

 <p>www.saccol.org.za Registration Ref. #: K6/3/9/677</p>	<p align="center">SAVINGS AND CREDIT CO-OPERATIVE LEAGUE OF SOUTH AFRICA LIMITED (SACCOL)</p>		
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To: N. Nene
Committee Chairperson: Portfolio Committee on Finance

THE SAVINGS AND CREDIT COOPERATIVE LEAGUE OF SOUTH AFRICA RESPONSE TO THE TABLED COOPERATIVE BANKS BILL [B13-2007]

BACKGROUND

Who is the Savings and Credit Co-operative League of South Africa (SACCOL) Ltd

The Savings and Credit Cooperative League of South Africa, established 1981, and registered in 1994, is representative to 47 registered Savings and Credit Cooperatives (SACCOs) in South Africa as their national association. Our SACCOs have over 13,500 members with R70 million in Assets mobilised.

SACCOL has three primary functions:

1. **Representative** of the SACCO movement both locally and internationally.
2. To provide **development services** to SACCOs. SACCOL services its member organizations by providing training, advice and other technical services as well as accepting deposits from and making loans to its members, through the ifs member Central Finance Facility (CFF)
3. To monitor and **regulate** SACCOs.

SACCOL is owned and controlled by its member SACCOs. Members exercise proportional voting rights according to the size of its membership. SACCOs elect members onto the SACCOL board and various committees. The fees and dues structure of SACCOL is determined by our members themselves that contribute towards SACCOL's operating cost.

Through Government Gazette Vol, 29412, December 2006, No. 1176, the South African Reserve Bank recognises SACCOL as the representative of Savings and Credit Co-operatives (SACCOs) and Credit Unions in South Africa on the condition they abide by the SACCOL constitution and SACCO statutes as adopted and amended by members at SACCOLs AGM, thus receive an exemption from the Banks Act of 1990.

SACCOL has for the past 6 years motivated to Government that there is a need for Legislation to supervise and regulate Financial Cooperatives. This was based on the premise that as a Self supporting Regulatory Organisation, who is dependent on members fees and dues, or donations to carry out such an important mandate was not viable. Secondly, it is a well established fact that where there is an established legal and institutional framework for Financial Cooperatives to operate, has led to the stimulation of a vibrant Cooperative Banking Sector.

It is in the context of SACCOL having to be self regulatory to our members that we bring our comments through our institutional experience to the portfolio committee.

INTRODUCTION

THE SACCOL welcomes the tabling of the Co-operatives Banks Bill. After a long process in which we have been intricately involved, we are encouraged by the conceptual improvements in the Bill regarding the scope, types of Cooperative Banks, the tiers of Co-operative Banks, the role of the Co-operatives Development Agency, the inclusion in legislation of a Deposit insurance and the incorporation into regulations of various prudential standards.

The legislation further recognises the unique nature of Co-operative Banks as Cooperatives and provides a framework to accommodate them within the Cooperatives Act of 2005. Impressive too is the legislation's understanding of the need to recognise and harness the work of representative and support organisations to build a vibrant Financial Cooperative Sector. Overall these inclusions give the Co-operatives Banks Bill a holistic framework in which safe and sound co-operative banks will be able to operate, be regulated and grow.

Notwithstanding our above comments we do believe that there are a number of areas in which the legislation could be further enhanced to better meet its objectives of building a vibrant, safe and sound financial cooperatives sector.

The Issues to be discussed below, as appearing in the Bill are:

Definitions

Executive Officers

Application of the Act

Groups with less than 200 members or R 2 million in Assets

Constitution and functions of cooperative bank

Duplication of audit and supervisory committees

Share certificates

Banking services provided by a Cooperative Bank

Prudential requirements and large exposures

Treatment of capital

Large exposure to investment deposits

Deposit Insurance Fund and Scheme

Deposit insurance of regulator vs. deposit insurance of cooperative banks/support organisations

Application for registration as representative and support organisations
Administration of the Act

Registration of Secondary and Tertiary Cooperative banks with the South African Reserve Bank

Relationship with other regulatory agencies

Requirements for accreditation

Cooperative Banks Development Agency

Development vs. regulatory function

Deposit insurance as a regulator vs. development agency

Providing financial support vs. Stabilisation funding

Providing liquidity directly to primary banks

Role of the Representative and Support Organisation

Governance of the Agency

Appointment of the board members of the agency

Remuneration of board members of the agency

Other

Cooperative Banks Taxation

Government payroll deduction (PERSAL)

Schedule, Laws amended

Gazette Vol, 29412, December 2006, No. 1176

National Payments Act, 1998

Conclusion

The list might seem long above. This is as one of the principle problems we have found with the Bill is that it is often contradictory and duplicative in nature, and it was decided not to present these as a group but rather as and when the first occurrence happens on the issue.

CHAPTER 1

DEFINITIONS, PURPOSE AND APPLICATION OF ACT

Definitions

“Executive Officer”: The bill states *“executive officer means any person, who may be a director appointed as the executive officer by the board of directors and who is*

This contradicts cooperative principles in that it is the democratic nature of cooperatives that only members can be elected as directors.

This clause further more contradicts (13.1.a) of this Bill which states, *“none of its directors, other than the managing director, may be employees of the co-operative bank”*.

Recommendation: We support 13.1.a and recommend that the definition of executive officer be removed from the definitions and in all places where it occurs:

Pg 5: Arrangement of Sections: 79.

Pg 9: Requirements for registration: 7.c
Pg 9: Fit and Proper: 9.1
Pg 9: Fit and Proper: 9.1.d.iv.
Pg 9: Fit and Proper: 9.2
Pg 13: Duties of directors and officers of a cooperative bank: 16.2.a
Pg 13: Duties of directors and officers of a cooperative bank: 16.3
Pg 13: Duties of directors and officers of a cooperative bank: 16.3.a
Pg 13: Duties of directors and officers of a cooperative bank: 16.3.c
Pg 13: Duties of directors and officers of a cooperative bank: 16.3.d
Pg 13: Duties of directors and officers of a cooperative bank: 16.3.e
Pg 13: Details of Directors and officers of a cooperative bank: 17.2
Pg 31: Criminal liability of a Director, managing director, executive officer and other persons
Pg 31: Criminal liability of a Director, managing director, executive officer and other persons
Pg 31: Criminal liability of a Director, managing director, executive officer and other persons: 79.1
Pg 31: Criminal liability of a Director, managing director, executive officer and other persons. 79.2

Application of the Act

Start up Co-operative Banks and/or groups with fewer than 200 members or R2million in Assets

As per section 3.1 (a) and (b) it is noted in the Bill, that groups with fewer than 200 members or groups that hold deposits of members to the value of less than R1 (one) million in do not need to register with the Registrar of Co-operative Banks. This poses a number of scenarios which require clarity.

- a) What becomes of the status of stokvels and savings groups and how are they to be regulated?
- b) What is the status of start up groups that apply for registration but do not meet the thresholds?

We recommend the following:

- a) One of the stated intentions of the Bill should be to encourage stokvels and savings groups to consolidate and merge within a defined geographic area so that as they become eligible to receive support to convert to Co-operative Banks
- b) The Registrar of Co-operative Banks, in conjunction with the support organisations, should create a definition of a "Study Group/Provisional Registration" that would register with the Support Organisation and receive support from the Development Agency toward meeting the requirements of registration within a prescribed period of time.

Part 2, Constitution of cooperative bank and amendment to constitution

13.1 Duplication of audit and supervisory committee functions

13.1. d requires the constitution of a Cooperative bank to provide for (pg.11)
“the appointment of an audit committee consisting of members that are not directors to –

(i.) Assist with the board of directors in it evaluation of the adequacy and efficiency of internal control systems

(ii.) Facilitate and promote communication regarding the matters referred to in subpar. (iii)

(iii) Introduce measures that in the committee’s opinion may service to enhance the credibility and objectivity of financial statement and report...”.

13.2. a requires the constitution of a cooperative bank to provide *“for the establishment a **supervisory committee** and the manner in which it must be constituted”.*

What distinguishes a co-operative from a non-cooperative is that board members are elected from its members. The same would apply to the election of Supervisory Committee, which would perform the exact functions as outlined in 13.1.d

Recommendation: That the appointment of an audit committee be substituted with *“the election of a Supervisory committee”, or via versa.*

13.2 e. requires that “certificates in respect of membership shares must be issued to members”.

The registration cost of each certificate can cost more than the share itself, as well as being an administrative burden.

All Cooperative Banks members receive statements or shall have a record book and/or are issued with transaction receipts which shall record his/her shares, deposits and loan transactions with the co-operative.

Recommendation: The following clause is added as at the end of the sentence “or members share statement or other receipt shall constitute a certificate of share holdings, unless it is proved otherwise”.

Banking services provided by a Cooperative Bank

14.3 and 14.4 Refers to the services a Secondary and Tertiary Cooperative Bank may offer

It is noted that no provision is made for Secondary or Tertiary Cooperative Banks to access and participate in services provided by access to the national payments system. It would be our contention that this would be one of the primary motivating factors toward forming secondary or tertiary cooperatives banks, and enabling primary cooperative banks access to such services.

Recommendation: To be added under clause 14.3 and 14.4 “any products and services as become available through access to the national payments system”

Chapter III

PRUDENTIAL REQUIREMENTS AND LARGE EXPOSURES

Prudential requirements of a co-operative bank

Section 20.1(a) refers to capital requirements to be determined by regulations.

Members' interest in a co-operative is determined by their ownership of shares. These shares are the primary method of raising capital in a Banking Co-operative until it is able to earn retained earnings/general reserves toward meeting its prudential capital requirement.

However noting the International Accounting Standards Board (IASB) interpretation June 2004, of shares as a liability, it is important for this Bill to stipulate how shares are to be treated in a Co-operative Bank towards meeting the capital requirements as required by the Regulations.

It would be our submission that any paid up shares without redemption rights, a right to unconditionally refuse redemption OR the imposition of limitations on redemption of membership shares be treated as share capital. Such partial limitations could include an unconditional right to refuse share redemption to a member if redemption would cause the number of shares to fall below a specified level (and value/solvency/capital adequacy ratio). This principle is recognised by the International Financial Reporting Interpretations Committee of the IASB, Membership Shares in Co-operative Entities, draft interpretations June 2004.

This principle is further recognised in the Co-operatives Act of 2005 Chapter 3, 24 (1) whereby it states that "if a co-operative determines that the repayment of shares would adversely affect its financial well-being, the co-operative may direct that the repayment be deferred for a period not exceeding two years after the effective date of the notice of withdrawal."

The current statutes of Savings and Credit Co-operatives (SACCOs) states harsher redemption limitations (based on the Co-operatives Act of 1981 and states "Shares may not be redeemed at their nominal value if there are reasonable grounds for believing that the realizable value of the co-operative's assets is less than the total of its liabilities and book value of shares and reserves."

It would be our opinion, that due to the lack of knowledge around Co-operatives and Banking Co-operatives more specifically, notification of the treatment of shares with any limitations be stipulated in the bill so as to prevent any misrepresentation of shares as capital in a Co-operative Bank.

Large exposures of co-operative bank

23.1 (a) restricts with investments with any person or grant any loans to members, which investments or loans collectively may not exceed 10% of the amount of its total assets

(b) restricts investment with any one person or grant a loan to any one member, which investment or loan, alone or together with all previous investments or loans made or granted to that person or members will not exceed a percentage of its total investments or loans as may be prescribed by the minister

There has been concern raised that the way provision 23.1(a) is worded could be interpreted to mean that between persons and members (as a total) not more than 10% of the total assets of the Cooperative Banks may be given out on loans. If this is the intent the model cannot work. 23.1 (b) is much more clear on the sections intent.

Recommendation: 23.1.(a) be worded to clearly indicate its intent or to delete completely.

We note that the above refers only to the Cooperative Bank making investments, but believe that the same criteria of 10% should apply to persons investing in the Cooperative Bank so as to reduce exposure risk to large shareholders or depositors.

Recommendation: That the wording “make or receive investments with any person or institution or loans collectively..... “ be added in both sections 23.1.(a) if not deleted and (b)

To add: 23.3 4 for purposes of subsection (1) the following deposits must be regards as a single deposit or investment into the Cooperatives Bank

To add: 23.3.4 (a) Shares, deposits, savings or loans from a member into the Cooperative Bank.

Alternatively to provide for a section specifically that will address investment exposure into the cooperative bank.

Chapter IV

Deposit Insurance Fund and Schemes

Deposit insurance obligations of Co-operative Bank

This section deals with the possibility that Secondary, Tertiary Banks and the Cooperative Development Agency can all provide Deposit Insurance Schemes to Primary Cooperative Banks.

It would be our contention that this is duplication and will add to the cost of the insurance as it goes through the various “channels”. A direct deposit into the Development Agency should win hands down as it would be the only one able to subsidize such a Deposit Insurance Scheme. For the deposit insurance to work effectively, require economies of scale and scope. This necessitates that

the deposit insurance be centralised, monopolised and housed and managed by one agency.

Most importantly though it would be our view that deposit insurance and stabilisation lending is typically an outcome of supervision and regulation. It is from this perspective that risk can be evaluated and as regulator, conditions can be imposed to improve efficiencies towards a safer Cooperative Bank. As regulator, you are able to cost the insurance based on risk (of the individual cooperative banks) as well as set up the necessary reporting structure and response mechanisms to avoid failure as soon as weakness within the system becomes evident.

Support organisations, Secondary/Tertiary Cooperative Banks and representative bodies do not have this legislative and regulatory leverage to make Cooperative Banks comply, a necessity to make deposit insurance and stabilisation lending work.

While deposit insurance could be privatised, it would be our opinion that the deposit insurance should be a function of the Cooperative Banks Development Agency

Recommendations: Section 24 and 25 should simply state:

24.1 Primary, secondary and Tertiary Cooperative Banks

(a) pay the deposit insurance contributions as prescribed by the Minister to the Fund as referred to in section 26.

The rest be deleted.

CHAPTER VI and CHAPTER VII

Application for registration as Representative Body and Support Organisation

A. It should be noted that the distinction between a Representative Body and Support Organisation is not always distinct, and that in the case of the SACCOL, as stated in the introduction has as part of its primary functions

- ✓ **Representative** of the SACCO movement both locally and internationally.
- ✓ To provide **development services** to SACCOs. SACCOL services its member organizations by providing training, advice and other technical services as well as accepting deposits from and making loans to its members.

B. The bill does not address **why** Representative Body and Support Organisation are required to register or what is derived from Registration. It is furthermore unclear as to why the Cooperative banks Development Agency (Chapter IX) would be required to make rules as per Section 57.2(a) with

regards to matters pertaining to representative bodies or support organisations.

There is also no reference to sanction if a Representative Body does claim to represent Cooperative Banks or provide Support services and is not registered with the Agency.

C. If it is envisaged that only accredited Representative and Support Organisations will be consulted and utilised to provide support services to Financial Cooperatives this is not specifically stated under Chapter IX Cooperatives Banks Development Agency, 55 General functions or General Powers.

Recommendation:

- a) That the Bill clarifies how it relates to organisations who happen to performs both functions.
- b) The bill needs to clarify how it relates to Representative and Support Organisations in terms of functions of said organisations
- c) That the Bill, under Chapter IX, 55 General Functions of the Cooperative Banks Development Agency makes reference as to what the relationship between the CBDA and Representative and Support organisations is.

This will further be dealt with under the sections concerning the Cooperative Development Agency.

Requirements for accreditation

Section 32 (a) and section 37 (a) argues that in order to qualify for accreditation as a representative or support organisation requires “two or more cooperative banks”.

We have a concern that the requirement of only 2 Cooperative Banks could lead to **proliferation** of representative and support organisations when the objective of a Cooperative movement is to build strong supportive and apex bodies. Furthermore we have a concern that bodies refer to themselves as “Apex” bodies, but don’t have a national character (in some case representing a town)

Recommendations: At a minimum 5 or more Cooperative Banks, representing three or more provinces be required to form a representative organisation while a support organisation require a minimum of 5 Cooperative Banks to form.

CHAPTER VIII ADMINISTRATION OF THE ACT

Supervisors of co-operative banks

This section 41 (1) necessitates any (a) primary cooperative bank that holds deposits in excess of R 20 million (b) secondary cooperative banks and (c) tertiary cooperative banks must register with the South African Reserve Bank supervisor as appointed.

Cooperative Banks with deposits of less than R20 million must register with supervisor as appointed by the Agency

Clarity is sought as to why a secondary or tertiary cooperative, operating with less than R20million deposited by its members is required to register as with the SARB while still small and providing the same banking services to its members as a Primary Cooperative Bank

It would be our submission that the Bill is misdirected in its approach to regulating by focussing on rand value tiers. The alternative is to focus on the activities in which the Cooperative Bank is engaged in.

Recommendation: We would like to propose, that based on such an approach the Reserve Bank only be regulator when a cooperative bank engages in any activities as per 14(3) b-d and 14 (4) a-b.

Recommendation: * That 41 (1)(b) reads secondary co-operative banks providing banking services that includes any services not listed in 14 (1) a to h.

* That 41 (1)(c) reads tertiary co-operative banks providing banking service that includes any services not listed in 14 (1) a to h.

Relationship with other regulatory authorities

Section 53.1.(b) allows the supervisor to negotiate agreements with any regulatory authority to co-ordinate and harmonise the reporting obligations of co-operative banks

This particular clause needs to be highly commended noting Governments commitment to reducing “red tape” and the “regulatory burden” for start up, small and medium sized enterprises. It is our contention that all legislation being proposed should be cognisant of the regulatory burden and attempt to address such issues.

Noting that at this time other regulatory authorities include amongst other, the National Credit Regulator (NCR), the Registrar of Cooperative (Coops Act) the Financial Intelligence Centre (FICA), Financial Advisory and Intermediary Services Act (FAIS) and Generally Accepted Accounting Practice (GAAP) alignment, we would like to propose that this Bill explore a manner in which other regulatory authorities would be compelled to negotiate agreements with the supervisors of Cooperative Banks so as to achieve the objective of having

the Supervisor of Co-operative Banks as the “one-stop-regulatory-shop” of Cooperative Banks.

CHAPTER IX CO-OPERATIVE BANKS DEVELOPMENT AGENCY Part 1

Establishment, legal status, functions and power of the Agency

General Functions

It should be noted that one of the primary reasons the SACCOL has argued that it should not be regulator as is currently the de facto case under Government Gazette No.29412 No 1176, 1 December 2006, is that its task as development organisation and regulator has been continually contradictory. A fine line exists as to when more development is required vs. stricter supervision (if not even closure).

As developmental practitioners, it should be our understanding that we can change the world. However in the banking world, this can come at a steep cost if as regulatory agency, actions is not taken timeously.

It would be our contention that the many of the general functions as listed by the proposed Cooperatives Banks Development Agency are Developmental in nature, whilst they are being confused with it supervision and regulatory function.

Separation of duties should be sought to build Co-operative Banks' Support organisations, with the Development Agency acting as a wholesale agency, reimbursing support organisations that assist in carrying out its mandate

Failure to adequately separate the functions will simply replicate the failure of all three tried and tested Self Regulatory Organisations (SRO) previously recognised by the Reserve Bank of South Africa to carry out the functions of supervising their own members. Two of the organisations have subsequently closed down, and all three of us, without any government support, relying totally on our member's income were unable to adequately regulate effectively.

In this bill the issue is further confused which is illustrated below.

a) Deposit insurance as a regulator vs. development agency

This has been elaborated on under our comments on the Deposit Insurance

b) Providing financial support vs. Stabilisation funding

Section 55 (f) lists as a general function of the development agency as “providing financial support to Co-operative Banks through loans or grants”. Whilst this is reflected as a general function of the Agency, Stabilisation lending comes as a result of crisis or failure within a financial cooperative, and

conditions would be imposed when utilised towards the Rehabilitation of such failing cooperative Bank – unless this is seen as fund for start up Co-operatives. However it would be the former that a supervisor should have at their disposal should it be required i.e a stabilisation fund.

Furthermore, listed below is a specific role delegated to support organisation as per our comments listed in Chapter VI and VII on the function of registered representative and support organisations

Recommendations: Section 55 (f) should read provide “financial support to start up or failing cooperative banks through registered support organisation in the form of stabilisation loans or grants”

c) Providing liquidity directly to primary banks

Section 55 (i) lists as a general function of the development agency as “assisting Co-operative Banks” with liquidity management, which could be seen as a function typical of a Reserve Bank. However it should be noted that at there is major duplication in the Bill in that the Agency, Secondary and Tertiary Banks will all be looking at giving our liquidity loans to Primary Cooperative Banks. The Development Agency should win hands down as it would be the only one able to subsidise loans and liquidity. This undermines the efforts to build the secondary and tertiary banks as the development agency will in effect be doing what is traditionally their function.

Recommendation: Section 55 (i) should read “assist secondary and tertiary co-operative banks with liquidity management”

d) Role of the Representative and Support Organisation

Section 55 (d) lists as a general function of the Agency to “register and regulate representative” and (e) “support organisations”

While it is required in the Bill that Representative and Support Organisations apply for accreditation, as discussed in comments on Chapter VI and VII, no where in the Bill does it state what benefit would derive from such accreditation and regulation.

In discussions with the National Treasury around the Bill they have stated that it is envisaged that the Representative and Support Organisations would be required to do the “on the ground” development work.

While we support this notion of the Cooperative Banks Development Agency acting as a “wholesaler” toward the meeting of there stipulated functions, we however content that

- a) The wholesale nature of the Agency needs to be specifically stated.
- b) The specific benefit of registering as a representative/support organisation should be stated in the Bill

Failure to do so could undermine the very essence of the building of a cooperative banking sector based on the internationally recognised principles

of autonomy if left to eternity the Cooperatives Banks Developmental Agency task to do on behalf of the cooperative movement.

Furthermore, there would be no incentive for Representative and Support organisation to register with the Cooperative Banks Development Agency unless the bill recognises the specific function and role they would be playing in this legislation

Recommendation: Under general functions

55.1.(a) to read “collaboratively support, promote and develop co-operative banking with registered representative and support organisations”

55.1 (j) to read “collaboratively facilitate, promote and fund education, training and awareness in connection with, and research into, any matter affecting the effective, efficient and sustainable function of cooperative bank with registered representative and support organisations”

Part 2

Governance of the Agency

Appointment of board members of Agency

Section 58 (2) refers to the Minister appointing “competent persons to effectively manage and guide the activities of the Agency based on their knowledge and experience”

Section 58 (3) requires that when making appointments “the minister must take into consideration, amongst other factors –

- (a) the need for transparency and representative within the broader demographics of the SA population
- (b) any nominations received in terms of subsection (4)(notice in Gazette) and
- (c) the availability of person to serve as members of the agency

It is of concern to us that the Cooperative Banks Act has been tabled, noting the unique nature and requirements of Cooperative Banks, however with no necessity that the very constituency that the Agency is serving has no representation of the Board of the Agency.

It is our opinion that as the Agency has been set up specifically to meet Cooperative Banking sectors needs, 49% of the board must be representatives of registered Representative organisations.

This further addresses the benefiting of registration of Representative Organisations and avoids situations whereby individual cooperative banks representatives are potentially favoured over others. We wholly support the building of a cooperative movement with second tier and third tier representative organisation representing Co-operative Banks in a formal manner.

Recommendation: Section 58 (1) (b) be added which states. Forty nine percent of the board shall consist of representatives from registered Representative Organisations.

Remuneration of board members of the agency

Unable to find a clause on remuneration of the board. We believe this should be clearly stated upfront

OTHER

Cooperative Banks Taxation

It should firstly be noted that according to a 2005 World Council of Credit Unions (WOCCU), Taxation report, presenting an overview of the tax status of credit unions and SACCO around the world it is noted that:

International Tax Exemptions

Full tax exemption 63%
No tax exemption 31%
Partial tax exemption6%

Tax exempt movement in

In 72% of African countries
In 54% of Asian
In 83% of Caribbean countries
In 56% of Latin American countries
In 50% of North American countries
In 75% of South Pacific countries

Most countries follow the practice of exempting Co-operative Banks from all taxation, except possibly taxes on real property owned. The tax immunity of Co-operative Banks is based on their being a unique form of cooperative financial institution.

The principle reasons for exemption to taxation are:

1. Co-operative Banks are organized and operated on a not-for-profit, member-owned and –controlled cooperative basis. A complete exemption or narrow taxation assists Co-operative Banks in protecting themselves from inevitable loan losses, building strong capital reserves and protecting member savings. Allowing provisioning and capitalization to occur free of taxation ensures greater safety and soundness of the financial institution.
2. Co-operative Banks most often serve working people of modest means, the poor and the very poor and act as a buffer against usurious money lending practices that hinder asset accumulation. In Co-operative Banks, members receive credit at interest rates that are frequently lower than the prevailing market rates, regardless of how small the loan. In addition to providing affordable credit, Co-operative

Banks foster systematic savings and help members in the management of their money. Governments that are supportive of these principals encourage the growth of Co-operative Banks through tax exemptions.

3. In instances where Co-operative Banks are taxed to some degree, net income, as opposed to members' dividends, should be taxed to avoid double taxation.

Within the South African context two issues that need consideration:

1. **There is an argument for full tax**
2. **Noting that the Cooperatives Act of 2005 requires Cooperatives to set aside 5% of their surplus as a reserve, and Financial Cooperatives using the Basel recommendations of 10% reserve fund requirement, argue that until the 10% is reached should remain tax exempt.**

Recognising the importance of financial cooperatives to build the statutory reserves that will be required, we would like to recommend a taxation dispensation that assists Cooperatives Banks to reach this minimum prudential standard by exempting financial cooperatives from paying tax on surplus until such time as this standard is reached. A simple formula would state:

Income – expenditure = surplus – statutory transfer to reserves – less dividend paid to members (which many not be in excess of X% of nominal interest paid on savings to members). Thereafter full taxation on any surplus.

SCHEDULES LAWS AMENDED

Gazette Vol, 29412, December 2006, No. 1176

With the proclamation of this Bill, the Gazette Vol, 29412, December 2006, No. 1176, no longer will require SACCOs or Credit Unions to be Self Regulated by the SACCOL. Furthermore it will close up certain loopholes that some profiteers are utilising in this Gazette to take deposits outside the Banks Act in an unregulated manner.

Recommendation: That this Gazette be repealed on proclamation of this Bill

Government payroll deduction (PERSAL)

SACCOL is often asked how come the Kenyan and International Movement has been so successful in development and growing a SACCO/Credit Union/Co-operative Banks movement. In SA the growth of all the many mutual's that were the back bone of Afrikaaner Capital was built on the backbone of access to Civil Servants payroll deduction.

It is extremely unfortunate the Minister of Finance has restricted access to PERSAL and pleads, that for this bill to succeed, Cooperative Banks must have access to PERSAL.

Recommendation:

- a) That the gazette governing the PERSAL be amended so as Cooperative Banks may have access to payroll deductions.
- b) That it is a criminal offence for employers to reject the provision of payroll deductions to Cooperative Banks.

CONCLUSION

SACCOL on behalf of its members has been mandated to congratulate all those concerned, in particular those of National Treasury, in the progressive and consultative manner which has resulted in, what we believe, a good legislative framework to take forward our nascent movement. National Treasury has on a continuous basis provided persons from their department to make presentations to our members, meet with our members and with SACCOL on demand. Their responsiveness has been highly appreciated. We hope our input into this process has been constructive and has helped contribute towards an outstanding Act we will own and implement enthusiastically. In this way we will achieve our objective to provide access to financial services to ALL our people in a member centric, owned and controlled cooperative towards a better future for all.