

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

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Rural communities have little, if not no, access to formal financial services. The formal financial sector, through commercial banks, are unable to provide financial services to poor rural households because of the high transaction costs associated. They furthermore have requirements which potential clients are unable to meet. If, however, a person adheres to the requirements for opening a savings account, such person will often not have the necessary collateral to apply for a loan from such institution. Thus, the funds mobilised from a community will not be invested for productive purposes in that community, but will be directed elsewhere. This gave rise to the development of Financial Service Cooperatives (FSCs) (internationally referred to as Financial Service Associations), established to address the financial needs of poor rural households.

FSCs are locally owned, managed and capitalised and thus address three specific challenges: locally based self-management, outreach and sustainability. FSCs are established at the community level and are owned and managed by the community members that buy shares in the FSC. FSCs can operate in unbanked rural areas that would not be viable for many other forms of financial institutions. They are further characterised by simple systems and procedures and lack a complex support structure or network. These characteristics enable FSCs to maintain low cost organisational structures and to rely on local management, thus promoting the sustainability of the FSC model.

Financial services provided will include facilities such as savings, shares, the transfer of remittances, loans and insurance; for the rural poor, while linking the village bank with the formal banking system. Financial resources are thus generated over time in the form of shares and savings, increasing financial management capacity at grassroots level, allowing effective ownership and control by the beneficiaries, eventually becoming self-sustainable. The rural communities thus become empowered to take control over their own development and get access to financial services and the benefits involved which had previously remained the privilege of the urban areas.

The investigation will relate to a comparison of South Africa's village banks or so called FSCs to international best practices found in Uganda (where it originated), Benin and Kenya. Identifying best practices assist in understanding key features in the functioning of a FSC for example its governance, linkage with the formal financial sector or commercial banks, the products and service provided to the rural poor as well as its outreach and sustainability.

Financial service cooperatives are an economic empowerment process with the objective to establish a sustainable structure in South Africa that can continue to provide in the financial needs of the rural poor and contribute towards the empowerment of its members and communities.