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KEYNOTE ADDRESS TO THE 2022/23 CO-OPERATIVE BANKING SECTOR INDABA

MINISTER STELLA NDABENI-ABRAHAMS

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Let me greet all the Indaba Attendees, from National Treasury, from the Co-operatives Bank Development Agency, from the Department of Economic Development, Environment and Tourism, from my own department DSBD and entities sefa and Seda, from the regulators, the South African Reserve Bank and the Prudential Authority, the World Bank, from banks and other financial institutions, and most importantly the co-operative banks and co-operators themselves and those who support them,

The timing of this Indaba is excellent. We have just completed our National Integrated Small Enterprise Development Plan which was approved by Cabinet three weeks back. We have also just come out of the Inaugural Presidential Awards and National SMME and Co-operatives Summit, which coincided with the launch of Global Entrepreneurship Week, and where all stakeholders agreed on a course of action to support the implementation of the NISED Plan. We are also at the final stages of the business model for the new combined entity which brings together Seda, sefa and the CBDA.

Collectively, this work implores all of us to work as a more coherent and focused SMME and co-operatives eco-system to change the development trajectory of the country. COVID-19 hit us hard, and current volatility in the global economy has held back recovery. Our current growth model is faltering. We are growing too slowly, with National Treasury projections of below 2% per annum over the next three years. Unemployment is stubbornly high, and there is a growing recognition that large corporates will not provide the jobs we need as a country. South Africa remains one of the most unequal countries globally, and excessive market concentration and other barriers to entry such as red-tape and financial exclusion limits levels of economic participation, especially in townships and marginalized rural areas. We will not achieve more inclusive and higher levels of growth unless we focus more on underserved communities and find ways to bring them into mainstream markets and support systems.

The National Development Plan recognized that 9 million of the 11 million jobs we need to create by 2030 should come from SMMEs (with COVID we now actually need 13 million jobs by 2030 of which almost 11 million should come from SMMEs).

Currently our 3 to 3 ½ million SMMEs contribute just under 10 million jobs. So simply put, if we need to create another 11 million jobs by 2030 through SMMEs and co-operatives, we would need some 4 million new SMMEs and co-operatives created by 2030. This is the scale of the collective challenge that we face as a country. It can no longer be business as usual, and we need all eco-system to partner-up around practical actions across a few key focus areas, including:

- Reducing red-tape and regulatory burdens that constrain entrepreneurs, SMMEs and co-operatives;
- Looking at how we can create a more enabling environment for growth start-ups, especially those that make us more competitive in the tech and green economy;
- Tying our SMME and co-operatives support more closely to broader industrialization strategy, and linked to this, leveraging the work that is already happening in the Enterprise Supplier Development space to make corporate and supply chain markets accessible to township and rural enterprises;
- Finding ways to refuel our incubator and accelerator networks, so that we can multiply the number of start-ups and scale-ups we collectively support;
- Looking at how we can radically scale-up small enterprise funding, through derisking strategies like credit guarantees, through blended finance instruments, and through working with investment funds to increase flows of venture capital and equity finance to our SMMEs and co-operatives;
- Looking at how we improve our support and impact with regards social enterprises and co-operatives, and finally
- Finding ways to strengthen the eco-system coordination, better connect with networks of entrepreneurs, and find new ways to hold ourselves jointly accountable. These partnerships that anchor the implementation of the NISED Plan must not exist only on paper. An effective M&E system will be a critical enabler in this regards.

Turning closer to the subject of this Indaba, we know we have somewhere between a R350 billion to R600 billion SMME credit funding gap. We will not come anywhere close to realising our NDP jobs target if we don't address this credit gap.
Together, DSBD and National Treasury are looking at ways to address this funding gap and have collectively worked on a National Financial Inclusion Policy, one of the pillars of which is "An Inclusive Financial Sector for All". While this remains work in progress and the details of the actual instruments and allocative implications are being worked on, the essence of the policy revolves around a few key focal areas:

- First, increasing access to early- stage start-up capital. Here we are looking at blended instruments, as well as credit guarantees.
- Second, ensuring we strengthen the pipeline of investment-ready SMMEs and co-operatives through pre-investment support. Here the improved working together of

Seda and sefa is key. Our refuelled incubator programme will be a critical success factor in this.

- Third, ensuring that we provide post-investment support to ensure we provide SMME and co-operative sustainability to reduce impairment and build the balance sheet of our SMME DFIs like sefa. Again, significantly expanded access to business development support and markets is critical.
- Fourth, revisiting credit information systems, and here we are already putting polices in place for example on a moveable collateral registry.
- Fifth, using financial intermediaries and digital platforms to improve reach, repayment levels, and operational efficiency.

Financial co-operatives form a key part of our strategy for financial inclusion. But the sector remains very small, serving only only 29,500 members out of 40 million adults in South Africa. The passing of the Cooperative Bank Act in 2007 was a key milestone but hasn't seen the membership growth we would have expected in CFIs.

This Co-operative Banking Sector Development Strategy developed by the Co-operative Banks Development Agency with the support of the World Bank is a good starting point to understand what we need to do differently going forward.

The strategy makes the point that our members of financial co-operatives remain well behind our smaller neighbours like Eswatini (50,000 members) and Lesotho (76,000 members) and far below peer countries such as Kenya (7.7 million financial co-operative members) and Brazil (10 million financial cooperative members). Countries like Columbia with similar socio-economic conditions have just under 10% of their population served through financial co-operatives.

Some of the challenges faced by financial co-operatives in South Africa include the fact that financial co-operatives have failed to offer debit and ATM cards to facilitate easier access to funds – a service widely available from banks. CFIs should hold advantage over stokvels because they can offer credit on demand, but they have been unable to define and communicate this advantage. CFIs have also struggled to attract and retain quality staff and board members because of location and small size. Financial co-operatives have also not made sufficient use of digital platforms that allow loan payments to be deducted at source. This would be a game-changer, and I will come back to this.

The Co-operative Banking Sector Development Strategy has clear targets which are realistic and which we need to support. This includes moving from the current 29 500 members to 400,000 active members by 2030 (a 13.5 times growth in membership by 2030).

The Co-operative Banks Development Agency (CBDA) which we are now integrating with Seda and sefa has a huge role to play in enabling this target to be met. Financial co-operatives can reach more vulnerable communities because they don't have profit as their primary driver, but they need a compelling value proposition and need to offer products that are of value and meet the needs of the market. The CBDA needs to build capacity in the sector, identify new and robust sources of funding, and support the shift to digital delivery channels. I look forward to hearing more about how this will happen, and the role of the second-tier co-operative bank.

From what I understand, the CBDA is well positioned to play this role. It was established in terms of the Co-operative Banks Act, 40 of 2007, to promote and advance the social and economic welfare of all South Africans by enhancing access to banking services under sustainable conditions. Its vision is to facilitate financial inclusion and economic transformation while ensuring a sustainable co-operative banking sector that empowers communities. This will be achieved through innovative solutions, capacity building, funding and technology interventions.

Generally, governance and performance in CBDA is stable, with slow but steady improvement of late in co-operative banking membership, in the number of registered CFIs, and in increased member deposits. There has been less progress on the transition to digital platforms which requires attention.

I am also pleased to see that through the support interventions of the CBDA, the co-operative banking sector has managed to have 25 out of 29 institutions accurately reporting their financial performance to the Prudential Authority, a major leap from a few years back where there was no reporting at all or at best inaccurate, incomplete, and unreliable information submitted. This is indeed a major achievement, and something we need to build upon.

Whilst we celebrate these wins, there is still a lot of work to be done. The absence of technology means that the sector is not in a position to offer the convenience of first order banking products and services to its members. It also means very low to non-existent participation in the national payment system, and high operating costs versus limited revenue streams.

The Co-operative Banking Sector Development Strategy proposes clear policy actions, and we are looking at this Indaba to activate partnerships to take these proposals forward. One that particularly interests me is the proposal to establish a secondary co-operative bank, which could provide shared technology systems to CBIs, liquidity assistance, treasury services, and National Payment System access to CBIs who would otherwise not be able to on their own. I look forward to hearing from Indaba participants how this can be achieved, and what we need to do as DSBD and NT to support this.

I look forward to the deliberations and the decisions, and to continued engagements with the CBDA and CFI networks as we finalize the integration with Seda and sefa.

I know we will succeed.

Thank you