

**MEMBERS' PERCEPTIONS OF FINANCIAL SERVICES CO-
OPERATIVES: A CASE STUDY OF MOTSWEDI, LOTHLAKANE,
DISANENG, KRAAIPAN AND LEHURUTSHE**

by

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DECLARATION

“I, Jenetha Mahlangu (200401450) declare that the research about **‘Members’ perceptions of Financial Services Co-operatives: A case study of Motswedi, Lothlakane, Disaneng, Kraaipan and Lehurutshe**’ submitted to the University of Limpopo for the degree of Master’s in Agricultural Extension is my own work in design and in execution and has not been previously submitted for a degree at this or any other university or institution and that all sources that I have used or quoted are indicated and duly acknowledged”.

Signature : _____

Date : _____

DEDICATION

I dedicate this work to my parents, late Paulos and Martha Mkhwebane “Mdlangwe”.

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ABSTRACT

Financial Services cooperatives are member based financial institutions formed, owned and controlled by members to provide financial services to their members. The concept of cooperative banking is new in South Africa and it is promoted to address financial services needs of the rural poor who would otherwise have no means of accessing financial services and use from formal banks. The study was undertaken to determine members perceptions towards financial services co-operatives in Lehurutshe, Lothlakane, Motswedi, Kraaipan and Disaneng FSC's in the Ngaka Modiri Molemo District of North West Province. Population included 236 participants who were selected using non-probability purposive and convenience sampling method. Different data collection methods, namely, Focus group discussion, Product attribute ranking, Likert-scale and questionnaires were used. Data was analysed using Statistical Package for the Social Sciences (SPSS) computer program and presented in descriptive statistics percentages and tables. The study revealed that FSC's members were satisfied with services and products that were offered in the cooperatives; however issues of governance, fiduciary, regulatory and member participation require immediate attention. Recommendations to strengthen the regulatory framework for FSCs and FSCs' institutional capacity were made.

ACCRONYMS

ABSA	Amalgamated Bank of South Africa
AFRACA	African Rural Agricultural Credit Association
AGM	Annual General Meeting
ATM	Automated Transaction Machine
CBA	Cooperatives Bank Act, 2007(Act No 40 of 2007)
CBO	Community Based Organization
DOA	Department of Agriculture
FSA	Financial Services Association
FSC	Financial Services Cooperative
IFAD	International Fund for Agricultural Development
NGO	Non-Governmental Organization

TABLE OF CONTENTS

NO	ITEM	PAGE
	DECLARATION	i
	DEDICATION	ii
	ACKNOWLEDGEMENTS	iii
	ABSTRACT	vi
	ACCROYMS	V
CHAPTER 1: BACKGROUND		
1.1	Background/ introduction	1
1.2	Problem statement	2
1.3	Motivation	2
1.4	Purpose of the Study	3
1.5	Specific Objectives	3
1.6	Research questions	3
CHAPTER 2: LITERATURE REVIEW		
2.1	Introduction	4
2.2	Demographic profile North West province	6
2.2.1	Population characteristic and social conditions	6
2.2.2	Education and schooling rate	7
2.2.3	Unemployment rate	7
2.3	Financial Services Co-operatives in North West	8
2.4	The legal framework governing FSCs	9
2.5	Rural financial services	9
2.6	International lessons on Micro Finance Institutions (MFIs)	10
CHAPTER 3: RESEARCH METHODOLOGY		
3.1	Study site	11
3.1.1	Study locations	11
3.1.2	Choice of the study area	12
3.1.3	Design of the study	12
3.1.4	Population and sampling	13
3.1.5	Sampling	13
3.1.6	Data collection	14

3.1.7	Data analysis	15
3.2.	Validity and reliability	16
3.3	Ethical issues	16
3.3.1	Informed consent	17
3.3.2	Confidentiality and anonymity	17
3.3.3	Harm to participants	17
3.4	Significance of the proposed research	17
CHAPTER 4: RESULTS AND ANALYSIS		
4.1.	Introduction	19
4.1.1	Biographical and socio-economic characteristics of FSC members	20
4.1.2.	Level of education	22
4.1.3.	Source of employment (employer)	22
4.1.4.	Family's monthly income	23
4.2.	Extent of satisfaction with services and products of FSCs	24
4.2.1.	Service/Product Attribute Ranking (PAR)	27
4.2.2.	Summary of product attribute ranking (PAR)	29
4.2.3.	Criteria for electing and appointing board of directors and FSC management	30
4.2.4	Profile of FSC boards of directors as perceived by members	36
4.2.5.	Level of participation by members in the affairs of the FSCs	41
4.3.	Participants' responses and findings	46
4.3.1.	Motivation behind FSC membership	47
4.3.2.	The main objective in starting FSCs	48
4.3.3.	Direct comments by participants on the products and services offered by Financial Services Co-operatives	48
4.3.3.1	Comments on saving	49
4.3.3.2	Comments on buying shares	50
4.3.4	What would cause you to drop out of your FSC?	50
4.3.5	Challenges and suggested improvements	51
4.3.6	What level of satisfaction do you derive from your FSC?	51
4.3.7	Reasons for the establishment of FSCs	52
4.3.8	The role of FSC in helping members to achieve set goals	52
4.3.9.	Areas that fell short of clients' expectations	53
4.3.10.	Opinions on the weaknesses of FSCs	53

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS		
5.1	Aim of the study	54
5.2.	Objectives of the study	54
5.3.	Summary	54
5.4.	Conclusions	56
5.5	Recommendations	59
5.5.1	Members of FSCs	59
5.5.2	Board of Directors and management of FSCs	60
5.5.3.	Regulatory framework	62
5.5.4.	Institutional capacity	62
6	REFERENCES	64
LIST OF APPENDICES		
APPENDIX A	Group discussion guide for Financial Services Co-operatives	68
APPENDIX B:	Mini questionnaire to ascertain the socio-economic profile of Financial Services Co-operatives members	69
APPENDIX C	Questionnaire for leaders or founders of Financial Services Co-operatives	71
APPENDIX D	Service/Product Attribute Ranking	72
APPENDIX E:	Determination of method to elect Board of Directors and appoint management as perceived by FSCs clients	73
APPENDIX F	Determination of knowledge and skills of Board of Directors as perceived by FSC clients	75
APPENDIX G	To what extent are you satisfied with the following services and products as provided by your FSC?	77
APPENDIX H	Assess the level of participation by members in the affairs of FSC	79
APPENDIX I	Proof of Editing	81
LIST OF TABLES		
Table 1	Education and schooling rate in North West	7
Table 2:	Annual income per household	7
Table 3	Profile of participants	13

Table 4	Data collection instruments	14
Table 5	Frequency distribution of respondents according to age	21
Table 6	Frequency distribution of respondents according to education	22
Table 7	Frequency distribution of respondents according to source of employment	23
Table 8	Frequency distribution of respondents according to family's monthly income	23
Table 9	Extent of satisfaction with services and products of FSCs	25
Table 10	Product Attribute Ranking	28
Table 11	Methods used for selection of boards of directors and appointment of FSC management	32
Table 12	Profile of Board of Directors as perceived by members	37
Table 13:	Level of participation of members in the affairs of the FSC	44
LIST OF FIGURES		
Figure 1	Map of study site	11

CHAPTER 1: BACKGROUND

1.1. Introduction and Background

The provision of financial support services to rural households in South Africa must be considered against the background of past state intervention in the economy, which has been characterised by distorted financial policies and institutional impediments. These have led to a situation of extreme dualism in the rural financial sector (Porteous, 2003). On the one hand, there is a highly modern and sophisticated financial system that serves the full range of financial needs of a small proportion of the South African population, while money lenders and stokvels in the informal and indigenous sector attempt to serve the majority of the population in both urban and rural areas through micro lending (Finmark Trust, 2003).

The Strauss Commission Report (1996) argue that self-reliance is an answer where the supply of formal financial services is not sufficient. As commercial banks increasingly pull back their branches towards the urban areas, very few options exist for poor rural dwellers. In the North West Province of South Africa, the advent of Financial Services Co-operatives (FSCs) has offered a viable solution for improving financial services to these people. FSCs can achieve an impressive outreach; they often serve more rural markets than any other type of financial institution. They typically recover their costs through growth or replication, because of the fact that they can serve such a large number of clients (Zeller, 2003). Some argued that the cause of poverty in developing economies among other things is that the poor does not have access to credit for the purpose of working capital as well as investment for its small business.

In 1994 the former Department of Agriculture (DoA), now the Department of Agriculture, Forestry and Fisheries (DAFF), together with the North West Department of Agriculture, piloted the Financial Services Co-operative project in North West. FSCs are simple informal financial structures that are member-owned, controlled, driven and they serve as the necessary infrastructure to

broaden access to financial services to the unbanked masses of the province (Calvin & Coetzee, 2009/10).

1.2. Problem statement

Numerous studies have acknowledged the existence and revealed the activities and forms of informal financial institutions in South Africa. The Strauss Commission comprehensively studied access to financial services by rural people and found the supply to be both inadequate and costly. The Commission made several proposals to try and address the identified challenges – one of which was the establishment of FSCs (Strauss Commission, 1996).

FSCs were launched for the first time in South Africa in North West during November 1994 with the help of the International Fund for Agricultural Development (IFAD) and the African Rural Agricultural Credit Association (AFRACA). The concept was subsequently replicated in other provinces and a large number of FSCs was established and started operating in both North West and other provinces. Over the years, however, the number of operating FSCs again decreased drastically and many closed the business. The dwindling number of operating FSCs raised number of issues that constitute a pertinent research problem.

1.3 Motivation

According to Porteous (2004), supply of financial services to poor clients in South African rural areas is an un-met demand. The present usage of banking and financial services by the rural poor is very small and only a minute section of the market – estimated at less than 1% – is presently being reached by micro enterprise. The recent consumer survey indicated a major contraction of conventional bank branches in rural areas. It is estimated that whereas more than 50% of South Africans were in close proximity of commercial bank branches in 1995, this percentage has declined to 30% in 1998. This gap has left the FSCs as the only available institutions to provide sustainable financial services to rural and underserved areas.

The present study is important for various reasons: it may add value to existing government policies and strategies aimed at expanding access to financial services among the poor and low-income population, and it may build the knowledge base about the demand for financial services. The study would also examine the perceptions that members have of FSCs and key factors that influence these perceptions. Lastly, it would provide a clearer understanding on how FSCs can be supported to provide on-going and affordable financial services so as to meet the demands of large numbers of low-income clients in remote rural areas.

1.4 Purpose and aim of the study

The purpose and aim of the study was to determine members' perceptions towards FSCs in Lehurutshe, Lothlakane, Motswedi, Kraaipan and Disaneng FSC's in the Ngaka Modiri Molemo District of North West Province.

1.5 Specific objectives

The objectives that guided the study were:

- To determine the appointment criteria, knowledge and skills of Board of Directors and Management as perceived by FSCs clients
- To determine the extent to which clients are satisfied with services provided by FSCs
- To assess the extent of level of participation by members in the affairs of FSCs

1.6 Research questions

The three research questions that guided this study formulated as follows:

- What appointment criteria were used in the appointment of members of the Board of Directors of FSCs and FSC managers?
- To what extent are members satisfied with the services provided by FSCs?
- What is the extent of member participation in decision making within the FSCs?

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

This chapter will summarise and review literature related to the study on members' perception of FSCs, and the services and products offered to address their financial service's needs. The concept of FSCs was conceived in South Africa in 1998 with a view to creating financial institutions in rural areas that would decrease the transaction costs of savings mobilisation, increase the circulation of resources in the communities, reduce information costs, provide loans and thus reinvest funds in the same areas where they were mobilised (Gonzalez-Vega, 1994).

This approach built on the rural social experience and institutions that were embodied in stokvels, burial societies and community groups, as well as in a myriad of other collective action institutions Muganga (2009/10).

Calvin and Cotze (2009/10) argued that government policy and banks should prioritise the formation of financial self-help groups because increasing the number of informal financial institutions has a comparative advantage in some market segments and enhances the efficiency of resource allocation by mobilising household savings and financing small business activities that are beyond the reach of the formal system.

As they began to generate revenue, these co-operatives typically started to remunerate their bookkeeper or management committee (Matin, 2002). Gonzalez-Vega, (1994) revealed that knowledge in financial management and bookkeeping in micro finance institutions was found to be inadequate and weak. According to Gosh (2012), access to savings facilities plays a key role in enabling the poor to smooth their consumption expenditures, and in financing investments which improve productivity in agriculture and other economic activities. Throughout Ghana, South Africa and indeed the rest of Africa, there is a vibrant and diverse informal financial sector. Afrane (2002) share findings on an understanding of how poor people in Ghana and South

Africa save and how they use different savings mechanisms, as well as on the impact that those savings facilities have on their household budgets/lives.

According to Seibel and Dave (2002) offering savings services to the poor represent a tremendous opportunity for microfinance institutions (MFIs) to broaden their financial services outreach. There are numerous savers who are simply not interested in credit, as has been demonstrated by Bank Rakyat Indonesia, where there are 14 savers for every one borrower. Duvendack et al., (2011) reveal that the majority of microfinance and other related evaluations still emanates from Asia where the microfinance movement originated.

In India, the National Bank for Agriculture and Rural Development serves 400 000 self-help groups that include over 7 million low-income women. The groups are formed primarily by NGOs and banks. Ashe (2006) is of the opinion that for a financial institution to directly intermediate in the small and remote savers' market is not easy, due to perceived risk and high delivery costs. Self-help group methodology addresses both costs and risk by linking groups to financial institutions. Since the groups use their own resources and time to collect their savings, banks do not incur high transport costs (Pronyk et al., 2008) The surplus savings of the groups are however sufficiently large to be of interest to the banks. For the groups, the banked savings are relatively secure and, in time, these customers also gain access to bank loans (Galor, 2007).

The supreme governance body of the FSCs is the annual general meeting (AGM) of shareholders that approves the constitution, discusses key policy issues, elects the officeholders, and provides legitimacy to the institution. Shareholders adopt the constitution and bylaws and elect the officeholders. They meet at least once a year to review the progress to date, approve the previous year's balance sheet, approve the annual budgets, discuss financial performance, and elect or dismiss officeholders (Jazayeri, 2000).

In many rural areas, the only institutions that provide financial services are member-based financial institutions – as noted by Grant and Coetzee (2005),

small member-based financial institutions often reach more remote areas than what formal finance institutions manage to do.

2.2 Demographic Profile of the North West Province

This literature review will summarise the demographic profile of districts and local municipalities of the North West province. North West is situated along the boundary between the Republic of South Africa and Botswana. The area is 104881.67 km², population 3509953 (33.47 per km²), households 1062015 (10.13 per km²) (Statistics South Africa, 2011).

The ethnic group in North West consist of Tswana-speaking people (the largest group of approximately 63.39%, followed by Afrikaans speakers of approximately 8.96%those who Nguni speakers, had come to the province as workers in the platinum mines. In the 2011 census, North West was the fifth most densely populated province in South Africa with a population of 3 152 063 million people or 32 people per square kilometre. Major economic drivers for the province are agriculture and mining, with agriculture contributing 3.2% of nominal gross added value (Statistics South Africa, 2011; Annual percentage growth in formal employment, Development Report 2005).

2.2.1 Population characteristics and social conditions

According to the North West Provincial Growth and Development Strategy Document (2004-2014), North West has the second highest proportion of people living in the rural areas in South Africa. This indicates that 64% of the population lives in the rural areas while 36% live in the urban areas. According to Statistics South Africa's census of 2011, the population of the Province accounted for about 8% of the total South African population. The black African population was in the majority, constituting about 91% of the total provincial population. The population of North West resembled that of a developing country with a relatively large percentage of people aged between 15 and 24.

2.2.2 Education and schooling rate

According to the census survey of Statistics South Africa (2011), nearly 20% of the population in North West falls in the no-schooling category. A mere 19% have passed either Grade 10 or 12, while only 6% have gone on and completed their higher education. These figures obviously have an impact on the level of literacy in the province.

Table 1: Education and schooling rate in North West

Category	Number	%
No schooling	423 787	19.88
Some primary school	426 025	19.98
Completed primary school	144 181	6.76
Some secondary school	619 263	29.05
Std 10/Grade 12	393 809	18.47
Higher	124 850	5.86
TOTAL	2 131 935	100.00

2.2.3 Unemployment rate

Based on the Labour Force Survey conducted by Statistics South Africa in September (2011), North West had the highest unemployment rate in South Africa, namely 30% of all economically active individuals.

Table 2: Annual income per household

Annual Income in Rands	Number of Households	%
No Income	237 573	24.27
1- 4 800	89 130	9.10
4 801- 9 600	190 021	19.41
9 601- 19 200	178 041	18.19
19 201- 38 400	143 741	14.68
38 401- 76 800	75 218	7.68

76 801- 153 600	40 151	4.10
153 601- 307 200	16 249	1.66
307 201- 614 400	4 223	0.43
614 401- 1 228 800	1 323	0.14
1 228 801- 2 457 600	1 722	0.18
2 457 601and more	559	0.06
Not applicable (institutions)	941	0.10
	978 892	100.00

According to the above table (based on the Census of 2011), 24% of households in North West do not have a fixed income. Only 1.66% of households had an income ranging between R153 601 and R307 200 per year.

2.3 Financial Services Co-operatives in the North West

FSCs, initially known as the 'village bank' concept, were new to South Africa and the purpose of the village bank pilot project was to develop the concept and products to such an extent that they could be replicated in other areas. Attention had to be given to the legal framework in which the FSCs would operate, as well as the involvement of the commercial banks. As a result, more FSCs were established in villages throughout South Africa. From the outset, the village bank projects have been a venture between the rural communities, the private sector (commercial banks) and the government (Finmark Trust, 2003).

The shareholding structure of the bank allows easy entry for new members and thus increases not only the bank's outreach, but also villagers' commitment to the success of the bank. It targets both the poor and the better-off segments within the community and in this manner further increases its outreach (Robinson, 2004).

The International Fund for Agricultural Development (IFAD) and the African Rural and Agricultural Credit Association (AFRACA) launched the first village bank during November 1994. Five villages in North West showed interest and

between 1994 and 1996 three of these village banks were established, namely at Kraaipan, Lotlhakane and Motswedi. Other stakeholders that mobilised to form a consultative group included First National Bank, ABSA, Bophuthatswana Building Society, the Community Bank, the Regional Reconstruction and Development Programme Office in North West, Agricor SA, the Development Bank of South Africa, the Rural Finance Facility, and Income-Generation Projects for South Africa.

The purpose of FSCs was to create financial institutions that would allow rural people access to financial services by reducing the transaction costs of services, increasing the amount of savings mobilised, reducing information costs and providing loans. This would allow for the circulation of resources within the community, since available funds would be reinvested within the community, thereby making it a community project (Coetzee & Cross, 2002).

2.4 The legal framework governing FSCs

Although registered as co-operatives, one of the benefits of FSCs involves lower registration costs (Vogel, 2002). Other benefits include a simpler framework, a more suitable share capital structure with statutory provision for easy cancellation of shares, greater flexibility with the structuring of voting rights, and the provision to do business and be governed by members rather than by the general public (Duursma, 2004). Therefore, a financial services co-operative is a more suitable structure to operate in a homogeneous community. FSCs are self-regulatory and they are registered as Financial Services Co-operatives under the Co-operative Act, Act 91 of 1981, which has been replaced by Act 14 of 2005.

2.5 Rural financial services

In South Africa, the overall rural financial services outreach has decreased significantly in recent years due to the contraction in the branch network of commercial banks (Consumer Survey, 2000). Only the state-owned Land Bank has increased its activity in the rural sector. Porteous and Helms (2005)

argue that the extremely low and ever-declining coverage of rural financial services indicates that the situation is unlikely to improve unless rural people start self-help schemes and federate to rural financial institutions. Some of these organisations have expanded their activities, albeit from a very limited base, including the Credit Unions and FSCs. Muganga (2009/10) also contributed to the debate on financial services sustainability in recent years, while Christen (2005) underscores the issues surrounding financial viability for financial NGOs.

2.6 International lessons on Micro Finance Institutions (MFIs)

In much of the global South, the poor are largely rural and the rural are largely poor. Thriving informal financial markets demonstrate that the rural poor demand financial services to help reduce their vulnerability and build up their assets. Due to the fact that informal financial services can be limited in scope, insecure and unreliable, access to formal or semi-formal financial services in rural areas is critically important (Schreiner & Nagarajan, 2000). The current limited outreach is not hard to explain, since serving rural areas on a sustainable basis is difficult and expensive. Sparse population figures and a low population density, as well as small transaction limits and small loans and savings volumes make viable service rendering in rural areas problematic (Verhoef, 2002).

Chapter 2 reviewed literature about the members' perception of FSCs, and the services and products offered to address their financial service's needs. Chapter 3 describes in detail the methodology and its application in this study.

CHAPTER 3: RESEARCH METHODOLOGY

3.1. Study site

3.1.1. Study locations

The study was conducted in five FSCs, namely in the Lehurutshe, Lothlakane, Motswedi, Kraaipan and Disaneng financial services co-operatives. The Lehurutshe FSC is situated outside Zeerust in the Ramotsere Moiloa local municipality; both the Motswedi and Lothlakane FSCs are situated in the Mahikeng local municipality; the Kraaipan FSC is located in the Ditsobotla local municipality, and the Disaneng FSC is in the Tswaing local municipality. All these municipalities are situated in the Central or Ngaka Modiri Molema District of North West as shown in Figure 1.



Figure 1: Map of study site

3.1.2. Choice of the study area

The province of North West is demarcated into four districts, namely Dr Ruth Segomotse Mompati (Bophirima), Dr Kenneth Kaunda (Southern), Ngaka Modiri Molema (Central) and Bojanala. There is also one cross-border district council and three cross-border municipalities (see Figure 1). The Central District is divided into five sub-districts, namely:

- Ditsobotla
- Ramotsere Moilwa (Zeerust)
- Mafikeng
- Tswaing
- Ratlou

All the financial services co-operatives that were studied are situated in the Central District of North West, and they comprise about 300 FSC members each. North West is situated on the boundary between the Republic of South Africa and Botswana. The ethnic groups populating this border area consist mainly of Tswana-speaking people – the largest group of approximately 70% – followed by approximately 10% Afrikaans speakers (Statistics South Africa, 2011).

3.1.3. Design of the study

According to Polit and Beck (2010), a research design is a plan or a blueprint of how the researcher intends to conduct the research. The purpose of this research design was to find an answer to the problem statement. The study in hand was designed as a descriptive research study and it was based on a case study of the perceptions of members in respect of Financial Services Co-operatives. A case study research design was used. A case study design involves an in-depth, and detailed examination of a subject of study (the case), as well as its related contextual conditions. Both qualitative and quantitative approaches were used. This type of case study was used to describe an intervention or phenomenon and the real-life context in which it occurred (Yin, 2003).

3.1.4 Population and sampling

Population refers to the entire aggregation of cases in which a researcher is interested (Polit & Beck 2010). Population refers to all the elements in individuals, objects, or substances that meet certain criteria for inclusion in a given universe (Burns & Groove 2011; Neuman, 2007). In this study the population comprised of participants as presented in table 3.

Table3: Profile of participants

FSC	Participants	Members	Board of directors	Managers
Kraaipan	50	43	5	2
Lothlakane	45	38	6	1
Disaneng	46	41	3	2
Lehurutshe	55	49	4	2
Motswedi	40	33	4	3
Total	236	204	22	10

3.1.5 Sampling

Sampling refers to the process of selecting a portion of the population to represent the entire population (Polit & Beck 2010). According to Burns and Grove (2011), sampling refers to a process of selecting subjects, events, behavior, or elements for participation in a study. Participants were drawn from the five financial services co-operatives selected, namely those at Kraaipan, Lehurutshe, Lothlakane, Disaneng and Motswedi. The purposive, convenience non-probability sampling method was used to sample the participants. All managers of the FSCs were available at the FSC offices. The board members were purposively invited for data collection to the FCSs offices. The members were purposely sampled during pension payout days. Only ten members from each FSC were purposively selected for focus group discussion and further included in other data collection methods. The

researcher selected information-rich cases or those cases that could inform the researcher a great deal about the purpose of the study (Burns & Grove 2011). Yin (2003) pointed that when selecting a subject for a case study, researchers use information-oriented sampling, as opposed to random sampling. Inclusion criteria were voluntary for board of directors, managers and members; they signed consent forms to participate in the study.

3.1.6 Data collection

Data collection refers to the precise, systematic gathering of information relevant to the research purpose or specific objectives, questions or hypothesis of a study (Burns & Grove, 2011). To achieve the objectives of the study different data collection methods were used as displayed in Table 4.

Table 4: Data collection instruments

Data collection method	Category	Rationale
Focus group discussion (Appendix A)	One FGD at each FSC for members (5 FGDs)	Tool used with people of similar background interests and concerns and expected that all ideas and experiences regarding the FSC will be share in an informal manner
Questionnaire (Appendix B)	Members	To ascertain the socio-economic profile of FSCs members
Questionnaire for Board of Directors (Appendix C)	For Board of directors	Specific for board and managers as founder
Product ranking (Appendix D)	For all participants	Product ranking attribute to determine member satisfaction with products and services
Likert scale (Appendices E, F, G & H)	For all participants	Likert scale questions that were asked to measure the perceptions of members towards financial services cooperatives

The data collected was used to describe the perceptions that members have of FSC products and services; methods used to elect the FSC board of directors and to appoint FSC managers; members' level of participation in decision making within FSCs, and the socio-economic background of participants. A questionnaire was used to gather information from the board of directors and managers as FSC founder members.

For qualitative approach, the researcher conducted five focus group discussions for members, one at each FSC. Each focus group comprised twelve members of both genders. Audio taping was used to record focus group discussion interviews. Data was further collected using semi-structured questionnaires. To complement the questionnaires, the researcher used Product Attribute Ranking for members, managers and the board of directors. Product Attribute Ranking (PAR) was used as a research tool where participants were required to list and rank perceived attributes in relation to products and services provided by FSCs. Product Attribute Ranking enabled the researcher to understand the level of client satisfaction or dissatisfaction with services and products offered.

Other data collection instrument that was used included a Likert-scale questionnaire to gather information related to perceptions and behaviour. Primary data information was collected from ordinary members, members of the board of directors and managers who are paid-up shareholders, and account holders of the financial services co-operatives concerned. Secondary data gathering was used and information was gathered mainly through desktop research, journals and books, and from institutions.

3.1.7 Data analysis

Burns and Grove (2011) define data analysis as the technique used to reduce, organise and give meaning to data. Data was analysed using descriptive qualitative data analysis methods. Data analysis for qualitative research entailed that the analyst breaks down data into simple grids and designs a simple coding system to review responses and categorise them into

small sets of broad categories that may then be coded (Creswell, 2009). The Statistical Package for the Social Sciences (SPSS) computer program was used for entering and analysing collected data. Descriptive statistics percentages and tables were used for data analysis and to present the collected data. Information derived from the Likert-scale questionnaire was also analysed through descriptive statistic and presented in percentages. .

3.2. Validity and reliability

According to Polit and Beck (2010), *validity* is defined as the degree to which an instrument measures what it is intended to measure, whereas *reliability* is defined as an instrument's ability to measure the same each time that it is administered under comparable conditions or on the same subjects. Reliability therefore refers to the degree to which an instrument produces equivalent results for repeated trials. Equivalent reliability is defined as a test of equivalence that attempts to determine whether a similar test given will yield the same results or whether the same results can be obtained by using different observers at the same time. To ensure validity of the measuring instruments, internal and external validity are considered as two separate but related dimensions. Internal validity determines whether the observed changes in the dependent variable actually relate to changes in the independent variable, whereas external validity measures the results of particular samples of participants of the study.

3.3 Ethical issues

Ethical issues at stake in this study are defined below. Special emphasis was placed on accurate and complete information so that participants would fully comprehend the investigation and hence were able to make voluntary and thoroughly reasoned decisions about their possible participation (De Vos, Fouche & Delport, 2005).

3.3.1 *Informed consent*

In this study participants were informed about the aim of the study. They were ensured that it was their right to terminate their participation at any time if they felt that they were not comfortable with their involvement in the study (Creswell, 2009).

3.3.2 *Confidentiality and anonymity*

Confidentiality was assured for all participants in the study, and all details of their participation were kept confidential. Participants were given numbers to avoid using their names (Christians, 2005).

3.3.3 *Harm to participants*

The researcher informed participants about the potential impact of any harm that might occur or not during the study. Such information offered participants the opportunity to withdraw from the study (Creswell, 2009).

3.4 *Significance of the proposed research*

The vast majority of 'bankable' people in the world do not yet have access to financial services. Studies have revealed that in many countries, including South Africa, the financial sector reaches only a small fraction of the population. Various constraints hamper or block the inclusion of different population groups who need access to financial services, notably women. Access to a well-functioning financial system can empower individuals economically and socially by allowing them to better integrate into the country's economic activity and to actively contribute to its economic growth (Matin, 2002).

Findings and recommendations of the study will contribute to the efforts made by government donors and private investors to address the financial services needs of the rural poor. They will also inform FSC product development strategies, guidelines and the importance of member participation in FSCs. The members of these co-operatives and the community at large will benefit from the report, as it will alert them to their roles and responsibilities in making FSCs viable. Members' perceptions of the services and products offered by

the selected five FSCs will be documented for future reference, to be used in the development of other financial services co-operatives.

CHAPTER 4: RESULTS AND ANALYSIS

4.1. Introduction

A brief description of the socio-economic dynamics of the respondents is included in this section to provide a profile of the participants. The objective is to highlight the key factors that were obtained from the analysis of the data gathered. These factors are important because they form the basis for the recommendations and conclusion of this study.

A total of 236 respondents from five (5) financial services co-operatives in North West took part in the study and the participants per FSC were as follows: Disaneng 46; Kraaipan 50; Lehurutshe 55; Lothlakane 45; and Motswedi 40.

Discussions were conducted with all the member-owned structures of the co-operatives. Meetings were easily arranged with managers as they are always available along with ordinary members who are full-time workers of the co-operatives. Board members' special meetings took place on invitation. Owing to the logistical difficulties associated with getting the members together on weekdays; most of the group discussions took place at pension pay-out points.

The main purpose of the interviews was to determine the perceptions of FSC members and users in respect of FSC services. The research focused on finding out how members and users viewed services offered by financial services co-operatives in North West.

The specific objectives were to determine the appointment criteria, knowledge and skills of members of the board and management as perceived by FSC members, as well as the extent to which members were satisfied with the services provided by their FSC, and to assess the level of participation by members in the affairs of FSCs.

The results of the study are next presented under the following headings:

- Biographical and socio-economic characteristics of FSC members

- Criteria applied to elect members of the board and to appoint FSC managers
- Extent of satisfaction with services and products of FSCs
- Ranking of FSC products and services
- Reasons for saving with FSCs and suggestions for improving services
- Profile of board of directors as perceived by members
- Level of participation by shareholders/members in the affairs of the FSC.

4.1.1. *Biographical and socio-economic characteristics of FSC members*

This section focuses on the socio-economic characteristics of the respondents. The characteristics analysed in this section are race, gender, age, level of education, source of employment and family income of the respondents.

4.1.1.1 *Race*

Only the black population group was represented in this study and no mixed-race groups were identified in the study. All the managers and members of FSC board of directors were black and they spoke Sotho.

4.1.1.2 *Gender*

The gender composition of the respondents in all FSCs that participated in the study was as follows:

- Managers –80% female and 20% male
- Board of directors –40% female and 60% male
- Ordinary FSC members –70% female and 30% male

In the case of managers and ordinary FSC members there were more females than males who occupied the position concerned, while more

members of the boards of directors were male than female. The reason for the apparent gender skewedness was that most of the members of the financial co-operatives were subsistence farmers, of which the majority in all areas is women.

4.1.1.3 Age

According to Table 5, on average 63.87% of participants in all FSCs were in the 47-59 years age group. Second was the age group 26-46, which represents 24% of the respondents, and third the age group 60 years plus, which represents an average of 10%. The age group 18-25 years old represented only 2% of all FSC members. Only Disaneng and Motswedi had 5% of their members in the age group between 18 and 25, the rest had none. Motswedi had the biggest percentage of members above 60 years old, totalling 17.5%, while Kraaipan had 12%, Lothlakane 11% and Lehurutse 9%. This age distribution can partially be ascribed to the expectations from the life-cycle hypothesis, which postulates that people save for their own retirement and that they accumulate savings during their active years in order to consume those savings during their retirement (Afrane, 2002). However, as we will see later, many other aspects do play a role.

Table 5: Frequency distribution of respondents according to age

Age group	Disaneng		Kraaipan		Lehurutshe		Lothlakane		Motswedi		Average %
	N	%	n	%	n	%	n	%	N	%	
18-25	4	5	0	0	0	0	0	0	2	5	2.00
26-46	16	34.44	6	10.00	10	18.18	15	33.33	10	25	24.19
47-59	26	60.56	36	78.00	40	72.73	25	55.55	21	52.5	63.87
60+	0	0	8	12.00	5	9.09	5	11.11	7	17.5	9.94
Total	46	100	50	100	55	100	45	100	40	100	100

4.1.2. *Level of education*

Table 6 shows the educational profile of the participants. Only (1.1%) of the respondents had obtained a degree, while the majority of the participants in all FSCs held a primary/secondary qualification (73.23%). Almost one in every four participants (about 23%) had no formal education, which confirms the fact that most of the participants in these FSC are not educated people. According to Lwako, (2007), this level of education and age distribution mirrors the type of people attracted to FSC. It was also clear that the higher the wages earned, the higher were the disposable incomes.

Table 6: Frequency distribution of respondents according to education

Education	Disaneng		Kraaipan		Lehuruthse		Lothakane		Motswedi		Average
	n	%	n	%	n	%	n	%	N	%	%
None	10	21.74	9	18	18	31.58	10	22.22	8	20	22.7
Primary certificate	36	78.26	40	80	32	59.65	33	73.33	30	75	73.3
Secondary certificate	0	0	0	0	3	5.26	2	4.44	2	4.9	2.9
Degree	0	0	1	2	2	3.51	0	0	0	0	1.1
TOTAL	46	100	50	100	55	100	45	100	40	100	100

4.1.3. *Source of employment (employer)*

The participants' sources of employment are shown in Table 7. The majority of participants (56%) were self-employed, mostly as subsistence and emerging farmers, while the next largest group was pensioners (36.79%). The NGO/CBO and private companies constitute the smallest source of employment in all FSCs –2.86% and 1.67% respectively. Thus, the self-employed and pensioners categories account for about 93% of the respondents' source of employment, while NGOs, private companies and government constitute the second lowest source of employment, namely 2.66%.

Table 7: Frequency distribution of respondents according to source of employment

Employment	Disaneng		Kraaipan		Lehuruthse		Lothakane		Motswedi		Average %
	n	(%)	n	(%)	n	(%)	n	(%)	n	(%)	
Pensioner	14	30.43	12	24	22	4.00	24	54.54	14	35	36.79
Self-employed	30	65.22	29	58	32	58.18	18	38.69	24	60	56.02
Private company	2	4.35	2	4	0	0	0	0	0	0	1.67
Government	0	0	1	2	1	1.82	2	4.50	2	5	2.66
NGO/CBO	0	0	6	12	0	0	1	2.27	0	0	2.86
Total	46	100	50	100	55	100	45	100	40	100	100

4.1.4. Family's monthly income

Table 8 shows the income levels of the participants. A total of 55% of the participants had a household income of between R800-R1 200 per month, followed by 37% of participants with an income level of below R800 per month and only 2.2% of participants who had a monthly income of higher than R800 but less than R2 200. Only 1% earned an income of more than R2 200 per month. These income levels correspond with Living Standards Measure 2 (LSM2) and lower. Individuals rated on LSM4 (Finmark, 2003) (i.e. who earn above R2 200 per month) are accounted for only 1% because of sophistication in terms of specific products and service needs, which they need but are not obtainable from the FSCs.

Table 8: Frequency distribution of respondents according to family's monthly income

Income	Disaneng		Kraaipan		Lehuruthse		Lothakane		Motswedi		Total
	N	%	n	%	n	%	n	%	n	%	%
Below R800	16	34.78	20	40	17	30.9	20	44.44	14	35	37.00
R800-R1 200	28	60.87	19	38	37	67.2	21	46.67	24	60	55.00
R1 801-R2 200	2	4.35	11	22	1	1.82	3	6.67	2	5	7.00
Above R2 200	0	0	0	0	0	0	1	2.22	0	0	1.00
Total	46	100	50	100	55	100	45	100	40	100	

4.2. Extent of satisfaction with services and products of FSCs

The findings reflecting the extent of satisfaction with services and products of FSC areas are summarised in Table 9. They reveal that a vast majority (91%) of members indicated that they were well-satisfied (i.e. from very great extent to a great extent) with **customer services** in their respective FSCs. About 9% were from some extent to a limited extent satisfied with customer service in their FSC.

Close to 73% of the members indicated that they were well-satisfied (from a very great extent to a great extent) with **bank charges** offered by the various FSCs, while 27% of the participants were satisfied only to some extent or to a limited extent.

All FSCs that participated in the study were offering **loan products**. About 79% of the participants were satisfied to a very great extent or great extent with the loan accounts in their FSC, while 21% were only satisfied from some to a limited extent. Altogether 3.39% reported that they were satisfied to some extent, while 10% reported satisfaction of a limited extent in respect of the loan product offered. Overall, however, it seems that members were satisfied with the loan product offered by the FSCs. Therefore it can be deduced from the findings that since members are owners of financial services co-operatives, they have a say on the products and services to be offered based on the needs of members. Hence, the FCSs are more likely to be the first preference for those who find commercial banks to be inconsiderate to pensioners or people with a very low income.

Calvin & Coetzee (2009/10) differentiates between groups that save for specific individual purposes and those that save for communal purposes. A group may save for a communal cause such as the building of a church or a school, for example, whereas a member may save with a group but for consumption smoothing, in other words for individual purposes, as was the case with the majority of participants interviewed.

From findings with regard to the **fixed deposit product**, it is clear that 72% of participants reported very great to great satisfaction with the product, while nearly 28% reported an average to limited level of satisfaction.

Findings on the **funeral insurance product** reflected that 67% of participants reported very great to great satisfaction with funeral insurance; while 33% reported a level of satisfaction ranging from average to limited.

Findings in respect of **interest on savings** show that on average 66% of the participants were satisfied from a very great to a great extent with the interest offered on savings. The remaining 34% reported that their satisfaction with interest on savings ranged from some to a limited extent.

Loan turn-around time for loan approval was an area of concern to members and only 39% reported very great to great satisfaction with the loan turnaround time. This is the product where the majority of members – about 51% – were satisfied only to a limited extent with the turn-around time taken. Probing further into what was considered an acceptable turn-around time, participants mentioned that 14 days would be an ideal time to get a response on a loan application, unlike the current 30 to 60 days.

About 66% of participants indicated that they were satisfied from a very great to a great extent with the **friendly services** provided by FSC staff, who actually used the languages that members speak. The rest (about 34%) of the participants reported satisfaction to some or a limited extent.

Regarding the **interest on loans**, only 31% of participants were satisfied to a very great extent or to a great extent. The majority of respondents (69%) reported some or limited satisfaction with the interest charged on loans, which indicates a concern about this product. When probed further, the respondents indicated that loans provided by FSCs were too expensive.

Table 9: Extent of satisfaction with services and products of FSCs

Variable	N	%
Customer service		
Very great extent	180	76.27
Great extent	34	14.41
Average extent	10	4.24
Some extent	8	3.39
Limited extent	4	1.69
Total	236	100

Bank charges	140	59.32
	32	13.56
Very great extent	21	8.90
Great extent	24	10.17
Average extent	19	8.05
Some extent		
Limited extent		
Total	236	100
Loan account		
Very great extent	112	47.46
Great extent	74	31.36
Average extent	18	7.63
Some extent	8	3.39
Limited extent	24	10.17
Total	236	100
Deposit account		
Very great extent	102	43.22
Great extent	68	28.81
Average extent	42	17.80
Some extent	14	5.93
Limited extent	10	4.24
Total	236	100
Funeral insurance		
Very great extent	98	41.53
Great extent	60	25.42
Average extent	45	19.07
Some extent	23	9.70
Limited extent	10	4.28
Total	236	100
Interest on savings		
Very great extent	88	37.28
Great extent	67	28.39
Average extent	49	20.76
Some extent	11	4.66
Limited extent	14	8.91
Total	236	100
Group saving account		
Very great extent	79	33.47
Great extent	56	23.73
Average extent	48	20.34
Some extent	40	16.95
Limited extent	13	5.51
Total	236	100
Interest on loans		
Very great extent	28	11.86
Great extent	45	19.06

Average extent	54	22.88
Some extent	55	23.30
Limited extent	54	22.88
Total	236	100
Friendly services		
Very great extent	50	21.17
Great extent	105	44.49
Average extent	70	29.66
Some extent	6	2.54
Limited extent	5	2.14
Total	236	100
Loan approval – Turn-around time		
Very great extent	4	1.69
Great extent	89	37.71
Average extent	59	25.00
Some extent	14	5.93
Limited extent	70	29.66
Total	236	100

In summary, customer service tops the list in respect of satisfaction gained from formal FSCs, followed by products offered such as loans, fixed deposits and funeral insurance.

In terms of charges that are incurred when an individual withdraws cash from the FSC, the majority of respondents felt that these were reasonable. Interest earned on savings also generated a greater extent of satisfaction in comparison with the interest charged on loans, which rated the lowest satisfaction by quite a majority. Regarding the latter, participants also felt that FSC loans were too expensive, regardless of the fact that they offered their savings as security. As far as the turnaround time taken when members apply for loans is concerned, the period taken was longer than desired and the maximum went up to 30 days without any written feedback.

4.2.1. Service/Product Attribute Ranking (PAR)

These are attributes associated with services and products offered by FSCs, together with members' reasons for satisfaction or dissatisfaction with the attribute. This ranking technique was tested on all five FSC respondents. The ranking of attributes is provided in Table 10 and participants were requested

to rank products and services according to their satisfaction with the different attributes.

Table 10: Ranking of attributes of products and services provided by FSCs

Attribute	Rank	Comments
Customer service	1	This is the most important attribute because the participants are not of a sophisticated nature but merely want to be treated with respect by well-trained and helpful staff. They also want to be spoken to in a language they understand. The participants felt that they had received good customer service from their FSCs.
Bank charges	2	Financial charges associated with transacting in an FSC are very low because clients do not have to travel at high cost to FSCs to deposit, withdraw or apply for loans. The only charges they pay are decided upon by the board of directors and approved by shareholders.
Loan account	3	The participants felt that FSCs are an important vehicle that allows people who do not qualify for loans from conventional banks (e.g. for consumption smoothing; enterprise development; household needs like weddings, school fees, etc).
Fixed deposit account	4	This is a vehicle through which members can obtain a lump sum to spend on an item of their choice without having to take out a loan from an FSC or formal institution—it is therefore seen as a solution to high interest rates on loans.
Funeral insurance	5	Participants who use this product mentioned that funeral insurance makes their lives easier as money claimed during the time of bereavement is readily available and they can manage to bury their loved ones in dignity and without unnecessary delay.

Interest on savings	6	The participants would like to receive a higher interest on their savings. The interest rate is perceived as being too low, relative to the interest that they have to pay on loans.
Group savings account	7	Participants mentioned that the group savings account is working very well for the community clubs, stokvels and burial societies that operate as groups. It allows members to buy groceries in bulk at a discounted price during the festive season, rather than paying high prices when they buy small quantities as individuals.
Interest on loans	8	The interest to be paid is perceived as being very high for those who have taken loans in the FSCs, while the interest earned on a savings account is very low. Members felt that this does not encourage savings.
Friendly service	9	Participants were impressed by the service they got from the FSCs' staff, particularly as far as communication in their own language was concerned. This allowed them to easily engage when they required information on their accounts, and the staff respected and addressed them as elders.
Turn-around time for loan approval	10	The participants who had applied for and acquired loans from FSCs mentioned that it took on average 30 days before a loan application was finally approved. This long delay discouraged them because what they tried to borrow was what they had saved over time and they do not see why it takes so long to approve loans.

4.2.2. Summary of Product Attribute Ranking (PAR)

The summary derived from table. 10 reveals that participants ranked customer service as the most important attribute (57%) since members were treated with respect and addressed in their own language. The amounts

appearing in their savings books were also a true reflection of their balances. Regarding access to a loan account, 30% mentioned that FCSs gave them the opportunity to acquire a loan – something that was virtually impossible for them to obtain from commercial banks. A total of 42% indicated that on bank charges they pay less because FSC charges are determined by the board of directors. They also do not need to incur transaction costs to access the service. Turn-around time for loan approval was rated as the least favourable (39%) attribute as far as services and products are concerned.

4.2.3. Criteria for electing and appointing board of directors and FSC management

Respondents' perception of the criteria used in FSCs for appointing boards of directors and managers was measured using a 5-point Likert-type scale that ranged from 1 (strongly disagree) to 5 (strongly agree). For positive statements, the Likert scale for measuring perception is as follows: 1 (strongly disagree) and 5 (strongly agree), and for negative statements it was reversed to 1 (strongly agree) and 5 (strongly disagree).

The findings reflecting FSC members' perceptions on the criteria for appointing board members and managers are summarised later in Table 11.

About 35% of participants believed that managers were appointed based on their knowledge and skills, while nearly 50% did not agree that such appointment was based on knowledge and skills. Fourteen percent were uncertain of the criteria used for the appointment of managers and board of directors. Close to 34% of the participants were of the opinion that the criteria stipulated the requirements for managers and members of the boards of directors, while 48% believed the opposite. There was a feeling among nearly 47% of the participants that different criteria were used to appoint boards of directors and managers, while nearly 49% of participants disagreed with this claim. Four percent of the participants were uncertain about the existence of alternative appointment criteria. Almost a third (32%) of the participants agreed that they had made inputs in determining the criteria for appointment, while 28% were uncertain and 39% disagreed.

Fifteen per cent of the members were of the opinion that the criteria for the appointment of managers were transparent and known to the members. Only 9.75% stated that the appointment criteria were known by their colleagues. There was a belief among 5% of the participants that the criteria for the appointment of board members and managers were informed by the performance indicators of the FSC, while 36% of the participants were uncertain about this and 13% disagreed or strongly disagreed about this statement.

A slight majority of members (about 33%) believe that transparent criteria applied in the appointment of board members and managers, while the remaining 67% disagreed. A high percentage of 46% of participants agreed that it was important for all members of the FSC to be involved in the determination of criteria for the appointment of boards of directors and managers, while only a small number (0.8%) were uncertain and 2% disagreed. Altogether 78% of participants disagreed with the statement that only members of the board of directors should determine the criteria for appointment; 12% agreed that this must be a responsibility of the board of directors alone while 10% were uncertain. International lessons on member satisfaction with and participation in FSC products and services were learnt from a study done by the International Co-operative Alliance in five countries in Eastern and Southern Africa. A client satisfaction survey on products and services offered by FSCs was conducted in Zimbabwe, Swaziland, Tanzania, Lesotho and Uganda. The study also looked at gaps in financial services delivery by rural finance institutions and financial services co-operatives from a client perspective. The findings were that clients were generally satisfied with products and services provided by their FSCs. Emphasis was on savings and credit products, accessibility, customer service, loan turn-around time and transparency in the deposit and withdrawal process (Vogel, 2002).

Duursma (2004) asserts that in many West African countries, poor households are ready to deposit their savings in the micro finance institutions when the delivery processes as well as the saving products offered suit them or respond to their true needs. Those in charge of micro finance institutions, therefore, should work towards a good understanding of the needs of

their clients (both current and potential) to ensure that the savings products to be implemented will meet the expectations of these clients. By diversifying the savings products and services offered, established institutions should be able to serve a wider range of clients, including those who currently benefit from informal mechanisms, in particular the clients of money lenders.

Table 11: Methods used for selection of boards of directors and appointment of FSC management

Variable	N	%
FSC board of directors are elected by members s and managers in my FSC		
Strongly agree	61	25.85
Agree	39	16.53
Uncertain	11	4.66
Disagree	101	42.8
Strongly disagree	24	10.16
Total	236	100
FSC board of directors and managers are appointed based on their knowledge and skills		
Strongly agree	6	2.54
Agree	76	32.20
Uncertain	33	13.98
Disagree	23	9.75
Strongly disagree	98	41.53
Total	236	100
The criteria stipulate requirements for FSC boards and managers		
Strongly agree	20	8.47
Agree	60	25.42
Uncertain	42	17.79
Disagree	10	4.23
Strongly disagree	104	44.06
Total	236	100

Different criteria are used to appoint members of the board of directors and managers		
Strongly agree	16	6.77
Agree	94	39.83
Uncertain	10	4.24
Disagree	11	4.67
Strongly disagree	105	44.49
Total	236	100
The criteria for selection /appointment are known to all FSC members		
Strongly agree	23	9.75
Agree	12	5.08
Uncertain	68	28.81
Disagree	88	37.29
Strongly disagree	45	19.07
Total	236	100
The criteria stipulate prior knowledge and experience of FSCs management		
Strongly agree	24	10.17
Agree	45	19.07
Uncertain	94	39.83
Disagree	54	22.88
Strongly disagree	19	8.05
Total	236	100
The criteria are informed by key performance indicators of the FSC		
Strongly agree	12	5.08
Agree	34	14.40
Uncertain	86	36.44
Disagree	74	31.36
Strongly disagree	30	12.72
Total	236	100
I made inputs into the criteria for appointing FSC boards of directors		

and managers		
Strongly agree	35	14.83
Agree	41	17.37
Uncertain	67	28.38
Disagree	69	29.24
Strongly disagree	24	10.18
Total	236	100
Different criteria exist for appointing board members and managers		
Strongly agree	66	27.97
Agree	94	39.83
Uncertain	46	19.49
Disagree	21	8.90
Strongly disagree	9	3.81
Total	236	100
In FSC annual general meetings, the criteria for the appointment of board of directors and managers form part of the agenda		
Strongly agree	10	4.24
Agree	12	5.08
Uncertain	32	13.57
Disagree	103	43.65
Strongly disagree	79	33.46
Total	236	100
Members of FSCs are allowed to make input into the appointment of board members and managers based on the set criteria		
Strongly agree	34	14.41
Agree	64	27.12
Uncertain	81	34.32
Disagree	49	20.77
Strongly disagree	8	3.38
Total	236	100
There is no transparency in the determination of the criteria for appointing board members and office bearers of FSCs		
Strongly agree	43	18.22

Agree	78	33.05
Uncertain	83	35.17
Disagree	24	10.17
Strongly disagree	8	3.39
Total	236	100
Member involvement in determining criteria for the appointment of boards of directors and managers is very important		
Strongly agree	109	46.19
Agree	114	48.31
Uncertain	2	0.85
Disagree	6	2.54
Strongly disagree	5	2.11
Total	236	100
My role as a member and a shareholder is just to use FSC services and not to be involved in governance matters		
Strongly agree	34	14.41
Agree	36	15.25
Uncertain	21	8.90
Disagree	79	33.47
Strongly disagree	66	27.97
Total	236	100
Good governance is very important for sustaining FSC services		
Strongly agree	109	46.19
Agree	58	24.58
Uncertain	54	22.88
Disagree	10	4.24
Strongly disagree	5	2.11
Total	236	100
Members of the boards of directors should be the only ones to determine the criteria for appointment in FSC posts		
Strongly agree	89	5.09
Agree	95	10.17
Uncertain	24	6.78

Disagree	16	40.25
Strongly disagree	12	37.7
Total	236	100
Only individuals who meet set criteria should be appointed on the board of directors or as managers		
Strongly agree	112	47.46
Agree	88	37.29
Uncertain	24	10.17
Disagree	8	3.39
Strongly disagree	4	1.69
Total	236	100

4.2.4. Profile of FSC boards of directors as perceived by members

The findings reflecting the profile of board of directors are summarised in Table 12. There is a perception among 42% of participants from very good and good rating that the Boards of Directors apply good governance principles in managing the financial services co-operatives. Almost two-fifths (39%) of the participants reported fair governance application followed by close to 8% who were uncertain and close to 11% who reported poor application of governance principles by the Board of Directors in their management of financial services co-operatives affairs. Nearly 44% of the participants perceived the Board of Directors' control and direction of financial services as very good and good, while 32% reported uncertainty in this regard, followed by 19% who reported fair and 4% poor control and direction by Board of Directors.

A third (33%) of the participants believed that members of the Board of Directors were very knowledgeable or knowledgeable with respect to policy determination, while 4% considered them moderately knowledgeable. The majority (59%), however, considered the members of the Board of Directors to have only limited knowledge of policy determination.

Nearly 50% of the participants believed that the Board of Directors' application of FSCs by law is very accurate or accurate, while 42% believed the application was only moderately accurate. The remaining 8% of participants

indicated that such application fell within the somewhat accurate and not accurate range.

All operating FSCs being studied had board committees dealing with credit and investment, as well as audit committees. When participants were asked to rate the performance of these committees, 15% rated the credit and investment committees as very good to good, while 85% were uncertain about such committees' performance or rated them as poor. Audit committees were rated by 16% of respondents as very good to good, while 84% were uncertain about their performance or rated the audit committees as poor.

The responses from participants indicated that board committees' functions were not well understood by the majority of members. The fact that the majority reported their understanding as uncertain to poor means that there is still a lot that needs to be done in educating members on the role and responsibilities of board committees of FSCs. Also, what emerged was that the boards of directors do not hold regular meetings as required to communicate the vision and strategic direction of their FSC. Members only met officially with boards of directors and managers during the Annual General Meetings, where just the financial performance of the FSCs was discussed –not also the general performance, as required.

Table 12: Profile of Board of Directors as perceived by members

Variables	N	%
Board members' application of good governance principles		
Very good	60	16.95
Good	93	25.42
Uncertain	40	7.63
Fair	18	39.41
Poor	25	10.59
Total	236	100
Board of directors' control and direction		
Very good	46	19.49
Good	59	25.00
Uncertain	76	32.20
Fair	45	19.07
Poor	10	4.24
Total	236	100

Board of directors' knowledge and skills on FSC directing and control		
Very knowledgeable	20	8.7
Knowledgeable	16	6.76
Moderately knowledgeable	59	25.00
Somewhat knowledgeable	66	27.97
Little knowledge	75	31.57
Total	236	100
Board of directors' skills and knowledge on policy determination		
Very knowledgeable	139	2.97
Knowledgeable	72	30.50
Moderately knowledgeable	10	4.24
Somewhat knowledgeable	7	58.89
Little knowledge	8	3.39
Total	236	100
Board of directors' application of FSC by-laws		
Very accurate	98	18.22
Accurate	74	31.36
Moderately accurate	43	41.52
Somewhat accurate	13	5.51
Not accurate	8	3.39
Total	236	100
Performance of credit committees		
Very good	21	8.89
Good	14	5.93
Uncertain	64	27.10
Fair	62	26.27
Poor	75	31.77
Total	236	100
Performance of audit committees		
Very good	3	1.27
Good	24	14.40
Uncertain	85	36.0
Fair	78	33.05
Poor	36	15.25
Total	236	100

The board of directors of an FSC, like that of any corporate organisation, is elected to oversee the management of the institution. The board must exercise reasonable care in governing the institution's activities.

The ultimate responsibility for the conduct of the institution's affairs lies with its board of directors. The board establishes policies that govern how the FSC carries out its business and ensures that those policies are implemented. The board may delegate day-to-day operations to management, but remains

responsible for ensuring that the institution operates within prescribed policies, in compliance with laws and regulations, and in a safe and sound manner.

The board's effectiveness will depend in part on how well its members know the business they are directing and their responsibilities in respect of that business. It will also depend on how well they work together to identify and address issues that are important to the success of the institution. Equally important is the composition of the board. The institution's process of nominating candidates is very important in order to select and retain an effective board of directors. This process should include a careful analysis of every candidate's qualifications, capabilities and business experience.

A well-organised FSC board will examine the demands placed upon it and identify areas that could be handled by committees. Matters that require detailed review or analysis might be better addressed in this manner. Serving on committees enables board members to develop a more specialised knowledge of the institution's business. Typical committees include the executive committee, credit committee and audit committee. The board can delegate management authority to the management staff, but delegation without clear policy guidelines and adequate reporting is an abdication of its management functions. The mere delegation of such authority does not relieve the board of its legal responsibilities (Jazayeri, 2000).

Unfortunately, all respondents did not agree that the boards of directors of their FSCs were adequately skilled and knowledgeable to direct and control the activities of their co-operatives. Members' awareness of board responsibilities was limited only to fiduciary responsibilities, but in respect of strategic direction, members felt that their boards were very weak in all areas of corporate governance. It is also confirmed from the results of the study that 46% of FSC members indicated that there was poor control and direction of FSC business; 30% of participants were not certain of their boards' responsibilities in relation to FSC governance, while 25% were not sure whether their board members were actually applying FSC by-laws for decision making.

From the findings of the study it has emerged that 45% of members indicated that boards of directors have little knowledge about the strategic direction and control of FSC business, 24% reported their boards to be knowledgeable, and 5% indicated that their boards of directors had little knowledge of the strategic control and direction of the FSC. Ten per cent reported board members to have moderate knowledge and 2% indicated that their boards were somewhat knowledgeable. Results also show that 25% of members reported that their board's governance was very good, 39% said it was good, 6% considered it to be fair and 11% considered it to be poor.

The findings furthermore reveal that FSC boards of directors have limited knowledge and skills in respect of strategic direction and control. Boards of directors are key for strategic direction and control of the sustainability of FSCs. These co-operatives are member based, owned and controlled. Participants indicated that although there are well-written and well-documented by-laws, they are not sure that their boards of directors understand fully the application thereof. The findings showed that 42% of participants considered their boards of directors to be moderately accurate in the application of by-laws, and 4% considered them not accurate.

Boards of directors should be aware of their weaker areas in all the elements mentioned and try to work on strategies to improve such areas. This can be done if in-service training and workshops are provided to empower boards of directors with knowledge on how to run FSCs effectively. The training should include aspects such as leadership, management, governance and financial and co-operative management. The FSC concept is still very new and unique in South Africa and since FSCs are owned by members, its management and running does not resemble the conventional running of financial institutions. Continuous learning is however important for the sustainability of FSCs.

According to Jazayeri (2000), the supreme governance body of anFSC is the annual general meeting (AGM) of shareholders that approves the constitution, discusses key policy issues, elects the officeholders, and provides legitimacy to the institution. The shareholders adopt the constitution and by-laws and elect the officeholders. Shareholders meet at least once a year to review progress to date, approve the previous year's balance sheet, approve the

annual budgets, discuss financial performance, and to elect or dismiss any officeholder.

In terms of the Financial Services Association Statutes of 2003, the AGM elects a board of directors and an audit committee on an annual basis. The board has usually five members (at least two women) and the audit committee has three members (at least one woman). The board members are the chairperson, the secretary, treasury and three members of the board committee. The audit committee has three members who are responsible for financial auditing, social auditing and customer care respectively. The candidates for the position of the chairperson are elected specifically for that post. The chairperson provides leadership and guidance but he/she is not involved in the day-to-day management of the FSC. The board also appoints a credit committee from its own members (excluding the chairperson). The credit committee has the responsibility for the approval, monitoring and recovery of loans and it is also in charge of borrower training. It advises the board on loan policies, the rate of interest, and on appropriate investment and risk management strategies.

The functions of the audit committee are to ensure conformity to rules and regulations, as well as shareholder orientation. The audit committee has no executive functions and it is not part of the board. Officeholders are paid according to performance and their salary is related to a percentage of FSA revenue. The essential point in FSC governance is to ensure real (not just formal) ownership by shareholders. The latter must actively and regularly participate in discussing the policies and activities of the institution, check that information on key issues is available regularly and in a simple form that can be easily understood by shareholders, and make sure that there is continuous feedback. Shareholders must also ensure that the board and the audit committee are working effectively to ensure adequate policy formulation, oversight, internal controls and conflict resolution.

4.2.5. *Level of participation by members in the affairs of the FSCs*

The fact that FSCs are owned, managed and controlled by the members who are members did not appear to be the most important matter in the minds

of the majority of participants. Participants were mostly happy about the fact that they had a safe place to save their money and that they did not have to spend money travelling long distances to commercial banks that would charge them high fees, and where staff did not speak their language and were generally inhospitable. The findings reflecting the extent of participation by shareholders in the affairs of the FSC are summarised in Table 13. The majority of participants (about 54%) participated significantly (from a very great to an average extent) in the election of board of directors, while the remaining 46% reported participation in board election from some to a limited extent. Regarding shareholder monitoring of board performance, 31% reported significant monitoring (from a very great extent to an average extent), whereas the remaining 69% indicated monitoring from some extent to a limited extent.

In respect of the members' contribution in formulating FSC policies, the response was as follows: nearly 39% reported contribution to a very great extent or to an average extent, while the remaining 61% reported that they contributed to FSC policy formulation from some to a limited extent. As far as shareholder influence on product development is concerned, again about 39% of participants reported influence of a very great extent, a great extent and an average extent. The majority (61%) however reported that they influenced product development only from some extent to a limited extent. Regarding their understanding of the operations of FSCs, the majority of participants (86%) reported that they understood it to a very great extent, a great extent or an average extent, while a very small percentage (14%) reported understanding to some extent or to a limited extent. This indicates the large ownership element from the side of members as shareholders who consider themselves as owners of their FSC.

In the case of participating in and having an influence on decision making during AGMs, 89% of the participants reported that they took part in and affected decision making to a very great extent, great extent and average extent. Close to 11% reported participation in and influence on decision making only to some extent or to a limited extent. This is a very good indication that members do play a key role in influencing board decisions,

especially during AGMs where the whole performance of FSCs is discussed and their strategic vision and movement forward are decided about. On members' identification with their FSCs, the majority (78%) reported that they identified with their particular FSC to a very great extent, great extent or average extent. The remaining 22% identified with their co-operative only to some extent or to a limited extent.

On the understanding of the FSC's constitution by shareholders, the majority of participants (54%) reported understanding of the constitution to a very great extent or an average extent, while 46% reported some or limited understanding of the constitution. This is an indication that slightly more than half of the members participate in the formulation of their FSC's constitution, which is the key document that members or shareholders need to understand as owners. The participants were also asked about the rules and constitution of the FSC to see how much they knew in relation to how it functions, not on a day-to-day basis, but as a decision-making tool. Finally, they were asked if they saw the FSC as being similar or different to other organisations and structures within the community. It was expected or hoped that the participants would recognise the FSC as being unique in its operations, namely as one that is owned and managed by members. Regarding their understanding of the members' role in FSCs, 95% of respondents reported a very great to average understanding; while a mere 5% reported that they understood their role to some extent or to a limited extent.

In respect of their participation in determining share price, the majority of participants (about 73%) indicated significant (very great, great, or average) participation, while nearly 27% reported some or limited participation in this regard. The analysis of the findings on the extent of participation of members in the affairs of FSCs revealed that members fully understand their role as members or shareholders of FSCs. Their responses also revealed that they took part in and affected decisions taken during Annual General Meetings and took part in board election. Members also identified well with their respective FSCs and understood FSC operations very well. On monitoring board performance, the response was very poor (which also relates to the response

on their contribution to the formulating of policies).The findings indicate that though they understood their role as members, the majority of members did not make an input into the formulation of FSC policies and they also did not fully understand the FSC constitution.

Countries like Nepal, Niger, India, Mexico and Bangladesh are well known for their sustainable microfinance institutions. These institutions are locally controlled, they are trained to mobilise their own savings and manage their own accounts, and they provide a whole range of financial services to their members. In addition, savings-led programmes in these countries have managed to enhance the building of equity for poor female members in particular. Member participates in their FSC through savings accounts and borrowing, and while working together as interest groups, they gain status in their families and become more active in their communities. As their assets and income increase, they start or grow their often agriculturally based income-generating activities, break free from moneylenders, and send their children to school.

According to Ashe (2006) micro financing is an integral part of human development; this view is supported by the large proportion of members who expressed an opinion on the utilisation of financial services co-operatives for consumption loan, source of production loan, link to get a loan from commercial banks, capacity in financial management, elevation of social status, as well as the ability to link with other agencies and government.

Table13: Level of participation of members in the affairs of FSCs

Variable	N	%
Member participation in board election		
Very great extent	18	7.62
Great extent	34	14.40
Average extent	76	32.20
Some extent	74	31.35
Limited extent	34	14.40
Total	236	100
Members monitoring of board performance		

Very great extent	20	8.47
Great extent	32	13.55
Average extent	21	8.89
Some extent	77	32.62
Limited extent	86	36.44
Total	236	100
Member contribution to formulating policies		
Very great extent	12	5.08
Great extent	34	14.4
Average extent	45	19.06
Some extent	91	38.55
Limited extent	54	22.88
Total	236	100
Members' influence on product development		
Very great extent	42	5.08
Great extent	68	14.4
Average extent	102	19.06
Some extent	14	38.55
Limited extent	10	22.88
Total	236	100
Member understanding of operations of the FSC		
Very great extent	45	19.06
Great extent	60	25.42
Average extent	98	41.52
Some extent	23	9.74
Limited extent	10	4.23
Total	236	100
Member participation in and influence on AGM decisions		
Very great extent	88	37.29
Great extent	74	31.36
Average extent	49	20.76
Some extent	11	4.66
Limited extent	14	5.93
Total	236	100
Member identifying themselves with their FSC		

Very great extent	79	33.47
Great extent	56	23.73
Average extent	48	20.34
Some extent	40	16.95
Limited extent	13	5.51
Total	236	100
Member understanding of their FSC's constitution		
Very great extent	28	11.86
Great extent	49	20.76
Average extent	50	21.19
Some extent	59	25.00
Limited extent	50	21.19
Total	236	100
Member understanding of their role		
Very great extent	50	21.19
Great extent	105	44.49
Average extent	70	29.66
Some extent	6	2.54
Limited extent	5	2.12
Total	236	100
Member participation in determining FSC share price		
Very great extent	14	22.88
Great extent	45	41.95
Average extent	99	8.47
Some extent	54	5.93
Limited extent	49	20.77
Total	236	100

4.3. Participants' responses and findings

This section deals with the findings from focus groups involved in the study, the structured questionnaire for members of the board of directors and managers, a Likert-scale form of questionnaire, as well as questionnaire to establish members' socio-economic profiles. The study was divided into the following three topics:

- Election of board of directors and appointment of managers
- Participation of members in decision-making process
- Member satisfaction with products and services offered

Main themes are highlighted in the discussion below and supported with some verbatim (*italicised*) quotes by participants in paragraph 4.3.3.

4.3.1. Motivation behind FSC membership

All participants felt that their FSC is a warm and user-friendly vehicle for mobilising local savings. Many participants were proud and very protective of the FSC and they felt that these were institutions operated and managed by users and owners, and that they as members had some authority in the FSC's day-to-day running.

These feelings are reflected in responses to the questions on how the FSCs were started and the main objective(s) of initiating such co-operatives. Participants stated that their FSCs began as an idea initiated by the Department of Agriculture as part of a farmer support programme for broadening financial services to the rural working poor in the agricultural sector.

Although saving was an important reason for participating in a group's activities, most participants stated that it was not always the main or the only reason for doing so. For instance, according to the participants, the main reason for participating in the FSC was to build a collective as well as an individual asset base.

Participants further mentioned that their FSC offered them a chance to utilise the economies of scale by pooling their resources as farmers and or rural entrepreneurs. Thus they were able to invest in input supply for their farming activities, incurred lower charges and saved on transaction costs (e.g. transport to commercial banks in town). Other products mentioned as benefit to members were funeral schemes and the fact that social grants were paid through their FSC accounts, which afforded them the opportunity to properly plan the utilisation of such grants. Many of the respondents felt strongly about

the fact that the members of the community owned the bank, which is independent. The women from Motswedi felt that as shareholders they could determine how the co-operative should be run because they owned it. The board members and FSC managers from Kraaipan held similar views, stating that the financial services co-operative was a bank that is independent, as well as owned and controlled by members.

4.3.2. *The main objective in starting FSCs*

Participants mentioned that commercial banks did not cater for them as they were classified as a risk and as 'unbanked'. Even if they were able to open a savings account with a commercial bank, they were not able to access loans due to a lack of credit history. On the other hand, when they bought a share and opened an account with their co-operative, they accessed all services offered by the FSC, which is not the case with other banks. They saved on interest charges as the interest rate was determined by the FSC and also appreciated the fact that they were addressed in their own language. All agreed that FSCs were convenient and safer for keeping cash – rather than to put money under a mattress as used to be their practice with unbanked money. Savings allowed members an opportunity to access a total spectrum of financial services ranging from consumption smoothing, enterprise development and use of a social security system in the form of funeral schemes.

4.3.3. *Direct comments by participants on the products and services offered by Financial Services Co-operatives*

FSC were established as co-operatives by individuals with common goals. The members appointed board members and management to run the co-operative on their behalf. The institution operated as a Financial Services Co-operative (FSC) for the purpose of providing effective financial services to its own members, who must be shareholders. Members had full ownership and control over the FSC from its very inception. Before establishing and operating an FSC, a particular village had to apply for registration with the Financial Services Association (FSA) and would only be granted permission

to operate an FSC if they complied with the requirements as stipulated in the Statutes of the FSA. All activities of the FSC were managed in accordance with the rules and regulations as contained in its statutes and by-laws. The institutional capacity of an FSC catered for all the operational needs of the FSC for which its link bank (commercial bank of their choice) provided training and support. All participants agreed that FSCs were operated by managers who (according to participants) were responsible of all member transactions. Boardmembers were only allowed to intervene when there were problems between managers and individual clients. Products and services mentioned by participants included savings, loans, funeral insurance; some participants from Motswedi also mentioned transmission of remittances and vouchers that the FSC provided to members to redeem from commercial banks linked to their FSC.

4.3.3.1 Comments on savings

*There were no alternatives because it was far to travel to Mafikeng. We would then dig a hole and bury our money as means of savings. Now as a mother, the FSC has taught me to save for my children (**Kraaipanwoman**).*

*I think it encourages a sense of saving in the community. It is very important to save for the future. If the saving institutions are very far, people get discouraged. But once the institutions are available within their vicinity, they develop a culture of saving. Ultimately, it helps people to have something when there is a need for money (**Disaneng board member**).*

*The most important aspect is to save and withdraw money in cases of emergencies because the Village Bank is close by (**Motswedi woman**),*

*The opening of the FSC has changed so many things. It has helped me a lot. It has taught me to save and bank money. Like before, I wasn't saving money at all. I was spending money on worthless things (**Lehurutshe man**).*

*I now can take my children to University because the FSC has given me an opportunity to save for the future of my children and I sell my cattle and save with FSC for their education (**Lothlakane woman**).*

4.3.3.2 *Comments on buying shares*

*It gives me power to put forward my suggestions and if I get support from fellow shareholders it would mean we could implement them (**Motswedi man**).*

*It gives me the right to ask questions if I am dissatisfied about something (**Disaneng woman**).*

*Since I am not educated, when I went to open an account I was just told that I should also buy shares as well and I did. But I did not understand what it meant. I did not even think about asking (**Kraaipan woman**).*

*Shares to me are like a right to ownership and control and to hold the board accountable for their decision (**Lehurutshe man**).*

4.3.4. What would cause you to drop out of your FSC?

The importance of trust for the stability of FSC was further reinforced by the responses the participants gave when they were asked what would make them drop out of their FSC. Many pointed out that they would drop out if their saved monies were not accounted for by FSC staff or if an AGM was not conducted to inform members or shareholders of the financial status of the co-operative. A participant in one of the FSCs put it as follows: *If something were to happen to our hard earned savings that could lead to loss of trust, I will drop out.* The statement further illustrates that even though mutual support is very important in informal financial institutions in general, engagement in economic activities and employment are a prerequisite for admission to and continued participation in an FSC.

Lastly, the participants' responses confirm the critical role played by FSCs to broaden the access of the poor to a range of financial services and enhance the circulation of members' money in the village for their own development.

4.3.5. Challenges and suggested improvements

In respect of the challenges they faced and the changes they would like to see in their FSC, many respondents felt that there were just minor changes required and challenges faced. The main challenge that they mentioned concerned the installation of ATM machines and a need for the FSCs to employ more staff to assist clients, especially during pension pay-out days.

Participants expressed a desire for government to assist with infrastructure to house their FSCs, as most did not have the necessary formal infrastructure for keeping clients' money safely. The next (verbatim) response from one of the participants captures the general feeling among the respondents interviewed: *My FSC provides me with loans using my savings as collateral and there are no transaction costs we incur when we deposit or withdraw cash as compared with distance that require transport and money to reach a commercial bank. With FSC we set our own rules, rules that suit our conditions.*

In addition, the respondents lamented that banks treated them as "just a number" and did not take into consideration that each individual had specific needs that had to be accommodated in the financial packages offered by banks. The participants also felt strongly that the products offered by banks were limited and inflexible.

4.3.6. What level of satisfaction do you derive from your FSC?

When the participants were asked what level of satisfaction they derived from their FSCs, the following responses were given: Lower charges and interest in FSCs – 39%; FSCs treat customers with (more) respect – 25%; better interest paid on savings – 18%; shorter queues – 9%; reduced number of forms to fill in when opening a bank account – 7%; flexible working hours in FSCs – 4%. Basically, customer service (44%), as measured by the summation of its constituents, respectful treatment of customers, shorter queues, fewer forms for opening an account and flexible working hours, is what would make them want to continue saving with their FSCs.

4.3.7. Reasons for the establishment of FSCs

This question was directed to the members of boards of directors and to managers, and their responses are summarised as follows:

- The FSC was established by the community through the facilitation of the tribal authority and the staff of the Financial Services Association so as to try and address poverty and unemployment in the area. The co-operative was expected to educate the community to save money, and to borrow from their savings to send their children to school and start businesses (**Lehurutshe board members**).
- The FSC in our area was established by the Department of Social Development so that pensioners could get their pension payment through the FSC, and to address the crime problem that tended to escalate during pension pay-outs (**Disaneng board members**).
- Financial services co-operatives were established to address the financial needs of small-scale farmers and the initiative came from FSA and the Department of Agriculture and other commercial banks (**Kraaipan and Motswedi board members**).

4.3.8. The role of FSC in helping members to achieve set goals

All the participants felt that they were achieving their goals because people who had not had savings accounts in their lifetime now had bank accounts and were now fully literate as far as financial services and money management were concerned. They also applauded the accessibility of FSCs for pensioners and the fact that FSCs had reduced the crime that used to be rife during pension pay-outs. The participants mentioned that quite a number of small enterprises were established due to easier access and increased use of financial services.

4.3.9. Areas that fell short of clients' expectations

All board of director members and managers – except for those of Motswedi felt that they still needed to improve their existing financial products and develop other financial products like transmissions and vouchers. They all agreed that they needed to modernise their FSCs by having ATMs and recruiting more salaried personnel like teachers and nurses.

4.3.10. Opinions on the weaknesses of FSCs

All participants considered their recruitment strategies not effective enough to attract salaried individuals and the FSCs were all battling to attract economically active individuals. The study group mentioned as weaknesses the lack of ATMs and the fact that FSCs were operating in rudimentary building structures without proper security. Another major weakness was a lack of operating capital – thus their FSCs were not able to attract managers and administrators with skills.

The study revealed that FSC's members were satisfied with services and products that were offered in the cooperatives; however issues of governance, fiduciary, regulatory and member participation require immediate attention.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Aim of the study

The aim of the current study was to identify and evaluate the perceptions of members with regard to the products and services rendered by financial services co-operatives in Lehurutshe, Lothlakane, Motswedi, Kraaipan and Disaneng in the Ngaka Modiri Molemo District of North West province in South Africa.

5.2. Objectives of the study

The specific objectives of the study were threefold, namely;

- Objective 1: To identify the criteria that are used to appoint members of the Board of Directors and managers of the FSCs.
- Objective 2: To determine the extent to which members are satisfied with the products and services provided by FSCs.
- Objective 3: To assess the extent/level of participation by members in decision making within the FSC.

5.3. Summary

Generally, both sexes participated equally in determining clients' perceptions on FSC products and services, but there was a tendency for groups to be formed along gender lines.

Across the five FSCs that participated in the study, the profile of the main user was found to be a black individual with about the same probability of being a male or female, earning a monthly average income of R800-R1200 or more. The main users were typically between 47 and 59 years of age. With regard to the level of education, the majority possessed a primary or secondary qualification, with a very few having obtained a university degree or higher qualification. In addition, it should be noted that majority of the participants

were self-employed. Nationally, this would be a large and difficult market for formal financial institutions to enter because a vast majority of FSC members were pensioners and or engaged in small and micro enterprises.

The majority of members, both male and female, considered themselves lucky to be members of the financial co-operative as the services offered by commercial banks services did not suit or benefit them. They found the services of FSCs to be very simple and understandable and, moreover, communication was easy as staff served them in their local language. Most members saw FSCs as providing equal services to those of a bank and they also considered them to be even more valuable to them as they could save their money at an FSC as well as borrow from the FSC for enterprise development or for consumption smoothing.

The main reason given for participation in FSC was that it offered a warm and user-friendly way of saving. Participant saw their Financial Services Co-operatives as associations with people with whom they got along well, and with friends or relatives whom they could trust and rely on in many aspects of life. Members were proud and very protective of the FSCs. They also felt that the co-operatives were the most reliable institutions because they were operated and managed by users and owners – thus giving them as clients a greater say in their running.

The focus group discussion identified a broad category of reasons cited for participation in FSCs, namely social activities; saving for general purposes; saving specifically to take advantage of future investment opportunities. On a personal level, the reasons given for participation as analysed from the questionnaire were: taking advantage of collective saving; decreased transaction costs on savings mobilisation; social fulfilment. Participants further mentioned that their FSC offered them a chance to utilise the economies of scale as they could pool their financial resources together as farmers and or rural entrepreneurs. This allowed them to invest in input supply for their farming activities, enjoy lower charges and save on transaction costs and transport to commercial banks in town.

Other products mentioned as a great benefit to members were the funeral scheme and the fact that social grants were paid into their FSCs accounts, which afforded them the opportunity to plan the utilisation of their social grants. Many of the respondents felt strongly that since members of the community owned the bank, it was an independent bank. The women from Motswedi felt that, as shareholders, they determined how the bank was run because they owned it. The board members and FSC managers from Kraaipan held similar views and stated that the bank was independent because the community owned it and there was no external interference from government.

The majority of members wanted government to assist with infrastructure to house their FSCs, as most of the co-operatives did not have the necessary formal infrastructure for keeping their money safely. The respondents complained that to the ordinary commercial banks they were “just a number” and not individuals with specific needs that had to be accommodated in the financial packages offered by banks. They also criticised the banks’ products and found them limited and inflexible. Regarding the determination of criteria to appoint boards of directors and management, the majority of members were neither aware of the formal criteria nor able to say that appointments were based on skills and knowledge. However; they agreed that there were different criteria for appointing board members and management. According to the findings, only a few members of FSCs were familiar with these criteria despite the fact that all members interviewed felt that they were very important and should be known by all FSC members. Member participation in the affairs of FSCs was reported as average, and there is some improvement that needs to be done to train members in understanding the FSC business their role as members and the role of the board of directors.

5.4. Conclusions

Questions about the socio-economic status of members revealed that the majority were pensioners, followed by self-employed members with an average monthly income of between R800 and R1200. The educational

background and age of the majority of members was somewhat discouraging as the majority were pensioners already. FSCs seemed not to be doing well in attracting economically active individuals from diverse backgrounds. The current members constitute a group or category that experiences problems in maintaining accounts through conventional banks and that falls within the lowest Living Standards Measures (LSM 1-3). FSC clients are generally termed unbanked by commercial institutions.

Members of Financial Services Co-operatives have positive perceptions of FSCs ability to address their financial service's needs. They see these co-operatives as the only vehicle through which they can participate in the mainstream financial services market, and that allows them opportunities to build assets.

Most members are aware of the criteria for appointing boards of directors and managers; however they reported that they were not involved in the formulation of such criteria. The majority strongly disagreed that those appointed as members of the board of directors and as managers were appointed based on required knowledge and skills according to set criteria. They also strongly suggested that there was no transparency in terms of appointing FSC board and managers and that Annual General Meetings were held merely to table financial reports – no discussions took place on governance matters.

Regarding the extent of participation of members in the affairs of FSCs, most members revealed that they fully understood their role as shareholders of their FSC, and they also influenced decisions on product development and share pricing. Members claimed to understand FSC operations and identified themselves with their FSC. Some members admitted that they had joined FSCs through purchasing shares and afterwards they never attended meetings called by boards of directors to communicate important strategic information to them. The study also showed that the performance of members of the boards of directors was not monitored by members as required.

The majority of members were very satisfied with the services and products offered by these financial co-operatives. Customer service was the

outstanding attribute of the financial services offered by FSCs and by far outshined the customer service in commercial banks. This was because FSC clients felt they were respected by FSC managers, they enjoyed being addressed in their own language and they felt that these managers knew them – unlike with the staff of commercial banks. Of concern was the general loan turn-around time of 30-40 working days, which members wanted to be reduced to 14 working days. High interest on loans was also reported as a major concern.

Often a person's disposable income determines his or her propensity to save. An increase in disposable income therefore leads to an increase in the willingness and capacity to save. In the past, it was believed that low income people, especially the poor, have a low propensity to save and are thus less able to contribute to economic growth (Schreiner & Nagarajan, 2000). While the common belief has been that the poor cannot save, experience has proved the contrary – the poor can and want to save (Rutherford, 2000).

Despite the challenges identified, the researcher remains optimistic that FSCs have the potential to reach poor rural communities empower their members and contribute to the financial sector and the well-being of many South Africans. Only time can tell what will happen to the many FSCs that are currently experiencing financial constraints. Hopefully government will realise the importance of the FSC movement and intervene, as this study has shown that FSCs do have the potential to serve poor rural communities!

The poor can save, they do in fact save, and they want to continue saving money. It is only those who are so poor that they have left the cash economy altogether – for example, elderly disabled who live by begging food from neighbours – who cannot save money.

International lessons are that financial services co-operatives are self-regulated and mostly registered as co-operatives as is the case in South Africa. The extent of participation by members is a challenge across the board and is limited by capacity, costs and liquidity constraints. FSCs that are governed by elected members, by-laws should be used to tie the interests of management and board committees to the interests of the members. In

countries like Indonesia the board of directors is liable for losses in their financial services co-operatives.

Locally the legal framework includes the recently passed Co-operative Banks Act (Act No. 40 of 2007) as the instrument to provide an enabling environment in which FSCs can operate. However, in South Africa FSCs are self-regulating and exempted from the Banks Act (Act No. 94 of 1990) – as a result they do not have deposit insurance and are not supervised by banks as in other countries.

5.5. Recommendations

The recommendations made are based on the findings of the study and focus on the FSC members, the Boards of Directors and management of the five FSCs that participated in the study, the regulatory framework for FSCs and FSCs' institutional capacity. The FSCs involved were those at Motswedi, Lothlakane, Disaneng, Lehurutshe and Kraaipan. All are situated in the Ngaka Modiri Molema District of North West province.

5.5.1. *Members of FSCs*

Members of FSCs obtain membership by purchasing a share of a minimum of R100 to qualify as a voting member of the co-operative. Members are only regarded as members once they own paid-up shares – this allows such members access to all services that are provided by an FSC, ranging from a deposit savings account, a fixed deposit account, loans and a funeral scheme.

What has been observed is that members' interest is limited to the services and products offered by the FSCs and not in its governance, strategic focus and fiduciary compliance and regulations. As a result, these tasks are left to persons who are elected as board of directors. The performance of the FSC is not an issue of concern to members.

Members as shareholders need greater education on the functioning of the Financial Services Co-operatives, on what it means to be a member, and on what they should expect from the Board of Directors. Technical training of

members is very necessary, for example in respect of numeracy, financial management, and governance training for members on how to hold leaders accountable.

All FSCs communicate meeting dates with members and inform them of the dates of annual meetings. Each Financial Services Co-operative needs to design a simple brochure in plain and clear local language explaining the vision and mission of the co-operative, the products offered, the rights and responsibilities of shareholders, as well as all annual meeting dates. Such brochure should to be circulated to all members when they come to the FSC for transactions. The brochures can also be circulated at local schools.

The study found that member participation in policy formulation or contribution was not very good and needs to be strengthened, prioritised and institutionalised to improve performance of FSCs. The majority of members were not sure of the criteria for appointing the Board of Directors and managers and nearly half of the participants in the study disagreed that there were different criteria for appointing board and managers. This confusion goes back to poor participation of members in influencing policy and decision making. Members' participation in product development was rated poorly and the majority of respondents (about 60%) reported only some or limited participation in product development. Since the products provided should be based on their needs, members need to be involved in decisions in this regard. Member participation and strong oversight through participatory process within the FSCs, involving local leaders is recommended.

5.5.2. Board of Directors and management of FSCs

The Board of Directors of a Financial Services Co-operative, like that of any corporate organisation, is elected to oversee the management of the institution. The board must exercise reasonable care in governing the institution's activities.

Tasks for which the board is responsible include the following:

- Control and monitoring of all activities of the co-operative

- Mobilising the support of the local residents for the co-operative
- Approval of new products
- Approval of credit policy, including default identification, follow-up actions and policies in respect of the provision for bad and doubtful debts
- Liaison with local authorities and report back to the members regarding the status and development of the co-operative

The board may delegate day-to-day operations to management, but remains responsible for ensuring that the institution operates within prescribed policies, in compliance with laws and regulations, and in a safe and sound manner. The board's effectiveness depends in part on how well its members know the business they are directing and their responsibility for that business. In the current study the majority of participants believed that members of the board of directors were somewhat knowledgeable with regard to skills and knowledge; hence the necessary capacity and training on governance and fiduciary responsibilities of the board of directors would be required.

Though nearly half of the participants believed that the board's application of FSC by-laws was moderately accurate, this means that there is a need to improve the board's application of by-laws as these are crucial in providing guidelines of what should be done and for enforcing good governance.

The application and understanding of by-laws is very important as they mandate the size, composition, qualifications, process, compensation, roles and responsibilities of the board. The Board of Directors and managers cannot be expected to manage their co-operatives if they themselves are unsupported and untrained. Some form of selection is needed for board members so that only suitably qualified individuals end up serving on the board. They have to undergo comprehensive training on governance, fiduciaries and the application of FSC by-laws.

Equally important is the effective performance of board committees who are responsible for credit and audit functions. Nearly 50% of the participants rated the performance of the audit committee as either uncertain or fair, while close to 60% rated the credit committee's performance as either fair or poor. In this

area, technical training on supervision is crucial because it can help prevent fraud and mismanagement.

5.5.3. *Regulatory framework*

The third-tier of banking in South Africa is made up of member-based financial institutions across the spectrum. These include stokvels, burial societies and financial services co-operatives that are self-regulated and that operate through an exemption notice from the South African Reserve Bank. For FSCs it is risky to take deposits without deposit insurance (as is required from formal banks), hence it is recommended that formalised regulations be introduced for financial services co-operatives to protect their solvency and the funds deposited by their members. Apart from being regulated, FSCs need to be linked with commercial banks for supervision, treasury regulation, provision of transmission facilities and wholesale loan funds to FSCs so as to ensure sustainability.

5.5.4. *Institutional capacity*

Training and capacity building are major requirements before the FSC may start taking deposits from members. The board of directors needs to be trained on governance, financial management, credit and investment, as well as member education and development. The majority of participants in the study reported an average loan turn-around time that earned a limited extent of satisfaction, which calls for training on bookkeeping systems and credit management.

Board members' application of governance was also rated average. However, as argued by (Gonzales-Vega, 1994), weak governance is inherent in the structure of member-based financial institutions governed by representatives from among the membership. To address this problem, the Board of Directors may co-opt additional support for any particular Director, should the board deem this necessary, and the board may appoint non-members to the board in order to obtain expertise on the board. Technical

training and leadership development need to be a priority for both the members of the Board of Directors and for management.

Financial Services Co-operatives need to increase staff productivity and effective management, and they should design simple information, financial management and bookkeeping systems to improve the current unsatisfactory loan turn-around times. High interest paid on loans was also an area that drew limited satisfaction from the majority of participants. Solving this problem would require the recruitment of new shareholders and users of FSCs so as to increase the economies of scale by increasing the number of new deposits. Such a strategy would increase FSCs' cash-flow and reduce the cost of lending funds to members.

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APPENDIX A: Group discussion guide for Financial Services

Co-operatives

<p>Welcome</p> <ul style="list-style-type: none"> • Thank you for coming – we are very grateful for your time. • I am from the University of Limpopo. I am here to collect data that will assist us to understand the operation of informal financial services, especially Financial Services Co-operatives and why people use them. The data will be used in the writing of a dissertation that will be submitted as part of my postgraduate studies. • You are one of the five financial services co-operatives that have been chosen to participate in this study. 	
<p>Core questions</p>	<p>Probes</p>
<p>Warm-up Questions</p> <ol style="list-style-type: none"> 1. How did your FSC start (who initiated it)? 2. What was the main objective of starting this FSC? 3. How is your FSC run? 	<ol style="list-style-type: none"> 1. How much do you generally save? 2. How many are you in your group? 3. Do you have more women or men in your group? Why? 4. Do you have a constitution governing this FSC? 5. How do you elect Board of Directors to run the FSC? 6. How are FSC managers employed and who employs them?
<p>Specific Questions</p> <ol style="list-style-type: none"> 1. What other savings product are available to you? 2. Why do you choose to save with an FSC and not individually with a bank? 3. What would lead you to drop out from your FSC? 4. What are the challenges facing this FSC? 5. What would you suggest as improvements to your FSC? 	<ol style="list-style-type: none"> 1. What level of satisfaction do you attain from their use? 2. What does this FSC offer you that your banking institution does not? 3. Apart from savings, what other activity do you do together as members of FSC? 4. What changes would you like to see in banking institutions that would attract you to save this money there?

APPENDIX B: Mini questionnaire to ascertain the socio-economic profile of Financial Services Co-operatives members

FOR OFFICE USE

Financial Services Name:

Questionnaire No:

Do not fill in the grey area

Please draw a circle around the number that applies to you, e.g. Female.

1. Sex: Male.....1 Female.....2

2. Age: Under 25 years 1
26-46 years... 2
47-59 years 3
above 60years...4

3. Please indicate the highest qualification obtained: _____

None.....	<input type="checkbox"/> 1	Certificate/ college/technikon	<input type="checkbox"/> 5
Primary (Std1-4)	<input type="checkbox"/> 2	Diploma/college/technikon.....	<input type="checkbox"/> 6
Middle school (Std5-7)	<input type="checkbox"/> 3	Degree/ University.....	<input type="checkbox"/> 7
Secondary (Std8-Matric)	<input type="checkbox"/> 4	Postgraduate qualifications.....	<input type="checkbox"/> 8

4. Form of employment:

Self-employed.....	<input type="checkbox"/> 1	Government.....	<input type="checkbox"/> 4
Pensioner.....	<input type="checkbox"/> 2	NGO.....	<input type="checkbox"/> 5
Private Company.....	<input type="checkbox"/> 3	Other, e.g. Housewife.....	<input type="checkbox"/> 6

If other, please specify.

5. Level of family income (Monthly):

Below R800	<input type="checkbox"/> 1
R801- R1200	<input type="checkbox"/> 2
R1201-R1800	<input type="checkbox"/> 3
R1801-R2200	<input type="checkbox"/> 4
Above R2200	<input type="checkbox"/> 5

Please indicate with a tick in the box after each entry in the table which other financial products you use (you may tick more than one box).

Saving account with FSC	
Saving account with a bank	
Saving account with Post Bank	
Other accounts with FSC, e.g. fixed deposit	
Other products – please specify	

8. Is this the first time you have joined an FSC? Yes/No.....

9. If yes, what attracted you to become a member of the FSC? Kindly ignore this question if your answer in Question 8 is No.

.....

10. Do you participate in a group savings scheme other than this one? Yes/No.....

11. If yes, why?

.....

12. What problems do you face as a member of this FSC?

.....

13. What changes would you like to see in your FSC?

.....

14. Why did you choose to save your money with a Financial Services Co-operative and not in a bank?

.....

15. What changes would you like to see in this Financial Services Co-operative that will make you continue saving your money with it?

APPENDIX C: Questionnaire for Board of directors/ founders of Financial Services Co-operatives

Do not fill in the grey area

FOR OFFICE USE

Financial Services Name:

Questionnaire No:

1. In your opinion, what were the major reasons for the formation of this FSC?
.....
.....
.....
.....
.....
.....
.....
.....
2. Do you feel you have achieved your goals? Yes/No.....
3. If No, in which areas do you think you have fallen short of your initial expectations?
.....
.....
.....
.....
.....
4. In your opinion, what are the strengths and weaknesses of this FSC?
.....
.....
.....
.....
.....

APPENDIX D: Service/Product Attribute Ranking

Please rank these product attributes from 1-10 and comment on the reasons for your ranking.

Attribute	Rank	Comments
Open Savings Account		
Friendly Service		
Customer Service		
Loans		
Fixed Deposit Account		
Group Loans Account		
Funeral Insurance		
Compulsory Savings Account		
Start-Up Capital Savings Account		
Group Savings Account		
Loan Approval Turn-around time		

APPENDIX E: Determination of method to elect Board of Directors and appoint management as perceived by FSCs clients (Likert Scale)

In responding to each of the questions posed, please use the following scores when ticking off in the relevant boxes.

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly Agree

1. There are set criteria for the appointment of Board of Directors and FSC managers

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

2. FSC Board and Managers are appointed based on their knowledge and skills

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

3. The criteria stipulate requirements for appointing FSC managers

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

4. The criteria stipulate the scope of the responsibilities of the Board of Directors and FSC management

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

5. Criteria to appoint FSC Managers and Board of Directors are known to all members

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

6. The criteria for appointing FSC managers are discussed with all members prior to appointment

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

7. The FSC uses different criteria for the appointment of board members and managers

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

8. The criteria used to appoint FSC managers require prior experience in dealings with FSCs

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

9. The criteria to appoint managers and Boards of Directors are informed by key performance indicators of the FSC

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

10. Criteria to elect board members are understood by all in the FSC

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

APPENDIX F: Determination of knowledge and skills of Board of Directors as perceived by FSC clients (Likert Scale)

In responding to each of the questions posed, please use the following scores when ticking off in the relevant boxes.

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly Agree

1. The FSC appoints a Board of Directors and Managers that are knowledgeable and skilled in financial management

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

2. The Boards of Directors of FSCs conduct good governance

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

3. FSC managers are appointed based on skills and experience required for managing FSCs

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

4. The Board of Directors provides general control and direction to the FSC so that it can fulfil its mission

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

5. The Board of Directors and Managers are knowledgeable about FSC principles and by-laws

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

6. The Board of Directors provides strategic direction for FSC and shares the strategy with members

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

7. FSC Board and Managers communicate frequently with members on the performance of the co-operative

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

8. The Board of Directors has the necessary knowledge for adequate reporting on and safeguarding of members' deposits

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

9. The criteria to appoint Managers and Board of Directors are informed by key performance indicators of the FSC

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

10. The Board of Directors monitors staff performance and fires staff who perform poorly

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

APPENDIX G: To what extent are you satisfied with the following services and products as provided by your FSC? (Likert Scale)

- Open Savings
- Compulsory Savings
- Fixed Deposit Saving
- Funeral Expense Savings Product
- Group Savings Product
- Start-Up Capital Savings Product
- Loans
- Group Loans
- Contractual Agreement Savings Product
- Member education on products offered
- Turn-around time for loans approval

In responding to each of the questions posed, please use the following scores when ticking off in the relevant boxes.

1. Limited Extent
2. Some Extent
3. Average Extent
4. Great Extent
5. Very Great Extent

1. FSC Open saving that is readily available for use

Limited extent	1	2	3	4	5	Very great extent
-----------------------	---	---	---	---	---	--------------------------

2. Fixed deposit for periodic use

Limited extent	1	2	3	4	5	Very great extent
-----------------------	---	---	---	---	---	--------------------------

3. Funeral Expense Saving to provide for funeral emergency needs

Limited extent	1	2	3	4	5	Very great extent
-----------------------	---	---	---	---	---	--------------------------

4. Group savings

Limited extent	1	2	3	4	5	Very great extent
-----------------------	---	---	---	---	---	--------------------------

5. Loans for consumption smoothing and enterprise development

Limited	1	2	3	4	5	Very great extent
----------------	---	---	---	---	---	--------------------------

extent						
---------------	--	--	--	--	--	--

6. Compulsory savings

Limited extent	1	2	3	4	5	Very great extent
-----------------------	---	---	---	---	---	--------------------------

7. Group loans for community projects

Limited extent	1	2	3	4	5	Very great extent
-----------------------	---	---	---	---	---	--------------------------

8. Contractual Agreement savings product

Limited extent	1	2	3	4	5	Very great extent
-----------------------	---	---	---	---	---	--------------------------

9. Turn-around time for loan approval very short – less than 10 days

Limited extent	1	2	3	4	5	Very great extent
-----------------------	---	---	---	---	---	--------------------------

10. Customer care

Limited extent	1	2	3	4	5	Very great extent
-----------------------	---	---	---	---	---	--------------------------

APPENDIX H: Assess the level of participation by members in the affairs of FSC (Likert Scale)

1. Members contribute to the formulation of FSC policies and strategies

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

2. Members are involved in electing Board of Directors

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

3. Members take part in formulating FSC by-laws

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

4. Members understand their roles within a co-operative

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

5. Members take part in monitoring the performance of the board and management

Strongly disagree	1	2	3	4	5	Strongly agree
--------------------------	---	---	---	---	---	-----------------------

6. FSC members identify themselves with their co-operative

Strongly disagree	1	2	3	4	5	Strongly agree
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7. Members participate in and influence the running of annual general meetings

Strongly disagree	1	2	3	4	5	Strongly agree
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8. Members give feedback to co-operative's annual performance report

Strongly disagree	1	2	3	4	5	Strongly agree
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9. Members take part in determining and reviewing FSC products

Strongly disagree	1	2	3	4	5	Strongly agree
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10. Members are involved in member recruitment and marketing

Strongly disagree	1	2	3	4	5	Strongly agree
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APPENDIX I: Proof of Editing