, i.e. to mobilise local financial, human and social resources and provide services such as saving and credit facilities. The solidarity and trust that exist among members of the community as well as local knowledge, management and pressure decrease adverse selection and moral hazard problems often associated with local financial intermediaries.

One type of self-help group found in Africa is that of the village bank. Village banks have been established with the purpose of addressing the financial needs within rural areas in a sustainable way. These institutions utilise the communities' resources by creating community-based intermediaries that may act as an effective link between the rural communities and the formal financial sector.

## 2. THE VILLAGE BANK CONCEPT

Dr Ahmed Jazayeri of the International Fund for Agricultural Development (IFAD) and the African Agricultural Credit Association (AFRACA) launched the first village bank in Africa during November 1994 in South Africa.<sup>3</sup> Since then, village banks have been introduced in Bénin, the Congo-Brazzaville, Gabon, Guinea, Mauritania, Uganda and Kenya.

Village banks are semi-formal financial institutions that create access to basic banking services on a sustainable basis by utilizing a community's rules, customs, relationships, knowledge, solidarity and resources combined with formal financial methods and concepts. The bank is initiated, owned, financed and managed by the villagers themselves, who buy shares in the bank. The shareholding structure of the bank allows for easy entry for new members thus not only increasing the bank's outreach but

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<sup>2</sup> See Hoff and Stiglitz (1990) on a detailed discussion of adverse selection and moral hazard associated with rural credit markets.

<sup>3</sup> The original village bank concepts are found in "The Village Bank Manual" of 1989 designed by John and Marguerite Hatch. Since then the village banking model has been adapted by different organizations to fit varying contexts (Holt, 1994).

also result in villagers' commitment to the success of the bank. The bank targets both the poor and better-off segments within the community and in this manner further increase outreach (Jazayeri, 1996; Pearce and Helms, 2001).

a) *FSCs registered as co-operatives*

Legally a village bank can be conceived as somewhere between a shareholding company and a co-operative. Uganda's village banks are registered as companies limited by shares or guarantees while Kenya's are registered as civil associations or companies. These companies or financial services associations (FSAs) have a profit motive that would typically result in higher dividends being paid to members than in the case of co-operatives. A submission to the Registrar of Banks by EFK Tucker Inc. (1996) suggested that South African village banks must rather be registered under the Co-operative Act of 1981 than under the Companies Act of 1973. The share capital structure of a co-operative with statutory provision for easy cancellation of shares and greater flexibility with the structuring of voting rights; a simpler framework; lower registration costs than with a company; and intermediation of savings is some of the benefits involved when a village bank is registered as a co-operative rather than a company. Therefore, it is perceived to be a more suitable structure to operate in rural areas. It was consequently decided that South African village banks should be registered as financial service co-operatives (FSCs) under the Co-operative Act of 1981 (Act No 91 of 1981).

The first co-operative in South Africa, a Consumers' Co-operative, was established in 1892 in terms of the Companies Act. No co-operative act existed at that time.<sup>4</sup> Since then many more co-operatives, especially agricultural co-operatives, were registered under the same act. In 1908, the first Co-operative Act was passed followed by the Co-operative Societies Act of 1922 (Act no 28 of 1922). After recommendations by the Commission of Inquiry into Co-operatives and Agricultural Credit of 1934, the Co-operative Societies Act of 1939 (Act no 29 of 1939) came into operation on 1 September 1939. The focus was still on agricultural and farming activities. This act was repealed by

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<sup>4</sup> The first co-operative as business entity, originated in Rochdale, England 1844 when weavers in England experienced terrible living conditions and 28 workers of the textile industry, under leadership of Charles Howarth, established the Rochdale Society of Equitable Pioneer on 24 October 1844,. The objectives of this co-operative were to address the needs of better housing, employment, food, education and other social needs of the members by means of cooperation by all the members of the co-operative (Spaul and Kay, 1947:17-22; Van Niekerk, 1988).

the Co-operative Act of 1981 (Act No 91 of 1981) which also makes provision for trading co-operatives. The current act does not go far enough in addressing the financial and housing needs of the people. Thus, the current act is to be revisited to comply with international standards and to address the particular needs in the economy (van Niekerk, 1988; Draft Co-operative legislative review policy, undated). No co-operatives, with the purpose of providing financial services to farmers or those not served by commercial banks, were established prior to FSCs. Huss (1928), however, is of the opinion that the basic principles of co-operatives, namely group association, co-operation and responsibility, were applied in traditional savings and credit schemes. Thus, although no co-operatives as credit or banking institutions were established before, there were good possibilities to do so it was not sufficiently investigated.

*b) The origin of co-operatives as banking institutions*

Co-operatives as banking institutions originated in 1864 in Germany when Friederich-Wilhelm Raiffeisen set up the first savings and credit co-operative, the so-called Raiffeisen Bank. The objective was to provide savings and credit services in urban and rural areas by developing the idea of self-help. Since then German co-operatives has shown great success in addressing the needs of its members. For example, Germany had 70 co-operatives in 1870 which increased to 21 000 by 1925. Currently 9 500 co-operatives operate in Germany in five sectors, being agriculture, banking, small-scale industry/service sector, housing and consumption. It is further estimated that one out of every five Germans is a member of a co-operative. Germany had 2 037 Co-operative banks with a balance sheet total of DM 1 700 billion in 1999 serving 14,9 million members. Factors contributing to the strength of the co-operative banking system are its fundamental principles such as self-help, self-responsibility and self-administration; close contact with the members which develops strong identification by the members with their bank; decisions and policies of the bank are made democratically by the members, thus all decisions have the backing of the members; and strong regulation. Coordination of co-operatives falls under supervision of the German Cooperative and Raiffeisen Confederation (DGRV), the national apex organisation of the German cooperative sector (Bezuidenhout and Delpont, 2001; Harms, 2001; DGRV, 2001).

c) *FSCs registered under an exemption to the Banks Act*

South African FSCs provide financial services that include the taking of deposits. Since the current co-operative act does not provide for co-operatives to accept deposits from members, FSCs must further be registered under the Banks Act of 1990 (Act no 94 of 1990). This requires that a FSC be registered as a bank or mutual bank. However, the high registration cost of R50 million for a bank and R10 million for a mutual bank are far beyond the reach of a FSC. A FSC will thus only be able to provide deposit services if it is exempted from the Banks Act, which is done in terms of the South African Reserve Bank, Notice No 367 of 10 March 1998.<sup>5</sup> The notice serves as a specific exemption from the Banks Act of 1990 (Act No 94 of 1990) that makes provision for FSCs to take deposits from members and provide other financial services (Government Notice, 1998). The exemption from the Banks Act expired on 31 December 2000 and a new notice is being prepared by the Bank Supervision Department (BSD) of the SARB to extend the exemption. However, Bezuidenhout and Delpont (2001), after consultation with the DGRV are of opinion that a revision of the Mutual Banks Act is important for the successful development of FSCs. If this approach is to be followed, careful investigation and discussions by all parties involved must take place in order to broaden the definition of banking.

In order to develop co-operatives in South Africa, support has been given by the DGRV since 1995. Currently representatives of the DGRV assist the BSD with the investigation into the regulation and supervision of FSCs. Other support will include training activities, introducing co-operative auditing systems and advising national governments and other public bodies on co-operative law, auditing and the supervision of co-operatives.

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<sup>5</sup> Former exemptions from the Banks Act are not appropriate for FSCs. The first exemption (Government Notice R2509 of 28 December 1993) allow co-operatives to take deposits from members on the condition that it must not be less than R1 000 and remain with the co-operative for a minimum of twelve months. The second exemption (Government Notice 2173 of 14 December 1994) relates to a group of persons where a common bond exists among the members and apply to "stokvels" and credit and saving unions. However, the operations of a FSC falls outside the scope of this exemption. For example, transfer facilities provided by FSCs fall beyond the scope of services provided by the bodies covered under the exemption. Members' deposits with the FSC are furthermore not the same as the 'pooling' of money found with "stokvels" and allowed under the exemption (EFK Tucker Inc., 1996).

*d) FSCs linking with commercial banks*

The exemption granted to FSCs requires that a business arrangement must be secured with a commercial bank (of the FSC's own choice) before operations can begin (Government Notice, 1998). This complies with the initial village bank concept as formalised by Jazayeri (1996) who stated that the right partnership with a commercial bank is an essential element in the success of village banks. Any bank that enters a business arrangement with a FSC is classified as a Link Bank in accordance to the Government Notice No 367 of 10 March 1998. Such linkage will allow the FSC to provide a wider range of financial services to its members, for example, term deposits; payment of transfer services; payment of pensions and salaries and access to insurance. Furthermore, the link bank will provide support, training services and advice to the FSC. Initially the amount of deposits the FSC receives does not justify the costs involved for the link bank in providing deposit facilities to the FSC. However, as the volume of operations increase at the FSC and more deposits are made the incentive for a bank increases. This will result in better facilities for FSC members. For example, term deposits will be possible since the interest rate the FSC will pay on term deposits to members will be lower than the interest rate the FSC receives on the deposits at the link bank. It is important that any service provided by the link bank is done on a financially viable manner to ensure sustainability (Jazayeri, 1996; Jazayeri, 2000; Pearce and Helms, 2001; Schoeman, undated (c)).

A study by the Consultative Group to assist the Poorest (CGAP) (Pearce and Helms, 2001) shows that the bank linkage is better developed in South Africa than with any other village bank project investigated. In Kenya, the potential of linkage has only begun to be explored while in Uganda no effective relationship exists between the FSAs and the commercial banks. Pearce and Helms are of the opinion that the high levels of competition in the South African banking sector contributes to the interest of commercial banks in the FSC initiative.

*e) Regulation of FSCs*

As financial institutions, FSCs require to be regulated to ensure standards and protect the financial industry. Jazayeri (2000:14) states that commercial banks involved with village

banks are not the appropriate external body for regulatory purposes. The reason is that the commercial bank's interest is primarily to collect savings and lend to the village bank. However, provision has been made by the Registrar of Banks for external regulators other than commercial banks to undertake this task. An apex body, the Financial Services Association (FSA) and a franchiser, FinaSol, regulate FSCs.

FSA was formed in February 1996 by the three pilot FSCs in the Northwest Province for the purpose of registration with the Registrar of Banks. All registered FSCs have equal representation at the FSA Board level and the FSA forms the overall controlling body for all FSCs as well as the mechanism through which the individual FSCs can interact on a macro level. FSA was granted regulatory authority in January 2000.

In January 1999, FinaSol, a not-for-profit association, was registered under section 21 of the South African Companies Act to operate as a regulator of FSCs. The functions of both FSA and FinaSol can be summarised as follows:

- Pre-launching support to communities interested to launch a FSC;
- Regulation and licensing of FSCs;
- Evaluate and consolidate FSCs' financial statements and reporting to the Registrar of Banks; and
- Provide technical support to FSCs.

In supporting FSCs, both FSA and FinaSol attempt to address three essential issues:

- i) Efficient and effective operation of FSCs;
- ii) The lack of human capacity found in rural areas, in order to carry out management and operation activities necessary to provide financial services;
- iii) The credibility of FSCs (Schoeman, undated (c); FSA, 2001; FinaSol, 2000).

FSAs in Uganda and Kenya have the legal statute of a financial company. No legal provision has been made for the regulation and supervision of these FSAs. If, however, the growth in outreach is significant, such legislation will be considered. No information is available to the author on the supervision of Kenya's FSAs but those of Uganda do have some supervision by a third party.

### 3. ADDRESSING THE FINANCIAL NEEDS OF RURAL PEOPLE

The objective of a FSC is to provide an institutional structure through which a comprehensive range of financial services can be provided such as savings, loans,

transmission facilities and insurance. Community members who are not members of a FSC do not have access to the financial services provided by the FSC.

a) *Shares*

To become a member of a FSC, a person must buy at least one share of R10. This allows the member to vote at the general meeting as well, as to have access to the financial services provided. However, the shares do play an important role in the operation of the FSC since the members accept full ownership and responsibility of the FSC. Shares are low-priced which allow easy entry and maximum participation from villagers. In Uganda and Kenya the capital raised by selling shares plays an important role since it is used to finance lending activities. The profit motive of these village banks allows high dividends on shares that result in higher participation from villagers. This allows the village bank to begin sooner with lending activities than found in South Africa.

b) *Savings*

Studies indicate that rural people desire to save their money but that formal financial institutions are too far away, increasing the transaction costs of the client and that rural people do not meet the minimum requirements of the bank. Therefore, the primary business of FSCs is to mobilise local savings from members. Two types of accounts can be kept:

- i) An open account is used for safe keeping of money that earns no interest on deposits. This facility allows the member to store the money while rationally deciding on consumption spending.
- ii) A fixed deposit account provides the member with a medium term investment opportunity. The member receives a fixed deposit certificate and may earn 11% interest on an investment of 3 months, 11.5% on a 6 months and 12% on a 12 months investment (Schoeman, undated (b):5).

Members are encouraged to use the saving facilities of the FSC since a member's future lending depends on his/her savings track record.

In Kenya, village banks are allowed to accept deposits. Any withdrawals are charged at a small transaction fee of between 5-12 cents. In Uganda, however, village banks are not legally allowed to accept deposits, but they do. Withdrawals are charged at 3% on

the amount deposited that prevent members from fully utilising the service. Members therefore rather buy shares since no returns are received on savings. Future lending depends on the amount of shares a member has and is not influenced by the member's savings track record (Jazayeri, 2000).

*c) Loans*

Problems such as adverse selection and moral hazard often associated with loans to rural people are addressed through village banks. Jazayeri (2000) reports that the village bank's local knowledge ensures good borrower selection, that reduces the risk of adverse selection; and the identification of borrowers through the share-holding mechanism reduces moral hazard. Local pressures via other shareholders reinforce repayment discipline.

Loan facilities are currently available to members of FSCs but no information is available to the author on the precise utilisation of these services.

As mentioned above, the amount of shares determines the maximum amount a borrower can borrow from a village bank in Uganda and Kenya. No borrower is allowed to borrow more than 15% and 10% of the village bank's loan fund in Uganda and Kenya respectively. The duration of lending varies, from 4 - 6 months in Uganda and 1 - 3 months in Kenya. Monthly repayment installments are preferred with an interest rate of 15% per month in Uganda and 10% per month in Kenya. Since the loan amount is linked to a member's sharevalue, these village banks have experienced increased participation from villagers (Jazayeri, 2000; DFID, 2000; Pearce and Helms, 2001).

The objective of the village bank must be to focus on the financing of bankable activities and projects within the community. Such lending will result in increased employment, development and the overall improvement of the community. Thus, the success of the village bank could spill over to non-members who will eventually become members of the local village bank.

*d) Transmission services*

South Africa's extended family networks as well as the number of pensioners living in rural areas (an estimated 40% of rural families have a pensioner living with them, (Strauss Commission, 1996b)) call for greater attention being given to better electronic

transmission facilities, i.e. to integrate the rural areas into the financial system of the country. FinaSol reports that 50% of the South African population has no access to efficient electronic transmission services and that in a country with a highly developed financial system. FSCs, however, are well positioned to utilise transmission facilities effectively, specifically for pension payments within rural areas. FinaSol currently has some FSCs that make use of transmission facilities for their pensioners. Constant negotiation in this regard is taking place with the National and Provincial Departments of Welfare (FinaSol, 2000; Schoeman, undated (c)).

No transmission facilities are currently available to members of village banks in Uganda and Kenya.

*e) Other financial services*

Currently village banks under supervision of FSA also have a funeral benefit scheme for members but no information could be obtained on this service.

To enable FSCs to have access to wholesale funding which will allow them to support activities in their areas of operation which may be beyond their current financial capability, Finasol is interacting with Government linked development funders e.g. Khula Enterprise Finance Ltd., the Land Bank and the Independent Development Trust.

#### 4. THE SUCCESS OF FINANCIAL SERVICE CO-OPERATIVES

The success of FSCs will be evaluated according to their outreach and financial sustainability. Outreach refers to a FSC's success in serving that segment of the market who have had no access to financial services they need and for which they are prepared to pay. It further determines whether a rural financial institution provides a wide range of financial services efficiently to a broad range of clients, therefore, contributing to income expansion and poverty reduction. A financial institution is financially sustainable if it succeeds in matching the demands of depositors, borrowers and investors in such way a that the services are provided cost effectively without future donor support (Yaron, 1994; Yaron *et. al.*, 1997; Verhagen, 2000). The success, however, depends on community participation and members' commitment and support.

*a) Outreach*

In South Africa, the first FSC was established in 1994 at Kraaipan followed by the Lotlhakane FSC in 1995 and the Motswedi FSC in 1996, all in the Northwest Province. The success since then spilled over to all nine provinces in South Africa. Table 1 gives an indication of the success FSCs have had in reaching their client market compared with village banks in Uganda and Kenya.

Table 1: Outreach of village banks<sup>6</sup>

	<i>FSC South Africa (July 2001)</i>	<i>FSA Uganda (July 2000)</i>	<i>FSA Kenya (June 2000)</i>
Date earliest branch established	1994	1997	1997
No. of branches	60	7	43
No. of shareholders	11 400	2 646	16 266

Source: Discussion groups, 2001; Verhagen, 2000; Jazayeri, 2000; Pearce and Helms, 2001.

According to Table 1, South Africa has significantly increased the number of village banks since 1996 compared to Uganda and Kenya. In Uganda, village banks serve the better off segment of the rural population while Kenya's village banks serve the poorer segments within the communities.

In order to increase the outreach of FSCs in South Africa, both FinaSol and FSA have set some targets. FinaSol's target is to have 58 FSCs registered by the Registrar of Banks and the Registrar of Co-operatives by the end of September 2001. Outreach is further increased by each FSC since they must have a business plan to achieve 300 members by the close of the first year of operation and to grow to a minimum of 1000 by the end of the fourth year of operation (FinaSol, 2000). FSA targets to have 66 FSCs registered at the end of 2001. The replication project further aims for 100 new FSCs in the subsequent 3 years, ending 2004. This together with existing FSCs, results in a total accumulation of 406 FSC at the end of 2004 (FSA, 2001). A FSC's membership base is of critical importance for its success and viability.

A FSC is further successful in its outreach if it provides the financial services the rural people need as denoted in section 1. If these services are satisfactorily utilised, they will contribute to the social and economic development at local level, and the institution can then be regarded as successful in its outreach. Deposit facilities allow individual

<sup>6</sup> Although more information is available on the village banks in Uganda and Kenya, the lack of information on South Africa's village banks prevents the author of a more detailed comparison between the respective village banks.

members safe keeping of money and more rational decisions regarding purchases and medium term investment opportunities. Rural people have a high propensity to save and it illustrates the potential of FSCs in mobilising a community's financial resources. Loans for viable business projects encourage local investment and thus local community development including support to community structures such as schools, churches and clubs. Linking the formal and informal financial sector through transmission facilities benefits pensioners. Some of the benefits pensioners will enjoy include safe keeping of their money; withdrawals from their savings account will be possible when needed; and more rational decisions when purchasing goods and services.

*b) Financial sustainability*

Establishing financial institutions in rural communities is difficult and expensive. Therefore, the attainment of sustainability must be the focus of every FSC. FinaSol, for example, requires that a FSC must reach sustainability and not rely on continued subsidization, after the start-up period of 12 to 18 months (FinaSol, 2000). According to Pearce and Helms (2001), a village bank can reach profitability within the first two years of its existence. Information is not available to form an opinion on the FSCs' financial sustainability. In Uganda and Kenya, the long term sustainability of village banks must still be proven. According to the original concept, they ought to reach sustainability within three years of operation. However, this is not the case and according to Verhagen (2000), it is too soon to establish the long term sustainability of the project.

## 5. CONCLUSION

Economic and financial empowerment of the rural population require the integration of the previously less privileged groups of the population into the economy by helping them to help themselves. Rural people need to join hands and start initiatives that will address their economic needs from bottom-up rather than follow a top-down approach. It is believed that this can be achieved through co-operatives. Co-operatives could be used as instruments of change to improve the living conditions within rural communities. The co-operative movement in Germany contributed to the success of the German economy after World War Two and emphasises the role co-operatives can play in economic development.

The problems rural villagers face in South Africa in obtaining financial services from commercial banks are addressed through the establishment of FSCs. FSCs use co-operative banking principles dating from 1864, a community's financial and human resources as well as services provided by a commercial bank. If such a FSC is established in a rural area, economic development takes place since access to financial services has been improved. Improved access to financial services will not only be beneficial to the members of the FSC, but will result in increased local business activities; increased membership of the FSC, increasing the viability of the FSC and spill over to benefit all members of the community.

The success of FSCs is determined through outreach and sustainability indicators. Information on FSCs' sustainability could not be obtained. According to outreach FSCs are successful in reaching their client market, if compared to Kenya (Table 1). Support from both government and the SARB is important to improve FSCs' outreach. Their outreach will furthermore be improved because of the support from the DGRV that assist the Bank Supervision Department of the SARB in developing specific legislation for FSCs. If the appropriate financial services, for example savings insurance and transmission facilities, are provided sustainably in rural areas community members will take up membership with the FSC which will contribute to their economic development.

A FSC is thus a window through which a community shows their willingness to take the initiative for their own development. It is an opportunity to encourage interaction between rural communities and broader economic sectors via financial intermediation. Intermediation is based on banking principles, but the structure in which it is provided is new to members of the community, the banking sector and the population at large. Better marketing and knowledge of FSCs as financial intermediaries will result in increased participation from both villagers and commercial banks. This should promote the provision of tailor made financial services to poor rural villages, empowering them to help themselves.

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