



FinaSol

INCREASING MICRO-ENTERPRISE ACCESS TO LIQUIDITY

IMALI GRANT

PROGRESS REPORT # 2

JANUARY 1999 - MARCH 1999

AWARD No. 674-A-00-98-00056-00

Project No. 674-0303

May 31, 1999

Submitted to:

Attn.: Margot Ellis
USAID/South Africa
PO Box 55380
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Submitted by:

ACDI/VOCA
50 F. St., NW Suite 1100
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I. FinaSol's Mission and Vision

Mission: To promote and support Financial Services Cooperatives (FSC) by providing information technology, training, risk management and audit services on a standardized basis to enable FSCs to be viable and sustainable organizations based on good governance providing high quality, fairly priced customer responsive financial services to rural and peri-urban residents and micro-entrepreneurs.

Vision: To provide a broad range of financial services to its member FSCs. These services include but are not limited to: information systems, risk management and audit services, internal controls, training and facilitation, franchise certification, and access to wholesale finance. The FSCs in turn serve as retail financial service providers to thousands of micro-entrepreneurs. Using a franchise approach FinaSol will introduce international best practices that will establish acknowledged micro-finance operational standards, set performance targets and promote management techniques and delivery technologies that are designed to attain a large-scale, high quality operation in the shortest possible time frame for each FSC.

II. FinaSol's Purpose

FinaSol is the central promotional and coordinating body for FSCs that:

- Assists rural communities to assess whether a FSC is likely to succeed in their area;
- Provides training to FSC members and assists them in registering the FSC as a cooperative;
- Provides assistance to FSCs through the start-up period, as well as basic support during the first few years of operations, until a FSC is financially and administratively self-sufficient;
- Provides computer and accounting services that cannot be done at the village level, which allows village level operations to remain as simple as possible;
- Provides the training that will be necessary for FSC staff, members of the Board of Directors and other committee members to understand the functioning of a FSC to enable them to carry out the necessary operations in providing financial services to members; and
- Acts as a link between the Registrar of Cooperatives and a FSC, and provides FSC certification for registration purposes. It acts on behalf of FSCs to ensure that all of the requirements of the Registrar's office are complied on time; e.g. returns, audits, etc.

III. Franchise Description

Each FSC is linked to FinaSol by means of a franchise agreement by which:

- FinaSol agrees to provide a package of support services to a FSC;
- A FSC agrees to provide initial basic inputs; e.g. office building and furniture. Furthermore, a FSC agrees to comply with the FSC statute and other operational requirements;
- A FSC agrees to be self-managing from the start-up for financial operations and must be able to generate adequate income to cover basic operating costs after 12 months of operations;
- FinaSol will charge a FSC standard rates for the provision of services; and
- A FSC will function as a business enterprise based on regular business plans and proactive marketing of financial services to members. After payment of its operating expenses and fees due to FinaSol, the surplus made by a FSC will be distributed according to the statute. Aspects to be taken into consideration include the need to develop reserves, improve interest rates on both savings and loans as well as provide for member training.

IV. Principle Activities

1. Key Accomplishments Realized During the Reporting Period

- One Program assistant recruited and hired;
- Three trainers recruited and hired;
- Recruitment for accountant advertised;
- FinaSol Learners Awareness and Pre-establishment Training Manuals completed;
- Training workshop held to validate learner's training materials and training process;
- Awareness training completed by one community;
- Draft FinaSol/FSC Franchise Agreement completed;
- Model FSC Statute informally approved by the Registrar of Co-operatives;
- Initial draft of the FSC Financial Policy and Procedures Manual completed;
- SASA/FAF non competitive agreement signed with FinaSol;
- SASA/FAF enhancements of the MicroBanking Information System approved and implemented.

2. Institutional Development

a) ACDI/VOCA Technical Assistance

Two work visits from ACDI/VOCA home office staff were received during the reporting period. The first in early February, by Vice-president for Africa, Joshua Walton, centered on finalization of the ACDI/VOCA-FinaSol Sub-agreement, as well as the MOU with the National Department of Agriculture.

The second, in mid-March, by Peter Parr, focused on a review of the 1999 Work plan, the FinaSol 1999-00 budget, the FinaSol staff policies and procedures, the FSC policies and procedures, and a review of the FinaSol trainer recruitment process. Peter's presence was further utilized to speed up the MOU process, by his participation in a meeting with Mr. Mbongwa on March 19. The next scheduled visit by ACDI/VOCA home office staff will be in late April to finalize the FSC Financial Policy & Procedures Manual.

FinaSol management was also invited to visit the Cooperative Housing Foundation's program in Port Elizabeth to discuss possibilities of linkages for a FSC development in the communities that they are or will be working in. While it is unrealistic to expect rapid development of FSCs in the communities visited potential for future collaboration has been established.

b) FinaSol Office Set-up

During the reporting period requests for bids on office equipment, specifically office furniture, computers, a fax machine and a photocopier were circulated among local business. Actual equipment purchases, however, will not take place until FinaSol moves to its new offices at the end of April 1999 and funds are received.

At the same time two Dell notebook computers were sent out from Washington for the Managing Director and the Senior Technical Advisor. Upon their arrival a serious compatibility problem between the e-mail/internet software on the machines and SASA's central server system was discovered. It appears that the USA version of windows 98 and other pre-loaded software are incompatible with the SASA (South African) system. While a workable solution (though not ideal) to the problem has been found for one of the machines the second still does not function properly. This has lead FinaSol management to decide to procure all of the remaining computers locally, including the notebooks for the trainers.

c) Legal Status

FinaSol is still waiting for the registration of the Rural Financial Services Trust to become official. It is expected that this will happen in late April or early May. Only after the official registration of the Trust can the Board of Trustees be finalized and the first meeting held. This will likely happen within two weeks of the completion of the registration process.

d) Approval of the FSC Model Statute

The FSC Model Statute was submitted to the Registrar of Co-operatives for approval on February 3, 1999. The Registrar of Co-operatives agreed to the Statute provide the following modifications were made:

- **Paragraph 7.1.3:** That in the second line, the words "... receipt by the co-operative of the document..." be replaced by "...compliance with the requirements..."
- **Paragraph 9.1.13:** That the introductory line be replaced by: "A director shall vacate his office under the following conditions:"

The Registrar of Co-operatives further demanded an explanation on what would be the position of an FSC that is not involved in FinaSol. The answer, the non-FinaSol FSC would still have to be supported by some other (possible) organization, but that FSC development activities were not limited to FinaSol. The further demanded why the requirement of forwarding of financial statements to the link bank was dropped. It was therefore pointed out that the financial services were actually provided by the FinaSol micro-banker program and not the link bank. Overall information on FSCs will be provided to the link banks via FinaSol rather than directly from the FSCs.

Paragraph 15: Finally, the Registrar of Co-operatives informed FinaSol that the following two conditions were required by the Registrar of Banks to be included in the Statute:

- A member shall qualify to apply for a loan with a repayment period of 1-year or longer, only once such member, over a period of six months, has deposited into the co-operative on a monthly basis amounts equal to, or more than, the monthly installments that would be required to be paid to the co-operative, in order to fully service such a loan, in the event of it being granted.
- In the event of the total of the amounts deposited in terms of (the above) paragraph 15.5 not constituting 10 per cent of such loans to be applied for, an additional amount equal to the amount of the shortfall shall be deposited into the co-operative, prior to the granting of such a loan.

These conditions, as stated above, are considered too restrictive and therefore inappropriate to FSC development. While FinaSol understands the reasons behind these conditions, it has submitted the following revision to the Registrar of Co-operatives to replace these conditions:

- A member shall qualify to apply for a loan with a repayment period of 1 year or longer, only once such member, over a period of six months, has deposited into the co-operative an amount constituting not less than 10 per cent of such loans to be applied for, prior to the granting of such a loan.

Discussions are currently in progress with the Registrar of Banks to resolve this issue.

e) Development of the FSC Franchise Agreement

With the assistance of two local consultants, the FinaSol FSC Franchise Agreement was completed. The Franchise Agreement must still undergo a legal review to ensure that all of its clauses are consistent with the South African legal environment. The legal review is expected to be complete before the end of June 1999. Major modifications are not expected to be made to the current Franchise document.

f) Board of Directors and Board of Trustees

Candidates for positions on both the Board of Directors and the Board of Trustees were discussed, however, none were finalized during the reporting period. Final selection must wait until registration of the Trust has been completed. The FSC representative to the Board of Directors has also not been nominated, since no communities have, as yet, reached the registration phase in their training. It is expected that the first FSC will become functional in late August, however, final nomination to the board of directors may have to wait until there are at least three functioning FSCs.

g) Staff Recruitment

The recruitment process was begun in early February when FinaSol advertised for candidates for the positions of FSC Trainer (3 posts), Program Assistant (1 post) and Accountant (1 post). In all ninety-six (96) applications were received for the Program Assistant position, forty-seven (47) for the FSC Trainer positions and twenty-three (23) for the Accountant position. The FinaSol recruitment process was as follows:

For each position the applications were divided into three categories.

- Category 1: A short list of the 3-5 best candidates;
- Category 2: A short list of 3-7 other applications that might make good candidates, however, sufficient information was not available in their CVs to put them into Category 1. These candidates were only interviewed if the Category 1 candidates were either unavailable or unacceptable, after the first round of interviews;
- Category 3: All of the remaining applications that were judged inappropriate or unacceptable for Categories 1 and 2.

The recruitment priority was put on the selection of the FSC Trainers and the Program Assistant. It was decided that the selection of the Accountant would wait until the others positions had been filled.

A total of three (3) candidates were interviewed for the Program Assistant post, which resulted in the selection of Laura Gething for the position. Laura was to begin work in the position on May 1, 1999, as soon as FinaSol moved to its new offices on the 5th floor of the 6 Durban Club Place building.

A total of six (6) applicants were selected to be interviewed for the three FSC Trainer positions. Only five were actually interviewed, since the sixth candidate never showed

up. Of the five candidates interviewed, three were selected for the positions. Unfortunately, two subsequently turned down the job offers for personal (unknown) reasons.

A second round of interviews was therefore necessary from among the Category 2 applications. Four more candidates were interviewed, of which two were selected. Both accepted the positions. Unfortunately, one of the candidates was unable to begin on May 2 as expected, due to the mandatory calendar month notice required before he could leave his present position.

Only one interview for the Account position was conducted during the reporting period. Further interviews will take place in April and May to complete the process. It is expected that seven (7) candidates will be interviewed.

h) Collaboration with NDA

No further progress was made on the signing of the MOU between the NDA and ACDI/VOCA. Collaboration between FinaSol and the NDA has therefore not evolved. FinaSol received two visits from USAID during the reporting period, which were both informative and constructive. While everything appeared to be completed the document has never been signed. Since the lack of a signed MOU has had no impact on FSC promotion, FinaSol's management is no longer actively pursuing the signing of the MOU.

i) Collaboration with SASA and FAF

A letter of intent from the South African Sugar Association (SASA) was received on March 29, 1999, which clearly indicated SASA role and responsibility in setting up and assisting FinaSol. It further assures FinaSol that the Financial Aid Fund (FAF) will not compete with FinaSol FSCs provided there are sufficient sources of finance available through the FSC for sugar cane development. A copy of the letter of intent can be found in appendix 1.

j) Annual Work Plan

The Annual Work plan was approved as presented in the previous progress report by both USA ID/Pretoria and ACDI/VOCA Washington.

k) Land Bank

Three meetings were held between FinaSol and the Land Bank between January and March 1999. The Land Bank has agreed in principle to support FinaSol and is waiting for a detailed proposal to be submitted.

l) Matching Funds

At the end of the current reporting period the first audit of FinaSol was conducted by David Strachan & Tayler. During the audit the exact value of in-kind contributions from the South African Sugar Association, DGRV and the Swedish Co-operative Center were determined. Except for the study trip to Europe, the cost estimates from the previous reporting period were less than or equal to the audited expenses. The audit permitted

FinaSol to calculate the actual value of the FAF Micro-banking software system that has been given to it. The following table reflects these values.

Table 1. Match Funds

Item	Match Type	Value in Rands		
		Current Period ¹	Previous Periods	Total to Date
1	Office space	14,820.00	1,456.00	16,276.00
2	Administrative assistance (staff time, communication, photocopies, supplies, and accounting)	27,900.00	32,100.00	60,000.00
3	Travel expense (Airfare, per diem and other transportation expenses)	59,849.27	4,720.00	64,569.27
4	Financial management consultant		10,000.00	10,000.00
5	Study trip to Europe (Airfare, per diem and salary) ²	(4,708.72)	32,320.00	27,611.28
6	Development Bank assistance (consultant & travel)		6,840.00	6,840.00
7	DGRV funds for training	63,551.36	79,410.00	142,961.36
8	Training workshop	9,905.93	4,995.00	14,900.93
9	FinaSol (FAF) Micro-banking software system	1,691,243.78		1,691,243.78
10	Parking for FinaSol Management	3,240.00		3,240.00
11	Legal Expertise	151,293.71		151,293.71
Total		2,017,095.33	171,841.00	2,188,936.33
Average exchange rate used for the period (R/\$)		6.00		
Equivalent in \$ US *		\$ 336,182.56	\$ 30,866.00	\$ 367,048.56

¹ The current period includes in-kind contributions from January to March 1999, as well as, contributions incurred by SASA prior to this period and only finalized after the FinaSol audit.

² In the first progress report the value of the in-kind contribution for the Study trip was over estimated. The actual amount (from the audit) was R 27,611.28. The match, for this item, has therefore been reduced during this period.

3. FSC Promotion and Training

a. Development of Training Modules

The FSC learner's training modules have been completed for initial briefing, Awareness and Pre-establishment phases of the FSC training program. The training documents, as well as the training methodology were discussed and validated during a training workshop held on March 8-10 at the Camelot Center in Hillcrest. A total of twelve people from ACDI/VOCA, FinaSol, FAF, DGRV, and USAID participated at the workshop. The Director of the USAID Mission in South Africa also participated during one of the afternoon sessions. The finalized documents are shown in Appendix 2 (FinaSol FSC Awareness Programme Learner's Manual) and Appendix 3 (FinaSol FSC Pre-establishment Programme Learner's Manual)

The finalized documents were subsequently submitted to both potential translators (in Zulu) and potential illustrators. Three bids for Zulu translation of the training material

were received. The successful bidder was Mr. Patrick Sukhela. Translation of the material is expected to be completed by the end of April.

Bids for illustration were also received from three different individuals, with Mr. Theo Hawkins, being chosen for the quality of his illustrations. A total of 24 illustrations will be completed for the 6 Awareness and 13 Pre-establishment modules. The illustrations are not expected to be completed until the end of May.

b. FSC Promotion

FinaSol management has been exploring ways to reinforce FinaSol's training capacity and to ensure that promotion efforts would continue in the Mpumalanga area until full-time trainers were recruited and trained. To do this a system of part-time trainers has been initiated. Using part-time trainers increases FinaSol outreach potential to likely FSC communities. Furthermore, this strategy is an excellent addition to the full time trainers that have just been recruited. The part-time trainers, who work on a fee basis, hold training sessions on Saturdays and Sundays, depending upon the community's preference. This does, however, limit the number of communities

To date, two part-time trainers, T. A. Khumalo and B. P. Khoza, are working with FinaSol in the Mpumalanga Province. FinaSol is also exploring the use of a third part-time trainer for the Entumeni area of KwaZulu-Natal Province.

A list of eighteen (18) potential communities in the Mpumalanga area has been established, however, only three of the communities (marked in bold) are participating in training at this time. These communities are:

Table 2. Potential FSC Communities in the Mpumalanga Province

NO.	COMMUNITY	TRAINER RESPONSIBLE
1.	Mbuzini	T. A. Khumalo
2.	Madadeni	T. A. Khumalo
3.	Spoons 7 & 8 (includes 4,5,6,7,8 & 9)	T. A. Khumalo
4.	Sikhwahlane & Ntunda	T. A. Khumalo
5.	Mzinti & Tonga	T. A. Khumalo
6.	Steanbok	T. A. Khumalo
7.	Mangweni	T. A. Khumalo
8.	Sibange & Magudu	T. A. Khumalo
9.	Hoyi & Goba	T. A. Khumalo
10.	Schulzendal	B. P. Khoza
11.	Magogeni	B. P. Khoza
12.	Boschfontein	B. P. Khoza
13.	Phiva & Vlarbult	B. P. Khoza
14.	Driekoppies & Middleplaas	B. P. Khoza
15.	Langelooop	B. P. Khoza
16.	Schoemansdal	B. P. Khoza
17.	Block A, B and C	B. P. Khoza
18.	Mgobodi	B. P. Khoza

Given that the part-time trainers can only work with two or three communities at the same time, a strategy was put in place for T. A. Khumalo to work with two communities (Spoon 7 & 8 and Madadeni) and B. P. Khoza to work with three communities.

The two part-time trainers in the Mpumalanga area completed the follow FSC training sessions during the reporting period:

Table 3. Number of Community Members Trained in the Mpumalanga Province

Community	No. of Learners	Training Session
Malelane Mill Cane Committee	11	Briefing on FinaSol FSC system
Mill Cane Central steering committee	38	Briefing on FinaSol FSC system
Mawewe Tribal Authority	12	Briefing on FinaSol FSC system
Shongwe Tribal Authority	24	Briefing on FinaSol FSC system
Schoemansdal Tribal Council	27	Initial Briefing
Mangweni	69	Awareness Module 1
Mangweni	52	Awareness Module 2
Mangweni	28	Awareness Module 3
Spoon 7 & 8	26	Initial Briefing
Spoon 7 & 8	26	Awareness Module 1
Spoon 7 & 8	24	Awareness Module 2
Spoon 7 & 8	148	Awareness Module 3
Spoon 7 & 8	83	Awareness Module 4
Spoon 7 & 8	78	Awareness Module 5
Spoon 7 & 8	157	Awareness Module 6
Schulzendal	48	Initial Briefing
Schulzendal	171	Awareness Module 1
Schulzendal	28	Awareness Module 2
Schulzendal	11	Awareness Module 3

V. Key Work Plan Activities for Quarter 3

- Complete the Zulu translations of the FSC Information Sheet, Learner's Awareness Modules and the Learner's Pre-establishment Modules;
- Complete the 24 illustrations for the Awareness and Pre-establishment Modules;
- Complete the publication of the learner's training materials (Awareness and Pre-establishment) in A5 booklet format, in both English and Zulu;
- Finalize FinaSol Information Brochure;
- Complete two trainer of trainer sessions for the three FinaSol trainers. from Steps 1 to Step 5 in the FSC training program;
- Complete the FSC Policies and Procedures Manual;

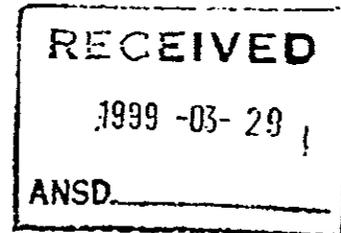
- Finalize FinaSol's Personnel Policy Manual;
- Begin FSC promotion efforts in KwaZulu-Natal Province;
- Intensify FSC promotion effort in Mpumalanga Province;
- Complete Pre-establishment Training for one community in Mpumalanga Province (Spoon 7 & 8);
- Complete equipment purchases for new FinaSol office;
- Move into new FinaSol offices;
- Complete the recruitment process for the FinaSol Accountant;
- Receive funds for FinaSol operations under the Sub-agreement;
- Develop FinaSol promotion (geographic roll-out) strategy;
- Host a delegation from the Swedish Co-operative Centre (SCC) and develop a technical assistance and funding proposal for their support;
- Hold the first FinaSol Board of Directors and RFST Board of Trustee meetings;
- Begin recruitment for a FinaSol Operations Manager;
- Complete FinaSol Vehicle and Travel Policy and Procedures Manual;
- Complete FSC Co-operative Registration Guide in English and Zulu.

Appendix 1. Letter of Intent from SA Sugar Association

SUGAR ASSOCIATION

MKT/FK/9977
23 March 1999

Dr RF Bates
Finasol
6 Durban Club Place
Durban
4001



Dear Richard

LETTER OF INTENT

Having undertaken the investigation of a project for the setting up of a rural financial services organisation which will lead to the formation of a community owned financial service co-operative, SASA has procured the formation of Finasol (Association Incorporated Under Section 21) and provided the project with a business plan. SASA wishes to assist Finasol further in the initial stages of setting up the project and, accordingly, gives Finasol the assurances set out in this letter of intent.

1. Until November 1999, SASA will provide Finasol free-of-charge with office accommodation in SASA's premises, 6 Durban Club Place, comprising four offices and three parking bays.
2. SASA will bear the cost of formation of Finasol. SASA will also procure the formation of a trust to be set up with the aim of procuring financial aid for the project.
3. SASA will allow Finasol to copy the customised and field-tested information system developed by SASA for utilisation by its Financial Aid Fund ("FAF"), and make customised enhancements on their own version of the software. From this point on, SASA and Finasol will have their own version and will be able to make changes to the software without consultation with the other party.

SASA will allow Finasol to load their copy of the FAF software onto the SASA hardware, on the strict understanding that there will be no adverse impact on SASA's users, including FAF, Unitrans, Cane Growers and SASA. Any costs incurred in this process specifically related to Finasol should be borne by Finasol. Finasol will contribute towards SASA's machine resource and maintenance costs, pro rata in relation to Finasol's utilisation thereof, as determined by SASA.

SOUTH AFRICAN SUGAR ASSOCIATION

100 Durban Club Place, Durban 4001
Telephone 031 271 1111 Fax 031 271 1112
Voice Mail 031 271 1113



11a

For an initial period, in SASA's discretion, Finasol will be allowed access to the SASA network environment. Should SASA decide to terminate this facility, 12 months' notice will be given to Finasol to make alternative arrangements.

When Finasol acquires its own computer equipment, Finasol will transfer its own version of the software concerned onto its own equipment, and the sharing of access to the SASA network and hardware infrastructure will terminate.

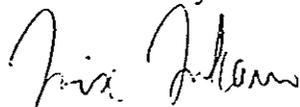
The copyright in all the software made available by SASA to Finasol will remain the exclusive property of SASA and will be made permanently available to Finasol free-of-charge as a licensee. Finasol must protect SASA's rights at all times and shall not be permitted to sub-license the software or make the same available to any third party and nor to assign its rights. SASA will not grant any third party a license to use SASA's relative software, without prior consultation with Finasol.

A written license agreement will be entered into between SASA and Finasol covering and amplifying the foregoing.

4. SASA will facilitate the establishment of relationships between Finasol and the broad network of professional advisors, alliance partners, South African technical support teams and government agencies both at national and provincial levels.
5. SASA will continue to assist in the solicitation of additional financial support for Finasol.
6. In any community in which FAF operates, if Finasol facilitates the formation of a financial services co-operative, FAF will not compete with the co-operative, provided there are sufficient sources of finance available through the co-operative for sugar cane development and that small-scale growers' programmes are not prejudiced.
7. SASA will not stand in the way of the transfer of the savings accounts of small-scale growers to financial services co-operatives of which they become members, provided that there are no loans outstanding to FAF.
8. In areas in the Sugar Industry where Finasol's operations (including those of financial service co-operatives) predominate, SASA will give favourable consideration to releasing affected FAF staff to Finasol, should SASA not require such staff and should Finasol have appropriate vacancies.

We take this opportunity of wishing you and Finasol success with this exciting project.

Yours sincerely



MK TRIKAM
Executive Director

e-mail trixtri@sasa.org.za
website www.sugar.org.za

FSC MEMBERSHIP ANALYSIS

02-Sep-01

	Oct '99	Nov '99	Dec '99	Jan '00	Feb '00	Mar '00	Apr '00	May '00	June '00	July '00	Aug '00	Sep '00	Oct '00	Nov '00	Dec '00	Jan '01	Feb '01	Mar '01	Apr '01	May '01	Jun '01	Jul '01	Aug '01	Total		
Muden	81		11	43	8	18	4	11	10	19	16	17	8	19		7	9	11	3	10	15	21	12	353		
Entumeni		55		9	1	4	7	1	8	39	27	26	31	24	22	37	38	18	48	49	52	95	88	679		
Tseki	81	21	20	17	7	6	3	5	4	11	1	7	6	4	9	10	9	10	7	9	13	9		269		
Sihlangu		75				6	18	5	6	10	13	6	3	11	6	12	13	13	20	14	14	20	7	272		
Umtombo Wempilo			37	8	10	7	1	5	5	3	11	2	1		3	7	3	9	8	14	23	23	15	195		
Osungulweni			29	56	15	15	10	1	1	6	2	5	6	7	1	7	17	3	8	7	14	8	8	226		
Sibonelo				73		8	18	12	2	11	18	10	9	8	3	15	5	8	15	17	2	14	8	265		
Zwelisha					68	12	7	15	61	20	6	8	9	5		4	5	1	0	15	0	0	7	243		
Inkanyezi						56		0		9	9	5	6	14	4	13	7	4	9	26	20	41	18	241		
Makwane								46			11			14	4	6	9	8	10	11	6	10	15	150		
Drakensberg								50			37	11	10	5	10	17	0	16	17	35	13	26	21	268		
Clarkebury									55			28				22	3	4	8	13	2	12	3	150		
Mqanduli										60	20	14	21	9	2	13	15	19	29	44	36	95	61	438		
Oakley										50			2	2	1	5	7	6	4	8	6	22	3	116		
Isibani										51	37	10		11	8	10	3	2	18	12	3	10	9	184		
Eyethu											55			7				1	4	15	12	11	9	114		
Hoyi											65			25				26	7	6	9	7	9	157		
Kukhanya											57								3	16	10	44	0	130		
Sizathina												36	20	9	7	8	7	4	9	5	2	5	8	120		
Holycross														48	19	13		4	24	21	9	12	17	167		
Mt Ayliff														69	6	32	38	26	8	32	25	12	13	261		
Nggeleni														43				33		27	8	14	7	132		
Uthando														59				1	15	25	4	28	4	136		
Matibidi														40				14		0	26	5	0	85		
Kwa Machi														58				1		0	0	0	0	59		
Mooiplaas															30	1	32	5		0	2	0	3	73		
Mfekayo																59	15	2	11		21	7	12	10	137	
Mooi River																				51	11	12	7	81		
Bakenberg																					62	0	0	26	88	
Mashashane																								108	0	108
Total	81	211	98	209	119	133	71	149	153	282	395	179	133	552	130	253	249	238	276	566	338	682	400	5897		
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Appendix 2. FinaSol FSC Awareness Programme

Learner's Manual

INTRODUCTION

In the modern world money is involved in nearly every aspect of life. Without easy access to financial services, even the simplest task can become a burden.

Provision of financial services in areas where there are no banks is necessary to meet people's urgent needs to make their lives easier and also to support development of an area.

This can be achieved by using modern technology and a community-based institution owned by the people themselves, such as a Financial Services Co-operative (FSC).

This Awareness Training Programme Manual provide basic information for you, the people who come together in order to learn how a FSC can help solve many of the community's financial problems.

You are encouraged to attend all of the awareness meetings and to spread the knowledge that you acquire amongst your family, friends and neighbours. You should encourage them to attend the Awareness programme meetings as well.

By the end of the Awareness programme you should understand:

- How financial services can be provided to your community at reasonable cost;
- How money works;
- A FSC – What it is, how it works, how it can help people, and what must be done to establish it;
- What is FinaSol and the support services it will provide to the FSC;
- How a FSC, FinaSol and a link bank will work together (as a team) to provide those services;
- How to evaluate if your community can support a FSC.

Towards the end of the Awareness training the community and FinaSol will have to decide whether or not to carry on into the next stage of learning (the pre-establishment programme).

The decision whether or not to proceed to the next stage will depend on the amount of community interest and likely support, and the group of volunteers willing to do the work which is necessary to establish a FSC.

- Quick, easy payment for services (electricity/telephone/school fees/hire purchase instalments, etc.) are possible;
- The FSC is member owned, any surplus is reinvested in the FSC or goes back to the members.

Community Contribution

It is too costly for commercial banks to provide services in many rural areas where people are widely dispersed and transactions involve relatively small amounts of money. Experience, however, has shown that it is possible to provide safe and sound financial services if members of the community feel a strong need and commitment to help themselves by:

- Becoming member-owners of a FSC;
- Registering a FSC; and
- Managing a FSC:
 - Election of a Board of Directors;
 - Election of an Internal Audit Committee;
 - Recruitment of administrator/tellers;
 - Establishment of FSC hours of business;
 - Supervision of policy implementation;
 - Evaluation and recommendations after annual audit.

This **self-help** process involves:

- Paying a membership fee (of at least R10) to cover the start-up expenses (printing membership forms, etc.);
- Buying at least one share (of at least R50.00). This gives the right to vote, since you become a shareholder of the FSC;
- Finding a suitable building for the FSC office;
- Making sure the building is safe and secure; and
- Most importantly, completing the Awareness training and continuing on to the pre-establishment training programme.

To do this there must be at least 50 people committed to becoming members. From these future members between 15 – 20 (perhaps you and friends) must volunteer to become Founding Committee members, who will:

- **Learn** how to run a FSC properly and do all that is required to get it started;
- **Contribute sufficient time and effort** to ensure that a FSC will be a success.

REMEMBER:

- There are urgent financial needs that can be met;
- Real benefits can be achieved for the community;
- Financial services can be provided locally by the FSC;
- Success depends on you being prepared to help yourself!

FINASOL/FSC AWARENESS PROGRAMME

MODULE 2. THE THREE PARTS OF THE RURAL FINANCIAL SYSTEM

Before deciding to form a FSC, you need to understand how rural financial services can be provided in your community by three organisations working closely together.

In addition to you and other participants who are needed to establish a FSC, there are two other organisations, which are necessary to ensure that local financial services are provided quickly, reliably and accurately. These are **FinaSol** and a **Link Bank**.

The three organisations work together to:

- **Deliver** financial services to you and other members conveniently;
- **Provide** commercial banking services to a FSC;
- **Provide** support services to a FSC by means of a franchise agreement; and
- **Promote** and co-ordinate FSC development.

All three elements must work together smoothly to ensure success.

THE FINANCIAL SERVICE CO-OPERATIVE (FSC)

This is your own organisation, which is a registered co-operative, owned and managed by the members.

The services to be provided both for individual members and groups such as burial societies and stokvels will be introduced gradually: first savings followed by loans, pensions transmission etc.

What you will need to start:

- A Founding Committee to work towards registration;
- At least 50 members to start the FSC on a sound business basis;
- A safe and secure FSC office with telephone and electricity;
- A trustworthy and well-trained paid administrator, to carry out member transactions;
- A trustworthy, committed and well-trained Board of Directors, as well as other committee members to manage a FSC;
- Registration of a FSC.

THE LINK BANK

The **Link Bank** provides a FSC with its normal customer services, such as chequebooks, statements, savings accounts, cash transfers between FSCs, investment opportunities, and perhaps insurance.

A FSC has to choose which Link Bank is most suitable for it. When a FSC account is opened, the FSC is required to make safe arrangements to transport its deposits into the

account and withdrawals to maintain the FSC cash float, so that sufficient money is available to meet members' daily withdrawal requirements.

FinaSol

FinaSol provides a number of essential support services to enable the financial system to work (services that a FSC cannot undertake by itself).

These services are provided under a **franchise agreement**. This is a partnership arrangement between a FSC and FinaSol.

FinaSol agrees to supply certain essential services at an affordable rate to a FSC. The FSC agrees to provide basic necessities, such as: office space, safe, furniture, and staff, and to comply with the Co-operative requirements detailed in the Statute, as well as the provision of high-quality financial services to members.

The FinaSol services provided to a FSC include:

- Assessment as to whether a FSC is likely to succeed;
- Training of FSC leaders and members;
- Assistance with the registration a FSC as a co-operative;
- Basic support, which includes a subsidy and a start-up loan for the first year's operations. (It is expected that a FSC will be self-financing by the end of 12-months of operations);
- Electronic accounting services (computer);
- Training for FSC staff, Board of Directors and other committee members in the effective management of a FSC in the delivery of financial services to members;
- Link with the Registrar of Co-operatives;
- Assisting a FSC to insure that all of the official requirements met in a timely manner, such as submission of financial statements and audit reports.

REMEMBER:

- Each of the three organisations has it's own responsibilities, which must be performed properly.
- Effective delivery of financial services in rural areas is only possible if each part works smoothly together and supports the work of the others.

FINASOL/FSC AWARENESS PROGRAMME

MODULE 3. UNDERSTANDING SAVINGS AND LOANS

Money is essential in modern society to enable people to exchange the goods and services that they produce. Money is like electricity is both a valuable friend and a potentially dangerous enemy.

Everyone needs to understand the basic ideas about money, what the financial terms mean and how the financial system works, especially savings and loans.

This is particularly important for FSC members whose businesses depend on operations involving money.

1. Understanding Savings, Investments and Loans

Saving: Accumulating Wealth for the Future. Saving is the setting aside of a part of one's current funds (money) for future use. Savings is a means to an end; i.e., for future consumption. When someone wants to save they generally open up a savings account at a local financial institution (bank).

A good example of a traditional savings method is the Stokvel. In a Stokvel, members deposit a set amount each period (day/week/month). Members then take turns (one at a time) receiving the entire amount deposited by the members for that period.

Individual saving habits depend (partly at least) on values and attitudes towards saving for future consumption or living for the present. One of the most frequent reasons given for not saving is that there is no convenient or safe place to deposit funds. This is an important reason for starting a FSC.

Investment is the process of investing resources (savings) to produce future wealth. Savings are invested in various ways, such as short- and long-term savings accounts or purchase of shares in a business. Sound investment is a means to increasing wealth. Current consumption requires the existence of previous savings.

Savings deposits are financial assets (asset = property worth having) for those who hold them. Deposits are liabilities (debts) to banks or other financial institutions. Savings deposits are **liquid** assets because they can quickly be converted into currency (notes and coins) compared to non-financial assets, such as animals, land or buildings.

Interest is the amount of money paid to the owner of a savings account to compensate him for her for their investment. Interest encourages a person to save; i.e., the higher the interest rate the more someone will save.

Demand deposits earn little or no interest since funds are transferable on demand. **Time deposits** earn more interest, but funds are not transferable on demand. They can only be withdrawn after a specified period of notice has been given. A FSC will start by opening savings accounts for members to encourage the development of regular savings habits.

2. Credit means to borrow money (which is loaned) from someone else.

If someone needs money, beyond that which they have available, for a productive or provident purpose (provident = worthwhile, to meet an emergency, such as an accident, fire or sickness), it will have to be borrowed. Credit means borrowing someone else's savings for a period of time. Some people must save in order for funds for loans to be available. With a loan you have to repay the amount borrowed within a specified period and pay interest for the use of the borrowed money.

Interest is also the cost of borrowing money. There are good reasons why interest is charged, which are:

- It pays for the administration costs of making loans available;
- It covers any decrease in the value of the money due to **inflation**;
- It compensates the lender because he does not have the use of money for the period;
- It compensates the lender for the risk of lending, as in certain instances a loan may not be repaid (it helps to cover bad debts);
- It is an incentive to the lender to make the money available to the borrower; and
- It encourages the borrower to repay on time.

Interest is similar to paying rent for the use of a house. When the tenant leaves after a period of time, the house (capital) is returned to the owner (lender).

Consumption credit is widespread retail credit, which should not be confused with loans for productive or provident purposes. It is necessary to be clear about the differences between productive loans (an investment to increase wealth) and provident loans (to meet an emergency or unexpected needs). Provident loans can tide a person over an emergency, however, loans for rash consumption purposes to purchase items that are not really necessary, often lead to difficulty in repayment. Consumption credit is widespread in South Africa. Borrowers pay heavily for their habit of "buy now, pay later", since interest and other finance charges may be as much as half of the debt itself.

For example: A FSC member want to borrow money to purchase of a refrigerator for home use. The purchase of the refrigerator in this case is for a provident (own use) purpose.

Production Credit is used by a FSC member to develop productive activities. Loans can be obtained for capital items such as buildings and machinery, as well as for inputs such as chemical fertilisers. Production credit used wisely can be "a good servant" when you cannot pay cash for productive resources.

For example: A FSC member want to borrow money to purchase of a refrigerator to sell cold drinks, ice and frozen food items. The purchase of the refrigerator in this case is for a productive (business) purpose.

To conclude: if FSC members and the community in general have a basic understanding of "the way money works", it will clear up any wrong ideas about credit and assist you to move ahead in establishing a member owned, self-managing FSC, which will provide financial services to the community.

FINASOL/FSC AWARENESS PROGRAMME

MODULE 4. THE STRUCTURE AND FUNCTIONING OF A FSC

You become part of a modern financial system through a FSC, which provides members with the day-to-day financial services that they require.

When deciding to go ahead and start a FSC you need to know:

- What is a co-operative? (It is **not** managed by government officials, or controlled by a small group of powerful people in the community);
- The co-operative principles are the foundations on which the legal status of a FSC is based;
- How you manage a FSC;
- What are a FSC's objectives? (To provide financial services to its members); and
- How to start a FSC. (What you and other potential members will have to do and what help is available from FinaSol).

1. What is a Co-Operative?

- It is a legal business organisation, which is **registered** under the Co-operative Societies Act (1981);
- It is governed by means of rules and regulations, which are set out in a founding document, called the **Statute**. The Statute is approved by the founding members;
- The members **volunteer** to form the co-operative to satisfy needs or solve problems, which affect them;
- Success can only come from **participation of members** – they commit themselves to “self-help” and “mutual help” by working actively together to satisfy needs and solve problems; and
- A co-operative, (such as a FSC) is a **special kind of business organisation**. Every member has equal rights and obligations. Members are both owners and customers of a FSC's services.

2. Co-operative Principles

There are seven key ideas or guidelines, which are the foundation on which a FSC Statute is based.

a) Voluntary and open membership

- Nobody can be forced to join a FSC. A member may leave, freely at any time, after settling all commitments; and
- There is no artificial restriction on membership; e.g., politics, race, age, gender, and religion are not barriers to joining;
- Must fulfil the common bond;
- Must comply with the FSC Statute.

b) Democratic control

The supreme authority in a FSC is the annual general meeting (AGM) of members. Each member has one vote. Every member has an equal opportunity to be nominated and elected to the Board of Directors or another committee.

c) Economic participation by members

- There is limited, if any, interest paid on member shares;
- Emphasis is on building reserves to strengthen the FSC and improve services to members; and
- Surpluses may be distributed to members in proportion to their transactions with the FSC.

d) Independence

Any agreements with other organisations must not take away the democratic control by members.

e) Promotion and Education

All co-operatives provide for the education of:

Members Officers Employees	Principles and techniques of co-operation – both economic and democratic
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The community – Promotion of the co-operative movement

f) Co-operation amongst co-operatives

Co-operatives can serve their members more effectively by working together with other co-operatives, especially through national co-ordination structures. A FSC can participate in a local FSC Forum and eventually in a National Financial Services Association.

g) Concern for the community

Provision of savings and loan services by a FSC will lead to more money circulating locally. Improved member economic conditions will contribute to community development.

3. Management of a FSC

- Management starts with members at a FSC AGM who:
 - ♦ Receive reports from FSC officers (director) on the state of its financial services business;
 - ♦ Pass resolutions to give general direction to the business;
 - ♦ Elect members to the Board of Directors and committees; and
 - ♦ Elect a member as chairperson of the Internal Audit Committee, which acts as a “watchdog” on behalf of members.
- The Board of Directors, elected by the members, is responsible for the administration of a FSC, strictly in accordance with the FSC Statute. Directors must report back regularly to members on major decisions taken and planned activities. Specific jobs are delegated to standing committees:
 - ♦ Credit and Investment Committee – deals with loans and investments;
 - ♦ Marketing and Education Committee – deals with member promotion, induction of new members and a continuous education/ training programme to meet staff and members needs; and
 - ♦ Security Committee – prepares and carries out a safety plan to safeguard the assets of a FSC.
- The FSC administrator is a paid employee, with specific laid down duties for FSC daily operations. The administrator is appointed by the Board.

4. FSC Objectives – Services to Members

Savings facilities (open accounts and fixed deposits) will be available to members when a FSC is opened. It is expected that simple, short-term loans will be available approximately 3-6 months after a FSC is formed.

Services, which are or may be provided, depending on member requirements and FSC management skills, include:

- Shares;
- Deposits;
- Fixed Deposits;
- Inter and intra FSC fund transfers;
- Transfer facilities between the formal banking sector;
- Deposits of cash cheques and cheques made out in the member’s name;
- Loans;
- Pension payments;
- Credit collection services;
- Instalment collection on behalf of other institutions;
- Premium collections on behalf of insurance institutions; and
- Remittances received from members’ families.

5. How to Start a FSC

Understanding what a co-operative is and how a FSC operates is a first step. However, a great deal of discussion, creation of awareness, mobilisation and fact collection, within the community, is needed to ensure that a FSC has sufficient support to succeed as a democratic business organisation, which will effectively meet the community's financial service needs.

- You can start by spreading awareness of the nature of a future FSC amongst family, friends and neighbours, and inviting them to take part in the remaining "awareness" meetings;
- Sufficient potential members (a minimum of 50) to start a FSC must express a firm interest to join;
- Everyone involved in deciding whether or not to set up a FSC must understand that there must be sufficient business (i.e. member transactions) for the FSC to meet its expenses; e.g.
 - Staff salaries;
 - Stationery, operating costs such as electricity and telephone;
 - Payment for FinaSol franchise services, such as training;
 - Insurance;
 - Building and equipment maintenance; and
 - Transport costs.
- A core group of about 20 deeply motivated, potential members (Founding Committee) are required to start-up a FSC. This core group must be widely representative of the community. The members must be prepared to commit the necessary time and effort to continue on to the next stage of learning, planning and action, in order to register and make all the practical arrangements necessary to open a FSC for business (pre-establishment stage).
- When it is clear that conditions are favourable to start a successful FSC, the decision to go ahead may be taken. FinaSol will assist a FSC, especially during the start-up period, through the franchise agreement, which will be explained, in the following module.

FINASOL/FSC AWARENESS PROGRAMME

MODULE 5. THE FINANCIAL SOLUTIONS (FinaSol) ORGANISATION

WHAT YOU NEED TO KNOW

FinaSol offers financial solutions (promotional, technical and management support) to a FSC, to simplify and reduce the cost of operations and ensure the provision of effective financial services to FSCs.

FinaSol provides this opportunity through a franchise agreement (a complete package of tested, technical and management practices).

The FinaSol franchise enables you to prepare for, establish and operate a successful FSC. The franchise is a business arrangement between FinaSol and a FSC. By this agreement a FSC agrees to function in accordance with its Statute and the franchise standards to deliver effective financial services to its members.

1. The Origins of FinaSol – How It Started

FinaSol came into being because of a widely felt need to make financial services available in rural areas. It is known that people can run their own financial organisations (e.g., burial societies, stokvels, savings clubs, Northwest village banks) but need an organised structure:

- To provide expert technical, accounting and management assistance, so that community-based, financial organisations could offer a range of services (similar to banks) to their members; and
- To ensure that such services would be speedy, accurate, safe, and provide a means to transmit money long distances.

FinaSol has been established to provide such support to FSCs.

2. FinaSol – What is its purpose?

FinaSol is a central organisation, which provides needed support to FSCs to:

- Assist FSCs to become established;
- Provide technical, accounting, institutional and managerial services and training;
- Ensure quality control - regulations are followed, FSC operations are effective and the Registrar of Co-operative's requirements are met so that: **Standardised high quality financial services are delivered to FSC members at reasonable costs.**

FinaSol will undertake most of the complex work (recording, accounting, management information systems, and electronic transmission of funds, etc.)

FinaSol provides a FSC with practical up-to-date solutions, which are easy to learn and apply for the benefit of FSC members.

This package of assistance made available to a FSC, through the Franchise agreement, will involve a computer link-up between a FSC office and FinaSol, as well as regular liaison with FinaSol field officers. FinaSol further brings a broad range of international experience and expertise to the FSCs.

FinaSol is a non-profit Company. It draws on the practical experience, over the past 25 years, of the SA Sugar Association's (SASA) Financial Aid Fund (FAF), which provides credit and savings facilities to small-scale sugarcane growers.

The initial setting up of FinaSol has been made possible by assistance from USAID (United States Agency for International Development), ACDI/VOCA (Agricultural Cooperatives Development International/volunteers in Overseas Cooperative Assistance), SASA (South African Sugar Association) and DGRV (Deutscher Genossenschafts- und Raiffeisenverband e. V.).

Once FSCs have been established, FinaSol will generate its income and become self-financing by charging FSCs for services, including fees on:

- Deposit accounts;
- Funds transfers;
- Operational training;
- Risk management and audit services;
- Commission on wholesale funds;
- FSC one-time franchise registration fee; and
- FSC annual franchise royalty fees.

3. What is in the FinaSol/FSC Franchise Agreement?

FinaSol will support the development of a FSC by:

- Provision of training to FSC management, staff and members, which include:
 - ♦ Awareness training;
 - ♦ Pre-establishment training (leading to a formation meeting and FSC establishment);
 - ♦ Operations training (for FSC staff); and
 - ♦ Additional training – involving all aspects of managing a FSC.
- Facilitating negotiations with a link bank and government departments;
- Advancing (optional) loan funds (maximum of R40 000, to be repaid over a 4-year period at a rate of one half of the prime rate) and a grant (maximum of R 8 000 for purchase of a safe) for the leasing of computer equipment and the first year's operating expenses, which includes:
 - ♦ Provision of a safe;
 - ♦ Leasing of a computer system;
 - ♦ Initial hook-up for FSC; and
 - ♦ Payment of the salary of the administrator/teller.

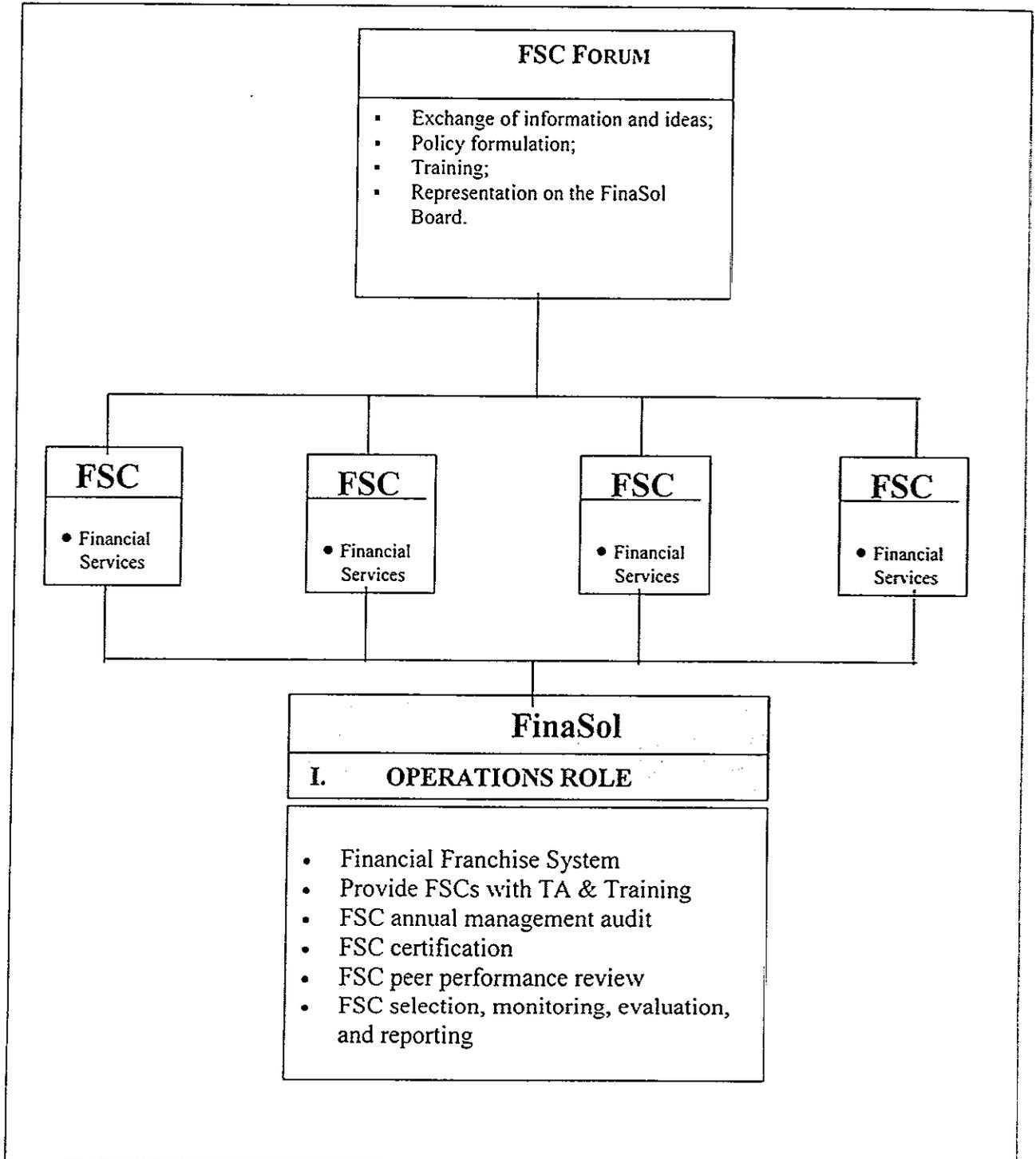
Financial Services

- Information system to manage banking activities:
 - ♦ Savings system;
 - ♦ Loan system;
 - ♦ Insurance system;
 - ♦ Funds transmission system;
 - ♦ Overall reporting and analysis system; and
 - ♦ Client records.
- Risk management and audit and internal control systems.
- Annual Certification/Accreditation.

Facilitation Services

- Provision of a standardised system and legal structure to set up a FSC;
 - Facilitator for link bank services and with financial wholesalers and development agencies;
 - Facilitate electronic transfer of payments; e.g., electricity, telephone, and in the future, pension payments; and
 - Recognition as a self-regulating intermediary for FSC establishment (audit monitoring/reporting) and certification that FSCs have fulfilled the Registrar of Banks and Registrar of Co-operatives' requirements.
4. Requirements/commitments for establishing a FSC:
- Procurement and securing of a suitably located office and furniture;
 - Preparation and adoption of a statute, and business plan;
 - Recruitment of adequate membership (as loyal customers) for financial sustainability. A minimum of 50 paid up shareholders is necessary;
 - Indication of initial savings volumes in a community to enable the purchase of shares and the opening of savings accounts; and
 - Indication during the awareness and pre-establishment stages of a dedicated core group and a wider active membership to participate in training and undertake action steps leading to FSC establishment.
5. When a FSC is registered and open for business members undertake to:
- Manage the FSC strictly according to the regulations/ requirements laid down in its Statute and policy and procedures manual;
 - Abide by the conditions set out in the Franchise Agreement for the provision of the services by FinaSol, and standards of performance.

Remember – Practical, simple solutions are available for financial service delivery problems BUT they must be understood and properly applied by a FSC.



FINASOL/FSC AWARENESS PROGRAMME

MODULE 6. THE NEXT ORGANISATIONAL STEPS FOR FORMING A FSC

The final part of this FSC awareness programme involves making an assessment of whether there is adequate support from both men and women in a community to justify continuing with pre-establishment training.

The pre-establishment training programme action cannot be undertaken unless there is a committed group of 15-20 men and women to form a Founding Committee. The Founding Committee members must be prepared to learn and work towards establishing a FSC. Widespread community support is critical for a successful FSC.

1. What Has To Be Done?

A **DECISION** must be made whether or not to proceed with the pre-establishment training. Very careful consideration must be given to be as certain as possible that there is clear evidence of success **before** deciding to go ahead.

You cannot make a sound **DECISION** unless you have all of the **FACTS**.

Checklist of requirements (What facts you need).

- Is there a definite felt need for accessible financial services within the community? What sorts of transactions do people want?
- Is the community willing to co-operate together in supporting a FSC? What is the extent of community awareness?
 - ♦ Active participants who have shown interest and attended awareness meetings are widely representative, distributed over the community as a whole;
 - ♦ Participants easily define the geographical area of FSC operations, no factions/divisions (good community spirit);
 - ♦ Involvement of women, clubs, churches, Stokvels, schools, and burial societies, etc.; and
 - ♦ No resistance (preferably active interest) by existing leaders (local power structure) and other influential people; e.g., civil servants and local government structures.
- How many potential members are there? (Those who have expressed a firm interest in joining. They will need about R80 the membership fee, one FSC share and initial deposit to open their savings account).
- What is the degree of understanding (potential members and others in the community) of some of the major factors which will determine success of a FSC that:
 - ♦ A FSC is owned and managed by the members. If they do not participate and support it ... it will fail;
 - ♦ Directors have a **limited term of office** and are responsible (must report) to the members. Any member has an equal chance to be nominated and elected as a director;

- ♦ A FSC is a legal co-operative business and must be run strictly according to the requirements and procedures set out in the Statute and Franchise Agreement;
- ♦ A FSC is financed by its members – by purchase of shares, membership fees and by fees for services used by members; e.g., their savings and loan transactions. A FSC must be self-financing within 12 months of starting; i.e., able to cover its operating expenses and able to set something aside for reserves. Members, Directors and staff (assisted by FinaSol) must work hard to achieve this target and ensure the continuity of a FSC.

These important elements must not be glossed over, there should be no false expectations. Potential members (and others in the community) must clearly understand what they “are buying into”.

By the end of the “awareness” programme, a group of 15-20 active people who have expressed deep interest in a FSC and are willing to form a Founding Committee, should have emerged. These people must commit themselves to working with the FinaSol trainer during the pre-establishment programme, over a period of several months. These men and women should be:

- ♦ Reliable/trustworthy;
- ♦ In good social standing; and
- ♦ Willing to commit themselves to training and the work required for FSC establishment.

2. How to collect the information

A plan to get the necessary facts to decide whether or not to proceed with the pre-establishment programme will be made between you and the FinaSol trainer. Fact collection may take a week or longer and will lead to a report-back meeting.

Assessment will include:

- Evaluation of the awareness programme.
 - The degree of community interest/participation (number of people, men and women, who attended and enthusiastically participated at meetings); and
 - Emergence of deeply committed group of men and women, sufficiently representative of the community, to form a “Founding Committee”.
- Appraisal of community understanding and support.
 - You (and your family, friends and neighbours) will be required to collect information from within the community (see “Checklist of requirements”); and
 - The FinaSol trainer will also talk informally to people at shops, churches, etc., and meet with community leaders to assess their understanding and support, as to whether conditions are favourable for establishing a successful FSC.

3. Report-back and Decision

A decision at the report-back meeting to proceed with the pre-establishment programme requires facts and figures, indicating that the community really wants a FSC, that they will give it maximum support, and that there are sufficient people who will volunteer their time to make it a success.

If there is really insufficient community support, lack of understanding and weak voluntary commitment, establishing a FSC will be a constant struggle left to a few individuals. If a FSC is not member-owned, nor financially sustainable, then the only decision possible is to **discontinue** the programme at this stage.

If there is a **positive decision to proceed** with the pre-establishment programme then volunteers and nominations can then be sought to formalise the Founding Committee and make arrangements to get started.

FinaSol will support you in your endeavours.

“HAMBA KAHLE”!

Appendix 3. FinaSol FSC Pre-establishment Programme

LEARNERS MANUAL

INTRODUCTION

The pre-establishment programme consists of the learning process and activities the founding committee must group of people go through while they learn, discuss, plan and implement the necessary steps to reach the point where a FSC is registered and open for business operations.

The pre-establishment programme is built upon the Awareness training and will enable the Founding Committee members to fully understand fully how the FSC works. To ensure this, they must participate in organising the programme and take full responsibility in carrying out the steps necessary to register and start up the FSC.

At the same time, potential FSC members and the community in general must be kept informed of progress and their support mobilised so that when the FSC opens there are enough members (customers) to ensure that the business will succeed.

This Manual explains the key points (what to do and how to do it) for Founding Committee members taking part in their pre-establishment programme.

MODULE 1 ORIENTATION TO PRE-ESTABLISHMENT TRAINING

1. WHAT IT IS

A committed group of founding members – the “Founding Committee” is necessary to the foundation for the legal establishment of the FSC.

Pre-FSC establishment training is the learning process, which the **Founding Committee** goes to form the financial services co-operative and begin operations in the community.

This training continues until the **formation** meeting, which results in election of the board and a formal request for registration to become a legal body, with limited liability.

What is involved?

1. Learning how to establish and run the FSC effectively.
2. Taking the necessary action steps to register and open the FSC.
3. Keeping the community informed of progress and maintaining their support for the FSC.

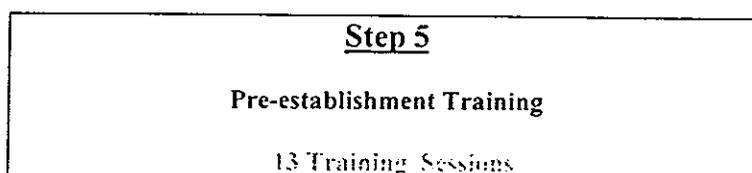
Success of a FSC depends on community and members’ understanding and motivation in the utilisation of its services.

How the training is provided.

Training is a joint effort. FinaSol assists a FSC establishment process by providing a trainer and study materials. The Founding Committee makes all of the arrangements necessary to start the FSC, which may take several months, and requires their full involvement.

Time required

How long does pre-establishment training take? It can take almost 3 ½ months to understand and learn how to apply all of the materials in the 13 modules (lessons) listed in this manual, if only one training session is conducted each week. It will take only 2 months if two training sessions are held each week. The Founding Committee members must make a decision based on their motivation and availability as to how frequently they will meet with the trainer.



In addition to training, the Founding Committee must make decisions to implement the action steps leading to registration, organise the requirements to open the FSC (suitable building, etc.) and, at the same time, keep the community informed and involved in the process.

The Founding Committee’s training programme will not be completed until the Founding Committee is in a position to organise the FSC formation meeting and apply for registration.

2. THE FOUNDING COMMITTEE

Ideally, the Founding Committee should consist of 15-20 members. The group must consist of people who intend to become FSC members, and are 18 years of age or older. The founding committee members should be as broadly representative of the community as possible, not just from one section. Thus the community as a whole feels that it owns the FSC. This must include adequate women's representation in the group. Founding Committee members are volunteers who must be stable, reliable and trustworthy people, of good reputation within the community.

How the Founding Committee is organised

Involvement and responsibility

An FSC is member-owned and controlled. The principle of self-reliance is introduced during pre-establishment training. The group must accept responsibility for organising the training programme and related action steps successfully – to take charge of their own affairs (develop organisational ability) long before registration takes place.

A group leader or chairperson should be selected who:

- Keeps the group working together and on target;
- Makes sure meetings take place, as scheduled and on time;
- Is the primary contact for the FinaSol trainer;
- Makes sure all decisions (action steps) are implemented; and
- Verifies that information is transmitted to the other members of the community.

A secretary should be selected who:

- Keep an attendance register;
- Takes minutes and records decisions taken during meetings; and
- Keep all documents and forms safe and readily available.

The Founding Committee as a whole:

Should, together with the Trainer, come to an agreement on the time and place for training sessions. Dates must be co-ordinated with the FinaSol trainer's overall training plan.

Regular/planned meetings are necessary

- Once or twice a week; and
- In a place and time that is convenient for members.

3. PARTICIPATIVE LEARNING

Members of the Founding Committee are adults and the way they learn must be active – they must learn to become self-reliant (taking initiative and doing things for themselves from the onset). They must not be passive and wait for the trainer to do everything for them (spoon-feeding). The FSC is their business. The trainer is a facilitator helping them to learn how to

set it up and run it effectively and not a project manager, who they depend upon to be constantly present.

This active/participative learning approach links in with the need for continuous feedback to the community and mobilisation of support for the FSC. It is divided into five main phases at each training meeting:

1. Feedback/report back by members:
 - Results of any planned action steps agreed at the last training meeting; and
 - Community reactions/response: enthusiasm, doubts, and questions that need clarification arising from discussion of the previous training meeting and activities in the community.
2. The (next) training lesson in the programme – new knowledge and skills presented by the trainer.
3. Application: discussion, questions and practical exercises for clarification and integration with existing knowledge.
4. Review of the lesson. The training checks that learners understand the key lesson points, so that this information can be communicated accurately back to the community.
5. Follow-up arrangements: What and how each participant is expected to communicate back to the community and any other action steps to be taken before the next meeting.

4. IMPORTANCE OF KEEPING THE COMMUNITY INFORMED

Feedback to the community from the pre-establishment programme by the Founding Committee is necessary because:

- A FSC is owned by the members, however, it is also a community-based project in which all can be involved and benefit;
- For a FSC to be financially sustainable there must be member support (enough customers). This means active marketing of the FSC and recruiting of members who will use its services;
- There is natural resistance to change in any community – ideas and attitudes of conservative people must be understood and modified by providing them with sufficient information;
- The Founding Committee must be seen as working in the best interests of the community - to sensitise/mobilise and raise community consciousness (build community team spirit, solidarity) – so that social and economic needs can be met by co-operative action; and
- Close interaction with the community is necessary to ensure that the FSC is not seen as imposed from outside, but “indigenous”, resulting from study, discussion and community decision. If the FSC is seen as imposed it may well collapse later.

Model/Vision of a FSC

Throughout the pre-establishment programme the Founding Committee members should strive to bring about a favourable vision amongst the community of their future FSC – what it is like, and the benefits it will bring. The advantages of a FSC are:

- Legal status which is a guarantee and engenders confidence in the safety and soundness of the institution;
- The business is under the control of members;
- There is limited liability to members (the liability is limited to the value of a member's shares); and
- Provision of tangible, financial services, which are:
 - Shares;
 - Open and fixed deposits;
 - Inter and intra FSC fund transfers;
 - Deposit of cash cheques and cheques made out in a member's name;
 - Loans provision to its members;
 - Credit collection services;
 - Premium and credit life collections on behalf of insurance institutions;
 - Instalment collection on behalf of other institutions;
 - Reception of remittances received from family members; and
 - Any other financial services approved by the Board.
- Establishment/operations
 - Manageable, with the assistance of FinaSol, and not too costly in use of time, energy, and materials, especially when compared to the benefits;
 - Voluntary work is involved, as well as organisational and financial discipline.
- Does not conflict with custom and traditions (compatible)
- The result will build community self-confidence (empowerment)

Communication Plan

Each Founding Committee member should have a simple communication plan and should take responsibility for feedback to:

- Immediate family, friends and neighbours; and
- Agreed community leaders and organisations (churches, informal savings groups, stokvels, burial societies, etc.)

MODULE 2 UNDERSTANDING WHAT A CO-OPERATIVE IS

The Founding Committee and other potential members must understand and accept that a financial services co-operative is a **unique** social organisation, as well as a business enterprise, which is owned and controlled by the members.

A high degree of member participation is necessary for success. If this is lacking the “co-operative” becomes an artificial structure, organised (imposed) from the outside, which will fail.

The Nature of Co-operation: Basic Ideas

To co-operate means to help oneself by helping each other. People group together to achieve common needs by joint action. There are many practical examples of traditional mutual help (i.e. co-operation) such as: the extended family, joint labour for land clearing and weeding, and neighbourly help in times of need and disaster (fire, floods, etc.)

Co-operation is a means of attaining a more just social order based on the common values as self-help, mutual assistance, democracy, equality, and caring for others – rather than unrestricted self-interest. Successful financial services co-operative activities are based on two related ideas: self-help and mutual assistance.

People must be willing:

1. To take **self-help** action to meet their needs; and
2. To join together (associate) with others who (individually) are economically weak to develop a strong group economic potential i.e. **mutual assistance**.

Self Help

Self-help implies taking actions by yourself to meet your needs, rather than depending on someone else to do it for you, as a child depends upon its mother.

A major goal of self-help is for the person or organisation to become self-sustainable by learning self-management and self-control. The practice of self-help is critical if a person is to develop a mature, balanced personality.

Mutual Assistance

Mutual assistance implies joining together to help one another to achieve a common purpose (teamwork), which cannot be accomplished by working alone. It means helping oneself and at the same time helping one another. This is often the only way the economically weak can help them rise above their adverse conditions.

SOME ADVANTAGES OF MUTUAL HELP:

- Increased (collective) bargaining power of individuals;
- Activities, that could only be undertaken by group, can now be accomplished;

- Creation of substantial economies of scale (cheaper and more effective results benefit the members);
- Abilities of individual members can be activated which would otherwise remain dormant;
- Facilitates adoption of innovations by individuals; and
- Provides protection against restrictive customs or sanctions of the community.

The Co-operative Dynamic

A properly organised co-operative brings together these two powerful ideas to provide services to members, which would not otherwise be possible. Member understanding of and commitment to self-help and mutual assistance provide the motivation to willingly accept the responsibility and the self-discipline that are needed for success. These cannot be imposed from the outside.

CO-OPERATIVE PRINCIPLES

There are seven basic co-operative principles (basic values) which have been developed and practised over the past 150 years. They are the foundation of co-operative structures and management. The FSC Statute is based upon these principles.

1. Open and Voluntary Membership

Anyone, who fulfils the membership requirements, is able to use the co-operative services and is willing to accept membership responsibilities, is entitled to become a member.

A member may withdraw if he/she can no longer remain a loyal member or make use of the services of the co-operative. Discrimination on the basis of race, gender, politics or religion is forbidden. The principle of open membership makes it possible for all people who wish to join to become members.

2. Democratic Control

The supreme power in a co-operative society is the general assembly of its members. This is called the general meeting. Decisions, at this level, focus on overall policy development. The general assembly elects from its midst a Board of Directors. Each member has one vote. Each member has an equal opportunity to be elected to the Board of Directors.

This democratic control “one person, one vote” is different from an ordinary business where the shareholders voting power is determined by the number of shares held.

3. Economic Participation by Members

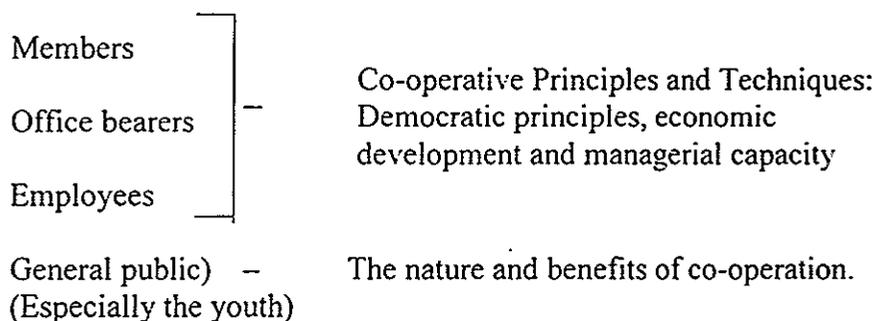
Members buy a “share” in their co-operative as a membership condition. Emphasis is placed on allocating surplus earning first to reserves, to strengthen the Co-operative, then to expanding services to members, and finally to other activities approved by members. Only after this may the remaining surplus be distributed to members, in proportion to their transactions with the co-operative.

4. Autonomy and Independence

Co-operatives are independent self-help organisations controlled by members. Any agreements with other organisations (e.g. government departments, NGO, etc.) must not undermine democratic control by the members.

5. Education and Training

Co-operatives provide education and training for:



6. Co-operation between Co-operatives

Taking part in co-operative co-ordination structures, such as a National Financial Services Association or a regional FSC forum will strengthen the co-operative “movement” and thus better serve the members by working together with other co-operatives.

7. Concern for the Community

The FSC is established primarily to serve its members, it does, however, have a duty to assist the community (as a whole) to move toward sustainable economic and social development.

Improved member economic conditions will lead to more money being circulated in the community and eventually stimulate a wider development process.

THE DEVELOPMENT OF MODERN CO-OPERATIVES

The development of the modern co-operatives began about 150 years ago as the result of social problems and the extreme hardships faced by working people following the industrial revolution in Europe.

Once the co-operative principles had been formulated and applied in practice by the pioneers, co-operatives spread from towns to rural areas. Soon co-operatives began providing farm inputs, credit and marketing. Over time the co-operative idea spread to banks and insurance. From about 1900 onwards the co-operative movement spread widely from Europe, under colonial rule, to India and Africa.

The needs and benefits, which motivate present co-operative development, are the same as before:

- The struggle to survive under difficult living conditions;
- The desire for economic self-sufficiency, improved living and working conditions; and

- The possibility of alleviating hardship and deprivation through co-operative action.

CO-OPERATIVES AND THE LAW

Most countries have special co-operative law to provide for the establishment and sound management of co-operatives. Co-operative law is guided by the principles that a co-operative is set up, owned and controlled by its members.

The operation of co-operatives in South Africa is subject to the Co-operatives Act No. 91 of 1981, as amended. Every co-operative must be registered before it can become a legally recognised body and can open for business.

FinaSol acts as intermediary between the Registrar of Co-operatives and the FSC's by means of a franchise agreement (a modern way to provide high quality standardised services to a business, at a cost that would not otherwise be possible). As part of the pre-establishment training and registration process, FinaSol will provide the FSC Founding Committee with guidelines for preparing the statute, which is required by the Co-operative Act, and provides **the basic operational rules**

UNIQUENESS – SPECIAL FEATURES OF A CO-OPERATIVE

A modern co-operative is a different business undertaking as compared to what one often understands of "normal" business. Members, office bearers and staff must clearly understand the special differences that make a co-operative unique. It is **not** a welfare society. It is **first and foremost a business**. It must be financially viable, plan budgets, pay debts, deliver effective services, and (eventually) produce a surplus for investment and distribution to its members. If a FSC goes bankrupt, it goes out of business just like any other enterprise.

It is not just a normal business since it is an instrument by which members can help themselves and their community. It is not motivated as an ordinary business make the largest profit possible for a few individuals (shareholders), who may not even live in the community.

The major differences between co-operatives and ordinary businesses are:

What	Co-operative	Ordinary Business
Purpose of membership	To obtain a service	To make a profit on investment (shares)
Control/voting power	One person, one vote (democratic control)	Voting power based on share holding
Distribution of profits (surplus)	<ul style="list-style-type: none"> • low interest on share capital • Services provided as near to cost as possible 	Dividends on share capital. The more shares – the greater the profit.
Community benefits	<ul style="list-style-type: none"> • Capacity developed for mutual assistance. • Surpluses are channelled back to members to be reinvested in the community. 	Very little, if any. Profits flow back to shareholders, who often reside outside of the community.

These differences are fundamental:

Co-operative: member owned and controlled, their main purpose is to **provide services to members.**

Business: owned and controlled by majority shareholders, their main purpose is to **make profit for the shareholders.**

DEMOCRATIC CONTROL PLUS ECONOMIC EFFICIENCY

Even though a co-operative is member-owned and controlled, it must also operate efficiently and prudently in order to provide services on an economic basis. If not, it will lose member support, go bankrupt and be forced to close.

The FinaSol franchise provides an operational support framework to provide tested and affordable services. Its continued existence of the FSC depends on your (the member) understanding, participation and democratic management and effective control of a FSC.

Making arrangements to ensure **both democratic control and the economic efficiency of a FSC is a major challenge**, which requires constant attention, first, by the Founding Committee and later, by all members, office bearers and employees, when a FSC is open for business.

ESSENTIALLY, THIS MEANS YOU MUST RUN YOUR OWN FSC – NOBODY ELSE CAN DO IT FOR YOU. IF SOMEONE ELSE DOES – IT IS NOT A GENUINE CO-OPERATIVE.

MODULE 3 ASSESSMENT OF FSC VIABILITY/SUSTAINABILITY

1. WHY ASSESSMENT IS NECESSARY

Viable implies “capable of succeeding”. One must know what are the chances that the FSC can be started successfully and whether it will be sustainable (financially self-reliant) within 12 months. It must further be able to continue to exist and function successfully over a period of many years.

The most immediate practical reason is that the Co-operative Act (Section 25) requires that at the formation meeting the Founders must present to people who are interested in becoming members:

- A written explanation of the objectives of the proposed FSC, and
- Its business prospects, and the facts and statistics calculated to show that the co-operative will be able to carry out its objectives.

A copy of the Business Plan Checklist must accompany the application for registration made to the registrar.

A well-prepared business plan is a good indicator of the chances of future success and the competence of the people involved in forming a FSC. Many new businesses fail in their first year (e.g. cash shortage) for lack of proper business planning. A well-prepared business plan is also a “benchmark” to measure progress. It can be used as a guide for future actions and for checking progress e.g. the calculated income and expenses figures can be used as targets to measure monthly and annual achievements, and guide management decisions to improve performance.

Involvement in business planning enables the Founding Committee to assess the strengths and weaknesses of their proposed financial services business, estimate what the results will be and take the necessary measures to strengthen the weak parts. Business planning provides practical training to understand how a FSC business operates. It is an introduction to basic financial management skills and terminology for the future Board of Directors.

The FSC’s strategy is to achieve quick “break-even” (income from services to cover costs) within the first 12 months, followed by planned, phased expansion of services. To do this there must be enough savings deposits during this period to make the FSC sustainable.

It will be necessary to revise and/or prepare a new business plan at least once a year to confirm and ensure the profitability and sustainability of a FSC. It must also take into account changing circumstances (e.g. slow start-up due to lack of initial customers) to decide what must be done to get back on track.

2. PREPARING THE FSC BUSINESS PLAN

The FinaSol training (guidance) provided during the pre-establishment programme makes the Founding Committee’s job of preparing a FSC business plan fairly simple. A business plan must address all the important points necessary to start up or expand the FSC operations. A well-prepared business plan should explain the objectives (aims) of the FSC business and what will be done to achieve them.

You should be as clear as possible concerning:

- **What** you plan to do;
- **Where** it will be done;
- **How** it will be done and how much it will cost (source of funds);
- **Who** will manage the FSC and who will be the members/customers;
- **Targets** (results) which will to be achieved along with milestones to measure progress; and
- **Standards**

Quality	-	What sort of service;
Quantity	-	How much/how many;
Location	-	Whereabouts; and
Time	-	Start, how long, finish.

FinaSol will assist a FSC to set targets and standards.

The FinaSol franchise agreement and pre-establishment programme provide part of the answers required to prepare a business plan, which are the basis for the action steps taken to establish a FSC:

- **Legal:** Type of business – Co-operative (FSC) with Statute and Procedures;
- **Dedication:** Commitment to work hard – already evident from awareness training;
- **Products:** Financial products – standardised, including quality control;
- **Technical:** Services will be provided effectively at an affordable cost;
- **Finance:** Start-up loan and grant from FinaSol as well as membership fees, share capital and savings, from the 50 or more initial members;
- **Market:** Geographical area that defines a FSC defined, with the expected number of members;
- **Customers:** Promotion already started;
- **Employees:** Teller/administrator to start with and trained by FinaSol; and
- **Management:** Board of Directors – criteria defined, selected by the members, and trained by FinaSol. Management controls and operating procedures, tested and available, including management information system's (M.I.S.) training, which is provided by FinaSol.

Information Required For Business Planning

It can be seen that the Founding Committee does not start the FSC business plan with a blank sheet of paper. A great deal of information and training is needed to produce a thorough business plan that will provide a FSC with a sound footing – especially researching and activating the level of member support that is critical for a successful FSC.

3. GATHERING THE NECESSARY INFORMATION

How to Start – With the Market!

The “market” is the term used to define the demand for a product or service; i.e., local financial services. It remains a potential market until it is exploited. This starting phase includes both market research and promotion of the FSC products to build membership.

FSC – Geographical Area

At the outset it is necessary to reach agreement (Founding Committee, community and FinaSol) on the geographical boundaries of the area of operations for the FSC. This determines the potential membership (who is eligible to be a member). Most probably the community will be able to define its own boundaries, although maybe not precisely at first.

- The area should not be too vast. It can be limited to a radius of approximately 15 kilometres round a village, so the members are within reasonable walking distance, especially where the transport services are very poor;
- The area should be sufficient to provide adequate membership for a viable FSC – say 1000 active members within 3 – 4 years; and
- It is important to avoid establishing a FSC in an area where there is a lot of alternatives and intense competition for a limited number of potential members.

How to Undertake Community Outreach

Methods may include:

- Using expression of interest questionnaire information;
- General public meetings (ongoing at a set time and place);
- Meetings with groups – church, school association, stokvels, burial societies, etc.;
- Personal contacts with key community leaders;
- Advertising – posters, handouts;
- Organised visits to existing FSC’s (when these are established);
- Membership recruiting drive: individual contacts by Founding Committee members; and
- Sourcing of additional in-kind contributions (building and equipment).

The community outreach plan should be, as much as possible, a market research and advertising campaign:

- Identify target groups and potential leaders for involvement;
- Gather facts systematically – step by step and record in writing;
- FinaSol trainer can assist with advice and information materials; and
- Following community outreach meetings report back to the Founding Committee to assess the information into the planning process.

Market Research

The main question is, "How many members do we expect to join the FSC?" One must ask your family, friends and neighbours systematically using the "Expression of Interest" questionnaires. From the completed forms you will know:

- The types of people who are willing to join (farmers, workers, pensioners, etc.);
- Where they live and work;
- The reasons why they will use FSC services (regular or occasional use);
- The number of potential members; and
- Likely percentage of women in the population who will join and be active members.

Other Information Needed for the Business Plan

Other parts of the business plan (gathering information, assessing and preliminary negotiations leading to FSC establishment) can also be started during the market investigation and FSC promotional activities.

Products/Services to be Offered

- Shares;
- Open and fixed deposits;
- Inter and intra FSC fund transfers;
- Deposit of cash cheques and cheques made out in a member's name;
- Loans provision to its members;
- Credit collection services;
- Premium and credit life collections on behalf of insurance institutions;
- Instalment collection on behalf of other institutions;
- Reception of remittances received from family members; and
- Any other financial services approved by the Board.

Building – FSC Office

The FSC's office, its size and condition will be critical to its ability to attract and retain members. Issues to be considered in selecting an FSC office include location, security and member convenience.

Equipment/Services

- Electricity, telephone, water;
- Office furniture;
- Computer;
- Fire proof cabinets and safe;
- Alarm system/safety precautions; and
- Stationery/office supplies

Staff

- Administrator (initially);
- Profile – skills required/character – reliable, honest;
- Recruitment – locally by advertisement and selection (interview and/or test);

- Salary;
- Conditions - Must not be a direct relative of a Board member; and
- Training – orientation
 - duties/responsibilities
 - relationships: BOD, customers, FinaSol
 - operations/routines/computer skills

Security/Insurance

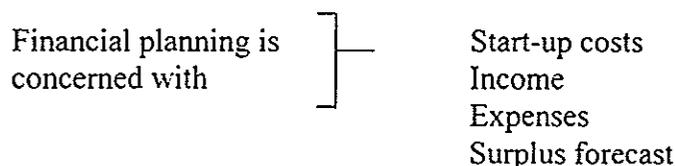
- Cash on hand and in transit;
- Risk insurance (cash, fidelity, public liability, equipment, etc.); and
- Cash handling procedures, reconciliation routines, internal and external audit checks (FinaSol and the Internal Audit Committee).

Link Bank

Selection of an appropriate (convenient) link bank and the opening of the FSC account. The banking procedures and financial services and counselling, which may be offered by the link bank to the FSC will be facilitated by FinaSol. The final choice of the link bank will be made by the Founding committee and will depend of banks available in the area, services offered and transportation to and from the town where the link bank is located. At this time it is expected that the link bank will be chosen from three possible institutions: First National Bank (FNB), ABSA Bank or Standard Bank.

4. FINANCIAL CALCULATIONS

This is the most important element of the business plan. It is linked directly to the market research, which was done to find out if there would be sufficient members who will use the FSC services, as well as the volume of expected business (member transactions).



Like any other business, the FSC needs income at least sufficient to cover its costs for wages, telephone, electricity, etc., and make a surplus to expand the services. Before starting, the Founding Committee must be certain that the FSC will be viable (i.e., that it will not go bankrupt and collapse because it is making a loss) and sustainable (i.e., that it will be able to grow well beyond the first 12 months of financial support).

The FSC receives income from fees charged on services provided members, and interest on loans.

It is estimated that a FSC needs to have a total member deposit base (shares and savings) of R100 000 by the end of 12 months of operation, to generate enough income to pay favourable interest rates to members and cover FSC costs. It is expected that FSC business will increase its savings deposits to at least R 500 000 in 5 years.

The idea is simple:

- FSC operating costs must be paid – otherwise it will collapse;
- The income to cover these costs comes from interest charged on loans and fees charged on FSC services, including a membership fee; and
- The more business the co-operative does (i.e. the more use the members make of financial services) – the more income it earns.

The financial planning process involves 3 steps:

Step 1 Estimate monthly expenses.

Calculate the probable FSC monthly operating expenses (item by item); e.g., salary, rent, electricity, telephone, bank charges, and interest on member savings accounts, etc.

Step 2 Estimate monthly income.

First, estimate the number of members who will join the FSC at the start and over the next 12 months. Multiply these numbers by the membership fee to calculate average monthly (expected) membership fee income.

Next, estimate the average number of monthly transactions by type (deposits, withdrawals, transfers, etc.). Multiply the number of transactions by the transaction fee for each type of transaction. Total the expected monthly fees.

Next, estimate the average monthly opening balance for savings accounts and the expected amount of monthly deposits, minus expected withdrawals. Starting in month six, use these figures to estimate the amount available for loans to members (use approximately 60% of the net month amount). Multiply these figures by the monthly interest rate to calculate interest income.

Next, multiply the remaining 40% of the net amount by the monthly interest rate on bank savings deposit to estimate FSC bank (savings) interest income.

Finally, total the estimated earning for each month.

Step 3 Calculate the net monthly income.

Insert the monthly FSC expense figures from step 1 and the monthly FSC income figures from step 2 in the following table, to calculate net income (positive or negative) for each month and a yearly total.

Year 1													
Month	1	2	3	4	5	6	7	8	9	10	11	12	Total
Income (Item)													
1													
2													
3													
...													
Expenses (Item)													
1													
2													
3													
...													
Surplus/Deficit													

Repeat this process for Year 2 and 3. After completing the process for the 3-year period, the FSC will have a good estimate of whether it will be viable and where income can be increased and/or costs reduced.

These financial calculations and visual layout (cash flow analysis) show a FSC, **before** it is started, what income level is required to cover expenses, how many members will be needed and what services will be required, for a FSC to be viable (able to pay its way).

The financial plan provides a FSC Board with a tool to monitor progress. Regular management information will be supplied by FinaSol to a FSC from the computerised accounting system (member transactions, FinaSol charges, surplus accruing to a FSC etc.). Thus the **actual performance** can be compared with the financial plan to assist the Board in making sound management decisions to improve FSC performance.

The business planning process will be repeated each year, however, after formation the FSC Board of directors will be responsible for the process.

MODULE 4 THE FSC STATUTE AND REGISTRATION AS A CO-OPERATIVE

REGISTRATION OF THE FSC

A FSC cannot open for business until it is registered in terms of the Co-operative Act No. 91 of 1981. The Co-operative Act requires each co-operative to have a statute before it can be registered.

A **Statute** is the founding document of the FSC, which gives the FSC a legal basis to operate. It regulates the relationship between the co-operative and its members.

A Statute needs to be prepared for the following reasons:

1. A co-operative is member-owned. Members must approve the way (rules and regulations) it is run. The members at the FSC Formation Meeting approve the Statute, which sets out the regulations for running the FSC business.
2. A co-operative cannot be registered unless it has a Statute.
3. FinaSol will not enter into a franchise agreement to provide support services to groups, which are not registered as co-operatives.
4. The Statute contains the FSC's name, which is entered into the register of co-operatives to become **incorporated** (acquires legal status).
5. Groups claiming to be co-operatives, but which are not registered, will find themselves in serious legal difficulties (they are breaking the law) if they carry on with their activities.
6. The Module Statute can be modified (added to but not subtracted from) before adoption and then amended after it has been adopted, provided the amendments are not in conflict with the Co-operative Act.

THE STATUTE

The Statute of the FSC is a founding document, which enables its legal establishment as a co-operative business. Once prepared it is **the statute**, which is registered as a permanent set of rules to govern the FSC.

The Statute must conform with the Act to ensure that:

- The co-operative principles and practice are the basis for the organisation and operations of the FSC;
- The rights and obligations between the members and the FSC are set out and complied with (like a contract). Protection of member interests is important – e.g. limited liability for any debts of the FSC; and
- Both the FSC and third parties (e.g. employed staff, link bank etc.) have legal protection in their contractual relationship.

FinaSol will provide a model FSC Statute, which complies with the Act, to be worked through and understood by the Founding Committee before its presentation to members at the Formation Meeting.

Contents of the Statute

The Statute consists of basic information and basic regulations: e.g.-

- **Name;**
- **Kind** (type of co-operative: FSC);
- **Objectives** of the co-operative;
- **Powers of the co-operative** (all the reasonably necessary elements required to achieve the objectives – e.g. employ staff, open bank account, etc.);
- **Place of business** (FSC office location); and
- **Regulations** (to control the affairs of the FSC).

The regulations provide for:

1. Members rights and obligations
2. The FSC to enter into a Franchise Agreement with FinaSol;
3. The establishment of Policy and Procedures Manuals; and
4. The amendment of the Statute.

These documents set out more **detailed** rules for the good governance of the FSC e.g. procedures for approving loans.

The **Amendment of the Statute** requires a two-thirds majority vote of FSC members present at a duly constituted general meeting.

Registration

After the formation meeting the Founding Committee (assisted by FinaSol) must apply for the registration of the Statute and incorporation of the FSC.

If approved:

1. The name and details of the co-operative are entered in the register of co-operatives.
2. The Statute is registered and a certificate is issued to the co-operative (which shows that the FSC is incorporated and that its Statute has been registered under the Act).
3. The Statute binds the co-operative and all members to observe its provisions.

The Meaning and Importance of Incorporation

“Corporate” means legally united into one body, so as to act as an individual.

Registration of the Statute (recognition as a body corporate) makes a FSC a “juristic person”, separate from the individual members and with power to:

- Buy, sell and hold property;
- Sue and be sued; and
- Carry out all the functions set out in its Statute.

Once a FSC has this legal status, its debts cannot be claimed from individual members beyond the value of their shares. The liability is limited to the value of a FSC's assets.

Corporate Structure

Corporate structure means the internal organisational arrangement of a FSC, which is brought about by the election of officers, with well-defined powers and duties, such as:

- Board of Directors (power to sign contracts, call AGM, etc.);
- Chairman (power to control meetings); and
- Signatories (designated to sign cheques).

The powers and duties of officers are set out in the Act and are defined more precisely in the FSC Statute and Policy and Procedures Manuals.

FSC officers, such as Chairperson, Vice-chairperson, Secretary and Treasurer, are obligatory posts (they must always be filled), regardless of the individuals who may fill the post from time to time.

Elected officers are empowered under the Act (and spelled out in the Statute) to exercise the powers of their office. Actions of the individuals acting in their official capacity are considered to be the acts of the body corporate – the FSC itself.

The Statute controls the internal organisation of the co-operative which is binding on all present and future members, and can only be amended under conditions laid down in the FSC Statute itself and the Co-operative Act. The co-operative is thus independent of its founder members, and when new members eventually take over, the co-operative can continue in existence for a long time; i.e., after registration the co-operative is a permanent institution – it is governed by its Statute independently of any change in membership.

PREPARING AND UNDERSTANDING THE STATUTE

Need for Understanding

The Founding Committee members must have a good understanding of the FSC Statute (Clauses and basic regulations) because this is the foundation they are putting forward to establish and operate their FSC.

FinaSol must also be satisfied that people wishing to become members understand the legal basis of the FSC, how it is organised internally and their rights and obligations. This can be accomplished by organising brief FSC induction training for new members.

The following is a summary of main points contained in the Statute, which need to be understood and communicated to potential members.

NAME OF FSC

In choosing a name, it is suggested that the Founding Committee provide, in order of preference, three alternatives in case the name chosen has already been registered to another FSC. The word “co-operative” must form part of the name, and it must end with the word “limited”. This indicates that a FSC is a corporate body with limited liability.

No business may use the word “co-operative” in its name unless it is an incorporated co-operative. The name must be displayed outside the FSC office and on all of its documents – letters, notices, cheques, etc.

MAIN PLACE OF BUSINESS

The physical location where the FSC’s business is situated must be specified in the Statute. This is known as the registered office. The name of the place of business should be a city, town or village, **which can be found on a map**. This is a legal requirement. The name of the District and Province is not sufficient. All changes of address must be notified to the Registrar of Co-operatives via FinaSol. A postal address, to which communications can be sent, is also required, even if it is not specifically for the FSC (i.e., for a local church, school or other organisation).

OBJECTS OF THE FSC

The object or objective, for which the FSC is to be established (what the co-operative intends doing in order to meet the mutual needs of members), is the provision of financial services to its members. The Founding Committee has the responsibility to ensure that a FSC’s objective is explained clearly to its members, especially the services provided and how the members will benefit.

MEMBERSHIP (Area of Operations)

The geographical area in which the members live and/or work and in which the FSC carries out its activities must be defined.

MEMBERSHIP (Admittance)

Agreed requirements (rules) for membership are necessary to avoid arbitrary decisions. There are usually no general restrictions on membership except to live or work within the geographical limits of the FSC and be at least 18 years of age. Persons under 18 years of age may join a FSC, if their parents or guardians assist them. Members under 18 cannot vote or be elected to any official FSC position.

The Statute also provides for:

- Suspension of members; and
- Termination of membership for reasons of death, voluntary departure and expulsion.

MEMBERSHIP (Requirements)

The membership fee is a small charge to cover membership costs, such as stationery. A person who wishes to become a member must also purchase of one share (of at least R 50) in the FSC. This is the minimum share contribution required from each member. Member may purchase additional shares, if they desire. Shares are refundable upon termination of membership.

LIABILITY OF MEMBERS

All registered co-operatives are bodies corporate with limited liability, which refers to the extent to which individual members can be called on to pay its debts. If the co-operative is liquidated the members stands to lose only the value of share capital.

GENERAL MEETINGS OF MEMBERS

The supreme authority of the FSC is the general meeting of members. The individual rights of members are maintained through participation in general meetings: acceptance of the Board of Directors reports (with comment and censure of performance if justified), democratic election of Board members and overall FSC policy direction.

The Annual General Meeting

At least one general meeting, the Annual General Meeting (AGM), is required each year to:

- Consider the financial state of a FSC as reflected in the annual financial statements;
- Elect directors;
- Elect the chairperson of the Internal Audit Committee;
- Approve the FSC business plan;
- Approve general policies to be implemented (savings, loan, membership, etc.); and
- Deal with any other business (including any complaints made by members).

FSC members should regard the AGM as a priority event, which they should attend.

A FinaSol representative will be present at the AGM as an observer and will not present any reports.

Extraordinary General Meeting

The second type of meeting of members is referred to as an Extraordinary General Meeting. As the name implies such meetings are held for extraordinary reasons and therefore do not take place on a regular basis. It is important to note that the Franchise agreement requires a FSC to inform FinaSol in advance of all Extraordinary General Meetings.

Special Resolution

A special resolution is a resolution passed at a General Meeting of members (be it an annual or extraordinary general meeting) of which specific notice has been given as to the particulars of the resolution, as well as stating the fact that it is a special resolution.

BOARD OF DIRECTORS

The number of directors on the Board may not be less than 7 and not more than 12. The Board is required to meet at least once every two months. The chairperson or in his/her absence, the vice-chairperson or any two directors, may convene Board meetings if required.

Powers and Management

The Statute lists the following powers for the Board of Directors:

- To appoint an administrator;
- To open one or more bank accounts;
- To enter into a FinaSol Franchise Agreement; and
- To acquire office and equipment.

Practically, the Board cannot manage the day to day operations at an FSC. It therefore delegates this authority to a paid administrator, who is recruited and hired by the Board.

Terms of Office and Nomination of Directors

The term of office is the length of time a director serves on the Board after being elected by the members. The Statute indicates a term to be two years, after which a director is eligible for a re-election for one more term (if desired). This gives a director enough time to become well acquainted with the management of the co-operative. Staggered elections are used to ensure continuity; i.e., only some of the directors are up for election in any given year.

Chairperson and Vice-Chairperson of Board of Directors

At the AGM, the members individually elect the chairperson and vice-chairperson, as well as collectively the remaining Board members. Thus the Board allocates the other functions (duties) to remaining directors and standing committees e.g. secretary, treasurer, credit and investment committee, as set out in the FSC Statute.

ACCUMULATION OF RESERVES

The FSC needs capital to:

- Build up, maintain, expand its economic activities; and
- Build up reserve funds.

ALLOCATION OF SURPLUS

This is the basis by which any surplus from FSC operations is distributed. The Statute indicates that surplus are to be allocated as follows:

- First** Allocations to general and contingency reserves; and
- Second** Interest on members' shares.

FINANCIAL REQUIREMENTS

Financial Year

The FSC financial year begins on the 1st of March and ends on the last day of February of the following year.

Financial Records

A co-operative is required by the Co-operative Act to keep a set of records in which details are recorded of all the financial transactions of the co-operative. FinaSol will assist the FSC to maintain the required financial records.

Financial Statements

Every co-operative is bound to draw up a set of annual financial statements. Their purpose is to provide members with an indication of the progress of the FSC. They also indicate the quality of the stewardship of the board of directors for that year. Members will be entitled and encouraged to ask questions concerning the financial state of affairs of the FSC. This takes place at the Annual General Meeting. Preparation of the financial statements will be undertaken with the help of FinaSol.

The financial statements must be submitted to the Registrar on an annual basis.

Business of the Co-operative

The board of directors shall decide how the business of the co-operative is to be conducted. In other words the board must decide what margin (mark up) will be charged to cover the cost of providing services to members.

NEED FOR FURTHER STUDY

The above Module is only a **brief summary** of the main provisions of the FSC Statute. The Founding Committee is encouraged to read the model FSC Statute.

MODULE 5 MEETINGS OF MEMBERS - RIGHTS AND RESPONSIBILITIES

BACKGROUND – The Power of Members and FSC Administration

The FSC is established, owned and controlled by the members.

THIS IS WHERE MANAGEMENT OF THE FSC STARTS – WITH THE MEMBERS.

The general meeting is the highest authority in a co-operative. All bodies/organs created within the FSC derive their powers from the general meeting of members – e.g. the Board of Directors (BOD). The general meeting is where the individual members exercise their power. As soon as an application for membership has been approved, and the member has paid the joining share, the member has a right to attend General Meetings and use his or her voting rights. Each member has one, and only one vote in a General Meeting. All decisions in a General Meetings are taken by a majority of votes of the members present. A simple majority is required to make a decision (one more than half of those voting).

Delegation of Management Powers to Board of Directors

The AGM is the **most important** meeting of the whole year because it gives the members the power to choose the best individuals to serve on the Board of Directors, and to dismiss any existing directors who are incompetent. (This is a major reason why high attendance is vital to ensure efficient management of the FSC). It is important to note that any member (except minors) can be elected to the Board of Directors. Furthermore, Board positions are voluntary (not paid) and do not provide any allowances other than simple reimbursement of costs, provided the FSC has sufficient resources, for Board activities.

The Board of Directors consists of carefully selected members with the desirable qualities who meet frequently to make decisions on ongoing matters (FSC administration). The powers in the FSC must be balanced between:

Members/General Meetings:

Concerned with: the continued existence, well being of the FSC and:

- Overall policy; and
- Controlling the performance of the Board; i.e., ensuring that their actions provide the best services to members (member promotion).

Members, in a general meeting, decide all matters of the FSC as a whole. They are the ultimate controlling body, through elections and their voting power.

Board of Directors

- The executive body, responsible for the administration of the FSC (as a business enterprise);
- Carries out the orders (policies) of general meetings and supervises the FSC.

The **Internal Audit Committee** is a specialised committee with its director (and possibly its other members) elected by and accountable to the general membership. This committee is the “watchdog”, which monitors FSC management (Board and staff) to ensure the best delivery of services to members (member promotion) and to protect against mismanagement and dishonesty.

Rights and Responsibilities of Members

Members acquire rights and obligations when they join a co-operative. These are set out in the Statute.

The rights of members include:

1. The right to attend general meetings and move motions;
2. The right to vote at general meetings;
3. The right to elect directors, and to be elected as directors;
4. The right to be kept informed on matters affecting the co-operative (Reports from Board, especially financial reports);
5. The right (with others) to call extraordinary general meetings;
6. The right to withdraw from membership;
7. The right to use the FSC services (the reason it was formed); and
8. The right to inspect the annual financial statements.

The obligations of members include:

1. To participate personally in the activities of the FSC (stand for elections, give voluntary assistance when possible);
2. To be loyal to the FSC – the member is both co-owner and customer – and make use of FSC services;
3. To take any action necessary to avoid damage to the FSC;
4. An obligation to comply with all decisions of the FSC (e.g. decisions of general meetings even if the member was absent);
5. A commitment to observe the FSC Statute and to provide accurate information in all transactions with the FSC; and
6. To bring about change in Board and/or staff – i.e. management of the FSC - if necessary to ensure economic efficiency and better delivery of services to members.

Annual General Meeting: Summary of Legal Requirements

1. **DATE** - Not later than 30th April each year – however the Board may postpone the meeting in exceptional circumstances for not more than 60 days – members must be given 30 days notice of postponement before the re-arranged meeting.
2. **NOTICE** – must be given to members at least twenty-one days before a meeting and must receive the agenda, list of vacant offices, nominations and proxy forms.
3. **QUORUM** - For a meeting to take any place at all, it is necessary that a minimum number of members are present. Such a minimum number is called a **quorum**.

Quorums for general meetings are as follows:

FSC Membership	Required Quorum
50 – 200 members	26 members or 50% whichever is greater
201 – 1000 members	101 members or 20% whichever is greater
> 1001 members	201 members or 10% whichever is greater

The Statute gives the members one-hour to get together a quorum. A meeting that fails to attract a quorum after an hour, will stand **adjourned** (suspended, postponed) for one week. This rule is automatic and means that the meeting should be held at the same place, at the same weekday and time of the day, one-week from the original date.

If the second meeting also has too few members for a quorum after one hour, the Statute requires that the members present, not being less than twenty-five shall be regarded as a quorum. The meeting will then proceed and deal with the matters announced for the first meeting.

4. AGM AGENDA

The agenda must be prepared **before** the meeting.

The following is an example of an agenda:

Before officially Opening the meeting	<input type="checkbox"/>	Check if there is a quorum, if yes Call the meeting to order
------------------------------------------	--------------------------	-----------------------------------------------------------------

Suggested Order of Business

Opening of the AGM – approval of the Agenda.

Read and confirm the minutes of the last AGM (and deal with any matters arising).

Report back on Audited Financial statements for the year. (Treasurer's report – with back up support by FinaSol if needed).

- 3.1 The Balance Sheet
- 3.2 The Income Statement (surplus or deficit)
- 3.3 Auditor's report.

Reports: Chairperson;
Credit and Investment Committee;
Internal Audit Committee;
Marketing and Education; and
Security.

- 5. Any other business of which the members were notified in advance.
- 6. Election of new Board of Directors;
- 7. Election of members of the Internal Audit Committee.

8. Set the date for the next AGM (approximate).

CLOSE BUSINESS SESSION

- (Vote of thanks, prayer)
- Guest Speaker
- Social gathering/refreshments.

To enable members to prepare for the meeting the committee should attach a summary of essential points for each agenda item.

5. CHAIRPERSON OF GENERAL MEETINGS

To **preside** means to lead or control a meeting, to chair. General Meetings are presided over by the FSC Chairperson. In case the Chairperson is absent, the Vice-Chairperson would preside. In the event of both these officers are absent, the meeting would elect a chairperson from the members present.

6. DECISION MAKING - VOTING

Any matter for decision by a general meeting shall be decided by means of a vote on the show of hands or by ballot. A vote by ballot shall only be held if demanded by at least five persons present at the general meeting and who are entitled to vote.

Voting by ballot is required for election of members of the Board of Directors.

The use of a secret ballot during elections (the use of pen and paper) may be awkward when a number of members are illiterate. The reason for demanding a secret ballot is usually that members do not want to show openly which candidate they support. The problem can however be solved partly by asking the candidates to retire to a place out of sight, while the voting takes place.

7. MINUTES

Minutes of all general meeting proceedings must be kept and entered, within two months of the meeting, in a notebook kept for that purpose at the registered office of the FSC.

Note: loose leaves of paper, which are not permanently bound together, may not be used as a minute book. The minute book shall be available for inspection by members.

MAKING THE AGM A SUCCESS

The Annual General Meeting is the most important event in the FSC calendar. A large attendance with active member participation and good organisation (brief, clear, and interesting reports) is necessary for a successful meeting.

Thus:

- Careful preparation **before** the meeting;
- A business-like approach **during** the meeting; and
- Follow-up **after** the meeting.

Preparation BEFORE the Meeting

An agreement must be reached on the time, place and date of the meeting. The meeting date should be as soon as possible after the financial statements have been completed. Time must be given to allow for proper notification of the members and to:

- Prepare agenda for AGM;
- Prepare notice of meeting;
- Duplicate and mail notice of meeting. In some areas posters in public places including the FSC office can be used. In many areas there are regular gatherings, such as church services and market days where meeting announcements can be made;
- Prepare reminder notice;
- Arrange for the preparation of reports from the Board of Directors, committees and summary of financial statements;
- Arrange for a meeting place and be sure that there are adequate tables, chairs, light and a blackboard or flipchart and paper are available;
- Arrange for a guest speaker and refreshments;
- Arrange for voting facilities, such as ballots and a blackboard on which to write the names of candidates;
- Canvas members for suitable nominations for vacancies on the Board. Ensure nominees are willing to stand and will attend the AGM; and
- Allocate responsibilities for publicity – to publicise the AGM to members and ensure a good attendance.

(The FinaSol trainer will provide guidelines on how to prepare information and interesting reports for the AGM).

During the Meeting: A Business-like Approach

The AGM must be conducted democratically:

- Every member present at the meeting has one vote on each matter to be decided;
- Decisions are made by a majority of votes of those present and entitled to vote; and
- Each decision is recorded in the minutes and read out to the meeting before the next item on the agenda is taken up.

Role of the Chairperson – Controls the Meeting

The chairperson of a general meeting is the person in charge of the proceedings. He/she has to ensure that all business is dealt with in an orderly manner and efficiently. The chairperson must not dominate the meetings nor make decisions based on his/her single point of view. He/she must involve all of the members in the discussion and decision phases of the meeting. There are a few basic rules:

- No person may speak unless the chairperson has given him/her the floor;
- The chairperson should not allow any one person to dominate the meeting;
- He/she should also keep to the agenda and allow brief relevant discussion on the points raised by a report. If the members bring up an item that will be covered by a later report the chairperson should postpone the discussion until the relevant report is presented; and
- Moving the adoption of reports.

After presentation and discussion of reports, such as minutes, financial statement, or committee reports, a request (MOVE) that what has just been presented be adopted should be made. A second member should SECOND the motion. A vote should then be taken. Once approved, the chairperson should move to the next item on the agenda.

Role of the Secretary

The Secretary is responsible for the taking of minutes, assisting the chairperson in keeping track of members wishing to speak, and the counting of votes. The secretary should have ready at hand during the meeting, all the necessary documents, audited financial statements, minutes of the last AGM, a copy of the FSC Statute, etc.

Elections

Steps:

1. The Chairperson and Vice Chairperson may wish to abstain from presiding over elections in which they are candidates, and the meeting should then elect a temporary chairperson for the election process, and perhaps a scrutineer to assist – neither of whom should be election candidates.
2. Usually the Chairperson calls for nominations from the floor of the meeting.
3. In order to be considered for election, every proposed name must be seconded. If a member proposes a name, but no one seconds the proposal, the name will not be considered.
4. It is preferable, that the chairperson or scrutineer writes down the names proposed and seconded on a blackboard. Otherwise the names should at least be noted on paper.
5. The chairperson continues to accept and note names of candidates proposed and seconded until the pre-determined number of candidates has been reached.

Next the members will be asked to vote (ballot papers will be distributed for a secret ballot).

6. Members will be asked to choose from amongst the nominations and indicate on their ballot paper the requisite number of names that are required to fill the vacancies.
7. After counting the votes, the list of candidates should be arranged in order according to the number of notes each received.

8. The candidates with the highest number of notes are then declared elected to the vacant positions.

FOLLOW UP AFTER THE AGM

The AGM cannot be considered successful until the decisions taken at the meeting are implemented. Decisions are recorded in the minutes.

Preparation of the AGM Minutes

Minutes are a brief but accurate account of the business transacted at a meeting. They are compiled by the Secretary, or a person appointed secretary for the meeting – from notes taken during the meeting. The notes are written out in proper form in the **minute book** of the FSC as soon as possible.

It should be noted that minutes of the previous Annual General Meeting are read out at the beginning of each general meeting, and a resolution is passed to confirm their correctness. Minutes should contain:

- Which meeting (annual, extraordinary) – first, second, fifth, etc.;
- Where held, what date, what time, who presided, number of members;
- An attendance register should be available and signed by all members attending;
- Adoption of minutes of previous annual meeting. Summary of matters and decisions;
- The motion or item under consideration;
- Names of the nominator (mover) and seconder;
- Number of persons voting for and against;
- The **decision** on the item under consideration. A clear and accurate record is necessary. It is the Secretary's duty to ask for clarification before taking down the text of a decision;
- The decisions taken on Board recommendations; e.g.; those for surplus allocation and proposals for FSC development;
- The term of appointment for election results; and
- A brief note of the guest speaker's remarks.

Translating AGM Decisions into Action

The new Board should hold a meeting immediately after (but not later than ten days) the annual meeting. This first Board meeting should:

- Submit a return of Directors within 30 days of the AGM to the Registrar of Co-operatives and FinaSol;
- Fill any vacant positions on standing committees from amongst themselves; and
- Review the AGM minutes, list all the decisions taken, and plan to carry them out.

Plans must take into account members criticisms and suggestions on how to improve existing FSC operations, and new activities – e.g. introduction of new financial products, marketing to increase FSC membership, etc.

MODULE 6 BOARD OF DIRECTORS – FUNCTIONS AND RESPONSIBILITIES

The Board of Directors is a small group of people (between 7 and 12), which is elected by the members at the Annual General Meeting, and which is responsible to them for the management and control of the FSC.

After the statute is registered, the FSC becomes a “body corporate” – a legal body in its own right. The statute lays down the internal organisation of the FSC and “rules” for how it will be managed and controlled. This is accomplished by electing a Board of Directors. Individual directors are appointed to offices or positions. The positions are:

- Chairperson;
- Vice-chairperson;
- Treasurer;
- Secretary;
- Director responsible for Credit and Investment;
- Director responsible for Marketing and Education; and
- Director responsible for Security.

While all of the members own the FSC, its success depends heavily on the understanding and commitment of the Board members, who provide the driving force.

The main task of the Board is to manage the FSC business effectively. This involves:

The efficient provision of financial services for the benefit of the members;

- Necessity to cover all expenses with income from the operations (to avoid losses);
- Planning the future development of the FSC to meet the financial needs of the members, and so raise their standard of living; and
- Development and respect of a code of conduct.

Qualifications

Directors are elected at the AGM by the members, from amongst the FSC members who have been nominated and seconded. Existing directors are eligible for nomination and re-election for a second term only. They must then stand down for at least a one-year period.

The Co-operative Act and the FSC Statute list persons who are **not allowed** to become Directors. These include persons convicted of dishonesty, minors and the mentally unstable.

FSC Board directors should be trustworthy people – persons interested in the development of their community, with good judgement, sound moral character, respected by others, cautious and with common sense and able to meet basic educational requirements.

They should be able to present their ideas forcefully, but be willing to accept group decisions and work for a common goal.

It is wise to have women directors on the Board, perhaps roughly in proportion to the numbers of male and female members in the FSC. In some instances it will be wise to ensure that each area of the community is represented on the Board, by a director.

Each director must be willing to learn what the job entails – this requires knowledge of the FSC Statute and rules of procedure and the acquisition of other skills such as committee work and planning etc. He/she must also be an educator – explaining FSC operations and decisions to others, and promoting FSC services in the community.

A Board member cannot hold any political position in the community.

Vacancies

Vacancies, which may occur during the term of office of the Board, are filled by the members who are co-opted by the remaining Board members. Co-option is done by a majority vote of the remaining Board members. The term of office of the new directors covers only the time, which has not expired for that position.

Term of Office

In order to provide continuity of experience, members of the Board have staggered terms of office. Every director is elected for a two-year period, but each year, half of the directors step down. This means there will be an annual election at the AGM to fill half of the total number of directors each year.

Officers

All directors are officers of the FSC, but some of them are chosen to carry out special duties. For example: chairperson, secretary, treasurer, etc. Some of their functions are carried out between meetings; e.g. the secretary writes out the notice for the AGM, the treasurer compiles the monthly financial report, or the chairman might meet with the administrator and manager of the link bank.

No director (not even the Chairperson) has the right to decide any matter of importance to the FSC on his or her own. Furthermore, no individual on his own can bind the FSC to an agreement or course of action.

All decisions must be taken during properly convened Board meetings – the officers can only help in between meetings in carrying out these decisions. If the Board wishes an individual officer to carry out certain tasks, it must assign those to the officer who is then **authorised** to carry them out, by means of the powers given by the Board.

To avoid misuse of power by any individual director, it is necessary that **at least two** Board members jointly take decisions for them to bind the FSC as a whole; e.g., signing of documents, or contracts. A practical example of this is the approval or rejection of loan applications. Both the Director of the Credit and Investment Committee and the Chairperson will sign the form to indicate approval or rejection.

Selection of Specialised Officers

The Chairperson and Vice-Chairperson of the Board are elected by direct vote of the members of the AGM. The remaining Board members are elected to the Board but not to a specific position.

The FSC Statute requires that directors be appointed to the following positions at the first Board meeting after elections:

- Treasurer;
- Secretary;
- Internal Audit;
- Credit and Investment;
- Marketing and education; and
- Security

These appointments are made either by general agreement or by election, by the Board members.

Alternates

Each specialised post should have an alternate member, who can take over the duties in the absence of the appointed officer.

The Chairperson presides over all meetings of the Board and over the General Meetings; i.e., he/she chairs all formal meetings of the FSC.

The Vice-chairperson chairs meetings in the absence of the Chairman.

If both are absent from the same meeting, the Board may elect an acting chairperson from their members during such absence.

The Treasurer is responsible for the financial records and FSC funds.

The Secretary is responsible for the taking of minutes at all FSC meetings and handles the official correspondence as directed by the Board.

NOTE: The roles of Treasurer and Secretary will change as the FSC business grows and the work increases – an administrator and other paid staff will be delegated much of this work.

MEETINGS

Ordinary Meetings

The FSC Statute requires that a Board meeting will be held at least every two months, at a place and time decided by the Board. It is recommended, however, that the Board meet at least once a month. The Board will prescribe how notice to members of meetings shall be given.

Special Meetings

A majority of Board members may request, in writing, the Chairperson to call a special Board meeting at any time. The Chairperson will fix the time and place of any such meeting.

Quorum

A quorum consists of a simple majority of directors for any meeting of the Board (e.g. if the Board consists of 12 directors, then 7 makes a quorum). Board meeting cannot take place unless a quorum of directors is present. Furthermore, a quorum is necessary for any decision to be valid (lawful).

Voting

All decisions in a Board meeting should preferably be by consensus (all agree). However if voting is necessary, an issue is decided by the majority of votes. The Chairperson does not have an extra casting vote. In the case of a tie the motion is defeated.

Rules of Procedure

The rules of procedure in the FSC Statute set out how Board meetings shall be conducted, and other requirements such as agenda, attendance register of Directors and the keeping of minutes.

Functions and Powers of the Board

Functions and powers of the Board come from the Statute (which lists the functions) and the authority delegated to the Directors by the General Meetings of members.

The function and powers given to the Board enable it to:

- Control, monitor all activities of the FSC and mobilise local support and membership;
- Act on behalf of the FSC in legally binding contracts (e.g., hiring of employees);
- Liaison: represent the FSC in dealings and transactions with third parties (e.g., local authorities, link bank, etc.);
- Make operational decisions and initiate action consistent with the FSC Statute and resolutions of general meetings (e.g., loan approvals); and
- Delegate day-to-day administration to paid employees of the FSC (e.g., FSC office routines and member transactions)

The Board is limited (controlled), however, in the way it must operate to carry out its functions or duties.

The Board must:

- Work within the Statute, the franchise agreement and resolutions passed at General Meetings;
- Be prudent (careful) and diligent (hardworking) in conducting the business of the FSC to avoid any losses and to ensure effective services to members – particularly by implementing recommendations from the annual performance and management audit; and

- Report back: provide the required information on the FSC affairs to the members (by regular report back meetings) and to FinaSol.

Board Responsibility to Members

The main responsibility of the Board is towards the members who elected them at the Annual General Meeting. The Board accounts for its actions during its period of office to the next General Meeting of members.

If members are dissatisfied with the work, they have the option of not re-electing the Board or individual members of it. A General Meeting held during the period of office of the Board (i.e. a special General Meeting) will also have the power to dismiss the Board or parts of it and elect new Directors, if there is serious member dissatisfaction, provide that is the reason or one of the reasons that the special Board meeting was convened.

In case of grave negligence by the Board, wilful mismanagement or if the Board has harmed the interests of the FSC by breaking the law, the Co-operative Act, or the FSC Statute, the General Meeting and FinaSol would be entitled to take further action against the board or individual directors.

When elected, Board members are required to sign an acceptance of office form (code of conduct), stating that that they will implement the provisions of the FSC Statute, carry out their duties faithfully on behalf of members, and treat all FSC transaction information as confidential.

MODULE 7 OTHER COMMITTEES

A committee is a small group of individuals, which is delegated to perform a specific job.

The FSC has four such committees:

1. The **Internal Audit Committee** – which derives its powers from the members at the Annual General Meeting. The committee's chairperson and the two additional members must be voted for at the AGM. It reports to the members, and

The standing committees (generally made out of Board members)

2. The **Credit and Investment Committee**;
3. The **Marketing and Education Committee**; and
4. The **Security Committee**.

These standing committees derive their powers from the Board, which provides them with "terms of reference;" i.e., a list of duties (operations), instructions, and reporting requirements.

Standing committee Directors are selected by the Board at its first meeting after the AGM (together with alternates) to be Chairpersons of these standing committees.

A standing committee can only act legally within the limits set by the Board. It must refer back to the Board any matters, which fall outside its mandate (authority).

INTERNAL AUDIT COMMITTEE

The Internal Audit Committee consists of a Chairperson and two other members.

The Chairperson is elected, by the FSC members, at the Annual General Meeting. The members will also elect the two other committee members at the same AGM.

The Internal Audit Committee is independent of the Board in order to provide members with an internal check on the way the Directors, committees and employees conduct FSC business. This is to assure members that proper decisions are being made, that the FSC activities are being properly conducted and that their interests are safeguarded.

Internal Audit involves:

- Systematic examination/checking of FSC accounts/vouchers/records to judge whether or not the records are being kept correctly and that the figures represent the true financial state of affairs; and by
- Checking whether decisions taken by the Board and committees are reasonable, in line with the FSC Statute, and are valid (authority delegated, quorum present, and recorded correctly in the minutes).

THIS IS DONE TO SAFEGUARD THE INTERESTS OF MEMBERS TO:

- Ensure the long-term financial basis of the FSC;
- Obtain the maximum provision of effective services to members;
- Improve the quality of the FSC management;
- Give confidence to the members (and third parties) that the FSC is a credible, credit-worthy organisation; and
- Reduce the possibility of theft or dishonesty.

Regular internal auditing is necessary to ensure that business problems are corrected immediately (before things go badly wrong).

It is recommended that the Internal Audit Committee should meet as required, but at least monthly, to plan its work and prepare a report on its activities for the Board.

Specific duties include:

1. Examine (periodically) a sample of member savings accounts to verify the entries and balances with FSC records;
2. Check that operations are being performed correctly by the Administrator and Treasurer, according to laid down routines, including cash reconciliation;
3. Liaise with the link bank regarding FSC deposits and withdrawals or any other related internal audit matters;
4. Verification of the Investment and Credit Committee's operations:

Examine a random sample of loans (made during the period under review) to ensure they are within the credit policy of the FSC, that loan applications are correctly completed, that properly approved procedures are followed, and that security (guarantee) is ensured before loans are granted.

Investments should be checked to ensure that they are within the prescribed limits in the FSC Statute, and the availability of bonds and securities (physical location, safeguards and under whose name – which should be that of the FSC, not one of the Directors).

5. Receive, investigate and act on any complaint or appeal by members concerning their transactions with the FSC or effectiveness of services. Such complaints/appeals must be reported to the Board. Any action taken or recommendations made must be recorded and reported back to the full Board.
6. By an affirmative vote of a majority of its members, the Internal Audit Committee may call a special meeting of the Members to consider any violation of the provisions of the Act, the Statute, the franchise agreement, or to consider any FSC practice, which it deems to be unsafe or unauthorised.

The Internal Audit Committee must ensure that FinaSol is informed of all such special meetings or of any unapproved practices, which may endanger the franchise agreement between the FSC and FinaSol.

7. The Internal Audit Committee may recommend to the Board of Directors the suspension of any Director, Committee or staff member, pending a special general meeting of members to consider such suspension. At the special general meeting the Internal Audit Committee will present a report and recommendations to members concerning the action to be taken.
8. Minutes will be recorded of Internal Audit Committee meetings. The committee Chairperson will provide a report of each meeting to the next regular meeting of the Board and make any recommendations to improve FSC policy and procedures.

CREDIT AND INVESTMENT COMMITTEE

The funds accumulated by the FSC from the member deposits are the primary resource for granting credit to members. The Credit and Investment Committee is the body, which has the specific job of approving or rejecting loans applied for by members. It also has the responsibility of ensuring that the FSC's funds are invested wisely, according to the requirements of the Statute.

It is the responsibility of the Credit and Investment Committee is to approve loans with caution, so as not to undermine the financial stability of the FSC, nor the borrowers. The committee's aim is not to encourage indebtedness, but to provide resources for who have a good reason to borrow. They must be understanding and use good judgement in dealing with the financial problems of members. They must serve members to the best of their ability in times of difficulty and stress.

Credit is a very personal and an important service. The FSC meets its social and economic objectives by using member savings to promote self-help in the form of productive loans.

To be financially sustainable (able to pay its costs), it is estimated that a FSC should introduce loans services to members about 6 months after establishment.

The first loans will be granted to members who save regularly and have sufficient savings to cover the amount of the loan (security in case of non-payment). This will be followed by loans to members who do not have sufficient funds in their savings account to cover the amount of the loan, but who can get another member as guarantor, with sufficient savings to cover the difference. Eventually, loans may be made to members who cannot get a guarantor but who can provide some other kind of security to ensure repayment.

Members must be encouraged to save first before loans can be granted. Thrift must be emphasised, so sufficient funds are available for loans.

FSC Credit Policy

It is important that the FSC shows evidence of its ability to manage loans and risk effectively, since this will enable it to mobilise funds from other external agencies to on-lend to members.

The Credit and Investment Committee must follow well-tested principles of financial management in its lending operations. The credit policy, which will be set out in greater detail in the Credit Policy and Procedures Manual, must be strictly followed.

- (i) Loans shall be limited to productive and provident purposes.
- (ii) Emergency provident loans may be granted as defined from time to time in the Credit Policy and Procedures Manual.

A member may only borrow from the FSC if he/she is in good standing. If he/she has failed to repay any previous loan, or if he/she is in arrears in the payment of any current loans or instalment, he/she is ineligible for another loan until the debt to the FSC is fully settled. Even then repeat loans should not be granted to members who were in arrears on their previous loans.

Borrowers (and guarantors) are required to take out credit-life insurance – so that the loan is repaid in case of death.

- Loans granted should not exceed the amount actually required;
- All possible checks should be made to ensure loans are faithfully used for the purpose requested – they should not be misapplied or misspent;
- Loan repayments must be made as agreed – the required amounts at the correct time. It must be understood by the borrower that this will be strictly enforced (Unpaid loans means money tied up and not available as loans to other deserving members);
- The number and size of loans granted must be managed so that funds are available to cover the needs of new borrowers;

When insufficient funds are available for all loan applications, preference shall be given to the applications for small loans, if other factors such as needs are approximately equal. Otherwise the principle of “first come first served” should be applied; and

- **Administrators, other employees, committee members or Directors of the FSC may not act as guarantors or securities for loans, and may obtain loans only with the unanimous approval of the Board and/or the general members.**

Duties of the Credit and Investment Committee

The Credit and Investment Committee has the responsibility of processing all loan applications received and the recovery of loans granted to members. The committee may invite any financial advisors (e.g. someone from the link bank, another expert in the community) to their meeting to discuss loan requests that they do not understand.

Their main duties include:

- Evaluation of all loan applications and recommendations to the Board;
- Evaluation of investment opportunities and recommendation to the Board;
- Reporting to the Board;
- Recommend improvements to policy and procedures regarding the provision of credit;

- Application of the policy and procedures as approved;
- Monitoring of repayments;
- Intervention on non-repayments;
- Liaison with financial institutions involved in the provision of financial services regarding systems and procedures on credit related matters; and
- Assist any investigation by the Internal Audit Committee.

The Board of Directors as a whole is responsible for overall management and implementation of policy within the FSC – including credit.

The Board should not interfere unnecessarily with the Credit and Investment Committee's work, however it should ensure that:

- Loan applications are handled promptly;
- Members' transactions are treated with the strictest confidence; and
- Members are encouraged to discuss their financial problems, and that there are no unnecessary restrictions discouraging loan applicants.

Reports (minutes) of all meetings of the Credit and Investment Committee must be prepared and forwarded in good time for the next meeting of the Board of Directors.

The loan rate of interest is determined by the Board of Directors and by the Franchise Agreement with FinaSol. The rate will vary with financial market conditions.

Investment Policy

The Credit and Investment Committee is also responsible for evaluating and recommending investment policy for the Board. The FSC Statute limits investments to secured options with their link bank, since no risk on savings and fixed deposits may be taken. The FSC is therefore restricted from investing in speculative, risky investments.

The Statute of the FSC makes provision that a portion of surplus has to be allocated to specific reserves. It is the intention that the specific reserves will be created for risk coverage on loans. This can however only be expected after the establishment phase and when the FSC makes a surplus. Specialist investment advice will be available from FinaSol and the link bank as the FSC develops and thus enhance its surplus and financial stability.

MARKETING AND EDUCATION COMMITTEE

Co-operatives are groups of people who organise themselves and work together to improve their social and economic position. This is not possible without member education. Members must have basic knowledge of co-operative principles and democratic practices to run a FSC.

They must be aware of their rights and obligations and be able to exercise them meaningfully. Otherwise their rights are theoretical and the democratically controlled organisation is a fiction.

Marketing of a FSC to ensure its sustainability – recruitment of new members, increasing member loyalty and use of services, introduction of new products – is essentially educational in nature.

Marketing and Education Committee: Appointment and Functioning

The committee includes co-opted members who are given special responsibilities for:

- Marketing, including potential members;
- Community education and development;
- Member education;
- Training directors and committee members; and
- Training FSC staff.

The committee should prepare, and update annually, an organised education and training programme to provide appropriate awareness information, knowledge and skills, and the development of desirable attitudes, such as self-confidence, trust, prudence, diligence, trustworthiness, to the above target groups.

Core themes adapted to each target group include:

- Co-operative principles – self help, mutual assistance, etc.;
- Development – emphasis on human resources, development of leadership;
- Developing habits of thrift – prudent use of resources;
- Constructive use of credit – resulting in economic, social, family betterment; and
- Development of a culture of continuous “life-long” learning – the FSC is a “learning organisation”.

A manual giving guidelines on marketing and education will be made available by FinaSol as part of its marketing and education support for the FSC.

SECURITY COMMITTEE

A specialised director is appointed for FSC safety and security. Members may be co-opted depending on the work, which involves security of the premises and safety of the FSC cash.

The security of the office building in which member transactions take place is the responsibility of the FSC.

The FinaSol franchise sets out adequate security standards, including:

- Location of building, burglar bars, security guard (s), secure doors, window locks, security lights and liaison with the police.

The security measures in place influence accessibility to insurance cover and the cost of premiums paid by the FSC.

The safety of FSC cash and other assets is also part of the franchise agreement. It too is the responsibility of the FSC. (This is very important to members who want to be assured of the soundness of the institution in which they deposit savings).

Safety involves:

- Installation of a strong safe, out of sight, with a two key system;
- Transfer of excess funds safely to the link bank on a regular basis, with an agreed limited cash float retained on the premises;
- Insurance arrangements to bond employees and cover against theft; and a
- Cash management system:
 - Off-line operating system in place and staff trained to handle such a situation.
 - Tight internal supervision and audit by the Internal Audit Committee.

The committee must be involved in the preparation of an effective safety and security plan (which is required as part of the franchise agreement). It must ensure (regularly) that all of the systems are in place and that the required procedures are being implemented, and/or improved as required.

The committee will need to work in close liaison with the Internal Audit Committee and must provide a monthly FSC safety and security report to the Board.

MODULE 8 FSC ADMINISTRATION STAFF

The FSC Administrator is the “front” person for the FSC – the person members come in contact with most – and who is most likely to influence their satisfaction with the FSC.

This person must be carefully selected by the Board and trained in order to carry out a number of day-to-day duties and provide high standard services to members – especially in ensuring that member transactions are carried out efficiently and there is no financial loss to a member or the FSC as a whole.

Duties – Administrator

General duties are to:

- Manage FSC daily operations following decisions of the Board;
- Ensure all FSC member transactions are completed using the correct forms and laid down procedures prescribed in the FSC Statute and policy and procedures manuals and requirements of the FinaSol franchise agreement;

Specific tasks include:

- Signing up new members;
- Assist customers with their transactions and queries;
- Implement customer transactions efficiently and reconcile cash daily;
- Assist members to complete loan applications;
- Care of FSC equipment (assets register and ensure maintenance/repairs of equipment);
- Maintain and have available accurate FSC records and accounts;
- Be at the service of and assist Internal Audit Committee;
- Report to the Board meeting monthly on FSC activities/operations and any problems and recommendations to the Board;
- Assist the Treasurer and the Credit and Investment Committee to produce their monthly reports;
- Attend Credit and Investment Committee meetings, assist with loan evaluations and process loans approved by the Board. Assist the committee monitor loan repayments and take action on loan delinquencies;
- Prepare vouchers for cheque withdrawals and enter details of cheques for signatories. (Remember the Administrator is **not** a signatory).
- Supervise security measures: building – routine checks, cash, custody and safety of funds;
- Conduct link bank transactions, transport of cash if necessary, and ensure the maintenance of an approved and appropriate cash float;
- Control of other appointed staff; and
- Any other duties assigned by the Board.

Selection and Appointment

The Board appoints and pays the FSC administrator. It decides the level of remuneration, however, the amount must be within the capacity of the FSC's actual and expected earnings. Other staff may be appointed later as the volume of work increases.

The administrator has a very important and responsible post and can influence the success or failure of the FSC. The Board must select a suitable person using the following criteria.

The Administrator MUST BE:

- A respected and trusted member of the community, preferably resident in the area (reliable and loyal to the FSC);
- At least at the Matriculation level (experience of bookkeeping will be an advantage);
- Able to be trained to perform the operational functions of the FSC and fulfil the Franchise agreement requirements. (Training will be provided in computer skills, basic accounts, record-keeping, and reporting);
- A member of the Co-operative and live in the area;
- In good general health and free of commitments which would interfere with FSC work;
- At least 21 years of age and capable of being bonded;
- Able to conduct interviews/deal with the public, enjoy working with people and develop good customer relations;
- Able to direct the work of other staff (leadership qualities); and
- A stable person who will not leave after a short time – because training and retraining is expensive. It is expected that the person chosen will see this as a career opportunity and not just temporary employment.

The Administrator MUST NOT BE:

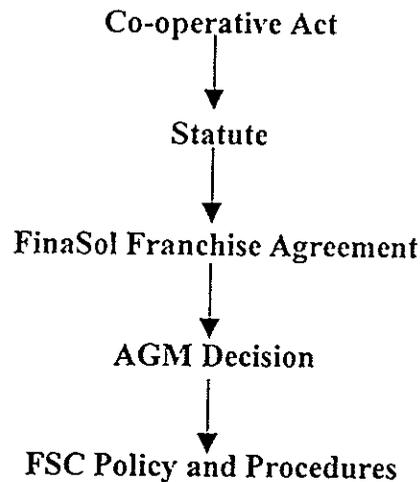
- A director of the FSC, nor a person who is a close relative of a member of the Board;
- A minor;
- A person who is insolvent;
- A person who has been removed from a position of trust because of misconduct; or
- A person who has been convicted of theft, fraud or forgery.

MODULE 9 FSC MANAGEMENT

STRUCTURE AND LEGAL BASIS

It is necessary to understand how administration is shared and how the internal arrangements are governed in a FSC.

The legal basis of the FSC is its statute, which must conform to the requirements in the Co-operative Act 91 of 1981.



A healthy, efficient FSC depends on TEAMWORK and not on one or two individual players.

There are three main parts to the management team:

1. The FSC members in general meeting, who appoint;
2. The Board of Directors, who appoint standing committees; and
3. Paid employees.

To ensure trouble-free, effective management there must be a clear understanding and appropriate allocation of powers and duties to each part of the management team. All parts of the team must work together smoothly for success.

How Power Is Shared In A Co-operative

Power is the authority to do anything – in the legal sense: to have **authority** to take decisions/to take action. Where does power in the FSC come from? The legal basis of power originates in the Co-operative Act, then the Statute and incorporation of the FSC followed by FSC rules of procedure and resolutions passed by members at general meetings, and finally the conditions entered into by the FSC with FinaSol in the franchise agreement.

These are instructions, which set out powers (what legally can be done) and limitations (what must not be done). They are written in the FSC Statute, the Franchise Agreement and the minutes of the General Meetings. They have the force of law.

Members – Broad Powers (Functions)

Members meet in general meetings to make decisions on matters of basic importance to the FSC (policies) for:

- Election/dismissal of Directors;
- Monitoring the financial position of the FSC;
- Amending the FSC Statute, if required;
- Assessing the performance of Directors and staff (delivery of services to members);
- Assessing the financial stability of the FSC; and
- FSC policy direction for the next 12 months, expansion, new products, etc.

Members in general meetings retain ultimate control of the FSC.

Board of Directors – Broad Powers (Functions)

The powers and duties of the Board (which meets regularly) are to supervise the implementation of policies approved by the members at the AGM; i.e., to ensure that activities are carried out, throughout the year, to achieve the objects of the FSC, and to implement resolutions passed by members at general meetings.

Standing Committees are allocated specific jobs by the Board.

Paid Employees

Directors carry out their duties only on a part-time and voluntary basis. A paid administrator is therefore required to carry out the regular day-to-day work of the FSC (and other employees later as the amount of work expands).

MANAGEMENT RELATIONSHIPS (Shared Management)

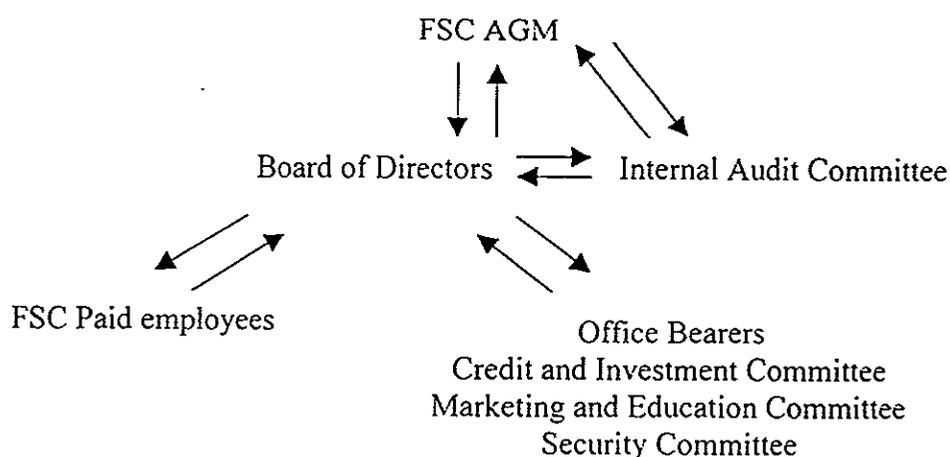
The FSC organisation structure makes possible the democratic sharing of power in line with the requirements of the FSC Statute, and the orderly grouping together of responsibilities and related activities:

- To do jobs which cannot be done by the entire membership efficiently;
- To ensure joint decisions and action, so that individuals do not misuse their power; and
- To share the workload amongst members, directors and staff.

Shared management provides the checks and balances, which are necessary in a co-operative, where the members are both co-owners and customers.

The outline of the FSC organisation structure shows how power is shared within the FSC and how work is allocated and carried out by delegation and progress reporting:

Outline FSC Organisation Structure



Delegation

To delegate means to entrust, to make over and trust one's powers to others (to give other people authority and to enable them to make decisions and take actions on your behalf).

To delegate **does not** mean to abdicate (to give away your powers permanently and not have a say about the results). Reporting back is required to higher authority on:

- Decisions and actions taken; and
- Results of decisions and action taken.

- The FSC administrator must report regularly to the Board on all operational activities;
- Standing Committees must report back to the Board on progress with the specific jobs they have been allocated; and
- The BOD must report back regularly to the FSC general membership via the internal audit and education committees, organised report-back/ information meetings, and newsletter; etc. (in addition to the AGM.)

The Authority to Decide and Take Action

To be carried out properly, delegation requires that powers (functions/duties) and limitations be clearly understood at each level. Powers and limitations are laid down in the FSC Statute and the FinaSol franchise agreement.

Neither the FSC as a whole, nor the Board of Directors, Office bearers, Standing Committee, or Employed Staff, can act beyond the limits of their powers and authority. If they do they can be held personally liable when things go wrong.

This means that:

- The co-operative as a whole must act reasonably to achieve its objects within the Statute;
- The Board cannot act beyond the limits of its authority – it must operate within the FSC Statute, the Franchise Agreement and implement resolutions passed by members at general meetings.

- The Board must operate properly convened meeting where decisions are taken by majority vote. Decisions taken within the limits of the Statute are legally binding on the co-operative; e.g., to hire staff, to suspend a member, etc.
- Directors must accept personal responsibility for good governance of the FSC. The members of the Board must be prudent, diligent and loyal to the FSC. They are responsible to the FSC for the Board's decisions, actions and results.
- Individual Directors cannot take personal decisions or actions on behalf of the FSC, unless the specific powers and duties have been properly delegated to them by the Board and recorded in the minutes.
- The administrator (and any other staff members) must carry out their work, not as they please, but by following step-by-step routines, which are laid down in the FSC Statute and franchise agreement, or delegated, to them by the Board (in writing; i.e., job descriptions, etc.)

MANAGEMENT RELATIONSHIPS

Part of the FSC culture is to promote good relations between members, directors, employees, and FinaSol.

Effective organisations depend on good human relationships, which in turn depend on each person involved understanding his/her job and how it fits in and contributes to, the success of the FSC as a whole.

Good (open, sincere) communication and clear definition of duties is necessary between all parts of the management team. Clear terms of reference and instructions (delegation), regular reports, and a good understanding of co-operative principles and the FSC statute is necessary to **avoid** bad feelings, distrust, rumours, lack of interest, interference and arguments, overstepping authority, dictatorial and selfish behaviour, etc.

The relationship between the Board and the Administrator (and staff) needs special care. An uncontrollable administrator will make it extremely difficult for the Board to function effectively.

On the other hand unnecessary interference by the Board may lead to arguments and disrupt the smooth day-to-day operations of the FSC.

Care is required to avoid a communication gap developing between the Administrator and the Board.

- The administrator should provide information, make suggestions and leave the directors to make their own decisions.
- The directors should understand the administrator is under constant pressure. When things don't go well he is subject to gossip and criticism. He has to try to satisfy the demands of many people, and requires understanding and support from the Board.

Board of Directors and FSC Staff Relationship

The Administrator is responsible for delegated day-to-day operations (e.g. transactions) reporting to the Board (financial and other matters as required). The Board expects FSC staff

to report promptly and adequately, to ensure the safety of funds and other assets and records of the FSC, and to make constructive suggestions to improve the efficiency of the FSC. FSC staff expects the Board to understand their work problems, to provide adequate working conditions, and to give recognition for good work. The FSC staff expects an open flow of information from the Board to enable them to do their work properly (not being in the dark). Directors should **not interfere** unnecessarily in FSC day-to-day operations, but their friendly constructive **practical help** is most valuable, especially during the start up of the FSC.

Members: Relationship with Directors and FSC Staff

Members are **both** co-owners and customers.

Any business that does not have sufficient customers cannot continue. The customers are the reason for the existence of the business – the FSC. Customers can be lost for a number of reasons:

- Poor service – dissatisfaction;
- Lack of attention to needs; and
- Rudeness, etc.

Customer satisfaction can be built up by providing quality services, friendly treatment, a personal interest in customer needs and problems (giving help and advice).

Directors must constantly bear in mind that they have been elected by members to act in their best interests. Directors must ensure that they have good contact with members, patiently listen to their views and build good relationships with them by:

- Delivery of effective services;
- Activities of the internal audit and marketing and education committees;
- Regular report back/information meetings for members;
- Newsletter and other publicity; and
- Effective implementation of member resolutions at General Meetings

The Administrator and Staff

For most members, the FSC is represented by the staff. If they are friendly, courteous, helpful (e.g. form filling) and efficient in carrying out member transactions, the members will have a good opinion of the FSC.

The administrator (and other staff members) can market the FSC directly, each day, by providing information on FSC services, and discussing members' needs with them. When faced with difficult tasks such as informing a member of a loan refusal or following up loan delinquency with borrowers or guarantors, he/she should be firm but polite.

At all times FSC staff should be business-like (e.g. promptness – office open on time, confidential – not a gossip, etc.) This creates member confidence and trust in the FSC and its staff. A friendly and understanding businesslike relationship with members can promote the growth of the FSC considerably.

The Internal Audit Committee and FSC Administrator and Staff

The relationship of the Internal Audit Committee, with FSC Administrator and staff, should be one of mutual support – in ensuring the efficiency and integrity of the FSC. The

Committee should be friendly to the FSC Administrator, but they must work in a business-like manner.

FSC staff must be at the disposal of the committee (even out of office hours, if necessary) and provide the committee with any records and accounts they require for checking.

FSC staff must allow the committee to work privately, but be available nearby to assist and answer questions when required.

The Credit and Investment Committee (CIC) and FSC Staff Relationship

The FSC administrator attends CIC meetings.

The member, who takes a loan, completes the loan application form and submits it to the FSC. The administrator collates all loan applications and provides relevant information to the Credit and Investment Committee. The Credit and Investment Committee approves, suspends for further information or rejects the loan applications. Information must be reliable and transparent.

The FSC administrator and staff must be as pleasant and understanding as possible with members involved in loan applications, and inform them promptly of loan decisions. Loan delinquency must be dealt with pleasantly but firmly. FSC staff must keep loan information **strictly confidential**. Furthermore, any information provided by to them to Credit and Investment Committee must also to be treated confidentially.

Management Relationship between the FSC and FinaSol

The Need for Economic Efficiency – the survival and progress of a FSC depends upon its economic performance.

The franchise agreement between the FSC and FinaSol is intended to strengthen the link between modern technology and management methods and democratic control of the FSC, to enable it to become financially sustainable in a competitive economy. It is intended that the FSC (members, Board, committees and employees) and FinaSol will operate together as a well co-ordinated partnership for a **common purpose**, the delivery of effective, affordable and convenient financial services to FSC members.

The shared goals and supportive friendly relations will be rooted in a **business-like approach** to the operations of the FSC, which are reviewed annually in a joint performance and management audit of the FSC.

MODULE 10 THE FRANCHISE AGREEMENT

WHAT IS A FRANCHISE?

A franchise is a partnership. The **franchisor** (FinaSol) agrees to provide a proven product (a complete system of financial services) and the **franchisee** (the FSC) agrees to establish and manage the business (provision of financial services to members) strictly within the conditions laid down in the franchise agreement. Both parties have a responsibility and depend on each other to make the business succeed.

There are many examples of franchises in South Africa, especially in the Fast Food area (KFC, Steers, Wimpy's, etc.) Each outlet provides standard products and quality of services to the customers.

BENEFITS OF A FRANCHISE

When entering a franchise agreement, the franchisee (FSC) greatly reduces the risk that the business will fail. The package of services and support provided by the franchisor (FinaSol) is based on years of experience.

The FSC does not "start from scratch" – start-up problems are minimised or eliminated.

Support is provided by FinaSol, which includes:

- Financial assistance to start up the FSC;
- Continuous training;
- Marketing support;
- Accounting and technical services;
- Ongoing advice/expertise; and
- Business development.

Another advantage is that the FSC becomes recognised as a sound institution by authorities, business and banking institutions, as well as support by the public.

CONDITIONS FOR FSC PARTICIPATION

The process for the FSC to become eligible to participate as a franchise with FinaSol is mainly by **self-selection**.

FinaSol (the franchisor) provides a preliminary development process of training and facilitation during which it becomes clear whether the group (and community) has the potential to become a successful FSC franchisee.

1. The **awareness programme** leads to an assessment of whether or not there is adequate support in the community to continue into the pre-establishment stage.

If there is a positive response the community will begin the pre-establishment training process.

2. The pre-establishment programme then requires:

- An active/committed Founding Committee of 15-20 members;
- Community mobilisation and recruitment of at least 50 applicant members;
- Action steps leading to the registration of the FSC;
- Business plan to confirm the financial viability and sustainability of the FSC;
- Provision of premises and practical measures to establish the FSC (electricity, telephone, security, staff, etc.)

If any of these requirements is lacking, the group will not have the profile for a successful FSC franchise, and will not be eligible to participate in the FinaSol franchise agreement.

OUTLINE OF THE FRANCHISE AGREEMENT

Once the decision has been taken to register as a FSC, the founding meeting is held (at least 50 members signed up) and the documentation is completed for registration as a co-operative. At the same time the FinaSol Franchise Agreement is approved by members and signed.

FSC Responsibilities

The FSC is responsible to provide for its operational needs, including premises, office furniture, safe, computer, telephone and electricity connections, stationery, security such as burglar bars, alarm and personnel expenditure.

The FSC must:

- Set up valid bank account in the FSC's name with the required signatories;
- Appoint a FSC Administrator from the community; and
- Participate in the FinaSol sponsored FSC training.

The FSC is required to provide FinaSol with timely and accurate financial and impact reports.

Services Provided by FinaSol

FinaSol will provide to the FSC:

- A grant of (up to) R8 000 for the purchase of a safe;
- A low interest loan of (up to) R40 000 for the first year's operating expenses;
- The day-to-day management information systems for FSC accounting, together with operations training for its users;
- Facilitation services to assist the FSC to meet the requirements of the Registrar of Banks and Registrar of Co-operatives;
- Assistance with the development and marketing of financial products; and
- Access to wholesale finance (as needs are identified and the FSC management capacity develops).

Performance and management audits will be undertaken annually (through FinaSol) to:

- Assess performance and management of the FSC (make recommendations for improved operations);

- Revise business plans for a more competitive and efficient FSC; and
- Set up the technical training needed to implement the audit and business plan recommendations.

An important basis of the franchise is that the FSC and FinaSol will consistently work together to encourage a growth and expansion strategy; i.e., “To Grow The Business”.

Results from the annual performance and management audit will permit FinaSol to **certify and accredit** the FSC. Accreditation is an annual financial service provided by FinaSol to a FSC, which has received both a satisfactory financial audit report and a satisfactory performance and management audit report.

Suspension and Termination

If a FSC is non-responsive to the conditions of the franchise agreement, or there is evidence of fraud or financial mismanagement or inability to maintain liquidity, FinaSol will advise the FSC of non-compliance.

The FSC will be put on probation and provided with special technical assistance to solve the problem. The FSC must respond positively within 30 days if it wishes to continue as a FinaSol franchisee.

If the FSC wishes to withdraw from the Franchise it must give 12 months notice for voluntary termination of the agreement.

Normally, the agreement is performance based – it remains in effect as long as the FSC remains in compliance with the conditions.

The FSC may also give FinaSol 30-days notice to comply with the agreement, if FinaSol does not respect its engagements under the Franchise Agreement.

CHARGES AND EARNINGS

Charges on member transactions, interest rates and other fees will vary according to market conditions. Fees and charges are intended to cover the operating costs of:

- The banking system
- The FSC
- FinaSol

The banking system is the most costly, neither the FSC or FinaSol make a profit, however, they must pay their expenses and set funds aside as reserves for contingencies and expansion and improvement of services. The structure of fees and charges is reviewed periodically (at least every 6-months).

MODULE 11 MANAGEMENT INFORMATION SYSTEM AND THE LINK BANK

The FSC administration (Board, Committees and Administrator) need accurate, up-to-date, easily accessible and understandable information for three reasons:

1. **Information required on a daily basis in order to balance the funds on hand at the end of each day.**
 - A summary of deposits taken (recording cash and cheque deposits separately);
 - A summary of withdrawals taken; and
 - The cash float at the beginning of the day as well as any money deposited in the link bank or withdrawals made from the Link Bank.

The electronic information system provided by FinaSol will provide the FSC Administrator with a statement indicating the cash on hand at the end of the day's transactions.

The Administrator will then reconcile the cash on hand with the statement, and sign the daily report to confirm that the reconciliation has been undertaken. Any shortages or surpluses are recorded on the statement.

The Treasurer and the Internal Audit Committee will check the money on hand against the printout on a regular basis.

This information is used to ensure the safety and accurate accounting of members' funds.

2. **Regular Management information is required by the FSC administration:**
 - Monitor the performance of the FSC – especially its financial position;
 - For sound, timely decision-making; and
 - To implement any corrective action needed.

This includes:

- Information relating to membership;
- Level of savings – volume and number of transactions;
- Loans granted;
- Loan repayment levels; and
- Cash flow of the FSC (expenses, income, etc.)

This information is used to assess trends or make comparisons e.g.

Trends:	}	increase/decrease/static
Comparisons		last month's, last year's figures/results
With		estimates/predictions in the business plan

(An assessment of FSC actual performance compared with estimates/ predictions in the business plan must be an agenda item at each meeting of the Board).

To facilitate management decision-making, FinaSol will provide the FSC with a quarterly report, which will include the following:

- Membership - growth or decline
- Savings - growth or decline in saving per members
- Loans - growth of the portfolio and an early warning in terms of default. Schedule of late payers will be provided.
- Viability of FSC - is income exceeding expenditure i.e. is a surplus generated?

3. Information To Meet Regulatory Requirements

This includes audit and other reports required by the Registrar of Co-operatives.

At the end of the financial year, FinaSol will provide the FSC with information needed for a financial statement, including a balance sheet (which will meet the requirements of the Registrar of Co-operatives).

To conclude:

The Board and Committee members are not expected to be accounting experts. They are consumers of management information and do not need to know exactly how it is produced. What they do need to know is how to interpret the information provided. In general this means being alerted when the FSC is not performing as well as expected, so that they can take action to avoid losses or other unnecessary problems.

THE LINK BANK

In order to deliver financial services to members, the FSC requires access to commercial banking services.

Opening A Link Bank Account

It is suggested the link bank account should be opened after the Founding Committee is put in place so that the membership fees and payments for shares by the first members can be deposited safely. The account will be opened in the Founding Committee's name and then transferred to the FSC once it is established (after the founding meeting and election of the Board).

The Founding Committee should select the link bank (with the approval and facilitation of FinaSol). The link bank should be readily accessible; i.e., not too remote and be situated in a centre that is well serviced by public transport. This is necessary to ensure the regular and safe transfer of cash between the FSC and the bank.

The services required from a link bank by the FSC include:

- Savings or other deposit accounts;
- Clearing of cheques deposited in FSC accounts;

- Financial advice on investments of FSC funds;
- Provision of funds for on-lending (after the FSC has a proven loan track record); and
- Electronic transfer facilities.

HOW THE SYSTEM WORKS

Members

Each member has a savings account with the FSC and conducts all their financial transactions through this account.

FSC

The FSC provides a full range of financial services to its members. The FinaSol FSC banking system is fully computerised. It provides members with up to date information on their accounts. The computer system is linked to FinaSol where the member accounts are processed and stored.

The FSC will maintain a cash float at its premises. Any surpluses will be deposited in the FSC link bank account. Withdrawals will be made from the link bank account to replenish the float when necessary.

Link Bank

The link bank will offer the FSC in a range of investment options for excess funds, either long term or short term call accounts.

Electronic transfers, both receipts and payments, will be handled through the link bank account. The link bank does not have access to the members' individual accounts.

The link bank is linked via the FinaSol computer system to the FSC, and transmits information on all electronic transfers to FinaSol to be debited/credited to the respective FSC member accounts.

FinaSol

Does not handle FSC funds.

FinaSol processes all of data from the FSCs and the link bank to the members' accounts, as well as the monthly debiting/crediting of interest on these accounts.

FinaSol is linked by computer to both the FSCs and the link banks. The system provides regular management information on a daily, weekly and monthly basis, to enable the FSC to maintain strict control over all financial transactions, including the movement of money through the FSC.

MODULE 12 THE FSC FORMATION MEETING

The pre-establishment programme brings the Founding Committee to the formation meeting, which is a critical legal step towards establishing a FSC.

- Applicants subscribe to the FSC and become members;
- The first Board of Directors is elected and the Statute is approved; and
- All of the legal requirements (including registration forms) are completed for incorporation and registration as a co-operative.

In order to be successful the formation meeting must be carefully prepared, properly conducted and all the resulting follow-up work completed immediately.

The **formation** meeting must be properly organised to ensure that all of the required procedures have been carried out and that the application for incorporation meets all the legal requirements in the Co-operative Act. Careful **preparation** is needed for a successful formation meeting.

During the meeting the order of business should be undertaken in a step-by-step manner to ensure that nothing is forgotten and that a quorum is obtained to meet the legal requirements.

After the meeting – when the FSC has been legally formed, there is considerable follow-up work (electing the remaining officers and completing the documents for registration).

PREPARATION FOR THE FORMATION MEETING

The Founding Committee must start early to prepare for the “Formation Meeting”.

What is necessary?

- Smaller explanatory group meetings should be organised throughout the community to spread information as widely as possible;
- Members must be recruited in advance to ensure that there are substantially more than the minimum applicants for membership who pay the membership fee and purchase a share;
- Publicity is required to ensure that the maximum number of members is present at the formation meetings. It is recommended that at least the 50 initial members should attend;
- Arrange, place, date, time, etc. Advertise the meeting by posters and announcement and send invitations to members and to those who have expressed an interest in joining the FSC, but not yet joined. Invite FinaSol representatives;
- Ensure availability of adequate application forms, FSC share certificates, receipt books, etc. (Can be obtained from FinaSol);

- Obtain the necessary documents which must be completed for registration (can be obtained from FinaSol);
- Obtain candidates for the Chairperson, Vice-chairperson and other board member positions, who have good background knowledge.
- Select three people to serve as Founding Meeting chairperson, secretary and treasurer. It is important to know in advance that there is someone to conduct the meeting properly, someone to record the decisions (minutes) and someone to collect membership fees;
- Elect Trustee (Treasurer) for the meeting and open an account with the Link Bank in order to deposit safely membership and other fees collected;
- Applicants who wish to join should be informed well in advance to bring their fees to the meeting (a minimum amount of R 80 is recommended to cover the purchase of one share (at least R 50), membership fee (at least R 10) and the initial savings deposit (of at least R20);
- Have copies of FSC Statute and FinaSol Franchise Agreement available to refer to if needed; and
- Have a prepared outline of FSC objectives and business plan to explain to applicants at the meeting.

FORMATION MEETING – ORDER OF BUSINESS

It is important the meeting is conducted properly both to comply with the Co-operative Act, and to get the FSC off to a good start.

- Election of temporary chairperson, secretary and Treasurer (should already be pre-selected by Founding Committee) for the meeting by the subscribers/applicants.
 - Check to see if there is a quorum of members present to form the FSC. If there are insufficient applicants present the formation should be postponed to a later date;
 - Introduction of visitors (e.g. FinaSol); and
 - Explanation by chairperson that the purpose of the formation meeting is to fulfil all of the requirements for FSC certificate of registration:
 - Objects of FSC and how they will be carried out
 - Business plan (including budget/cash flow)
- } usually combined
} into one document
- Time is then allowed for questions;
 - Chairperson calls on those present who wish to become members to sign application forms. (Details to be checked by Founding Committee members. To save time details may be filled in on the application forms, and checked before the meeting. The completed application forms must be stored safely by the FSC);
 - Collection of membership fees by Founding Meeting treasurer (To save time the payment may be made in advance and names read at this point);

- Members elect the first Board of Directors to hold office until the next AGM (The number of directors required is set out in the Statute. They may or may not be members of the original Founding Committee);
- Members now elect the Internal Audit Committee (who must not be a director);
- The Statute should be read and approved by the members;
- The FinaSol franchise agreement should be read and approved by the members; and
- The members must approve the number of signatories required on the link bank account.

THE FSC IS NOW LEGALLY FORMED. THE FORMATION MEETING CAN BE CONCLUDED.

(The chairperson will explain when the FSC is expected to open for full operations).

AFTER THE FORMATION MEETING

It is suggested that immediately after the formation meeting, the Board should meet and:

- Elect specialised Directors to hold office until the first meeting of the Board after the first AGM of members;
- Complete and sign the forms and statements required by the Registrar of Co-operatives (FinaSol can assist).
 - Form A “Formation of a Primary Co-operative”.
 - Statement setting out FSC objects and “business plan”.
 - Two copies of the Statute.
 - “List of applicants for membership”.
 - List of Directors.
 - Statement of expenses and liabilities incurred for registration.
 - Notice of postal address and registered office.
 - Revenue stamps to pay application fee (at present R90).
 - Application for registration of the Statute and incorporation.....
- Sign the Franchise Agreement with FinaSol and arrange to have it attested;
- Ensure that all fees collected at the Formation Meeting are safely deposited in the FSC account, and that temporary arrangements are in place to sign-up new members until the FSC office is opened.

MODULES 13 PREPARATIONS TO OPEN FOR BUSINESS

It is important that when the FSC is officially opened for business high quality financial services are provided, efficiently for members from the beginning. This requires that all the necessary requirements be in place and working properly before the FSC begins operations.

The aim is to have a smooth “take-off” – an FSC that is functioning effectively from the beginning in providing services to members. This is essential for good public relations. A bad start to the FSC (inadequate facilities, errors or delays in transactions etc.) will create a bad image of the FSC in the community. First impressions are the most lasting – and it will take the FSC a long time to overcome a faulty beginning.

The FSC cannot commence transactions with members until its Statute has been registered. Taking into account what preparations to start business have already been made during the pre-establishment period, and the expected time registration will be approved, the Board should set a **target date** for the **official opening** of the FSC.

The Board, assisted by volunteer members and facilitated by FinaSol, must plan and work intensively to ensure that all the requirements are in place **BEFORE** the official opening.

LIST OF CRITICAL JOBS

After the submission for registration has been completed there are **SIX** critical jobs which must be accomplished. (A **critical job** will hold up the FSC opening until it is completed).

1. FSC office/building procured.
2. Telephone and electricity installed.
3. FSC staff recruited and trained.
4. Link Bank arrangements completed.
5. Computer installed and functioning.
6. Stationery available for start-up of operations.

It is critical that each of the jobs be accomplished on time. How each of these critical jobs will be accomplished must be thought through and broken into steps or sub-tasks for easy implementation:

1. FSC OFFICE BUILDING

- Acquire buildings – suitability - electricity
- telephone
- water } Provisions of connections and arrange payment of accounts.
- Security - Doors (burglar bars) Windows (burglar bars)
Security fence? Alarm/lighting
Guard/watchman/dog? Safe/security door (two locks)
Safe (out of sight). Lockable cash boxes
Fireproof cabinets Proximity to other buildings

Remember the teller area must be securely separated from customer area.

- Customer area – seating/writing facilities, shelving;
- Office (staff/directors). It is not necessary to seek a large building, which may not be fully utilised. Meetings can be held in public buildings – e.g. church halls, schools; and community hall, etc.
- Signboard, and notice of business hours.

2. FSC STAFF

- Recruitment and appointment of Administrator, as well as arrangements for supervision and reporting; i.e., day to day management. Conditions of service, hours of work, etc., must be discussed; and
- Operating training – staff/Board members/stand in operators.

3. LINK BANK

- Open link bank account (FinaSol can facilitate);
- Decide size of cash float;
- Arrangements for cash transport; and
- Insurance.

4. COMPUTER

- Installation;
- Testing the system;
- Care of equipment;
- Staff training; and
- Maintenance contract.

5. STATIONERY

- Deposit/withdrawal/membership forms, etc. (available from FinaSol) and
- Stock of stationery and control.

There are other jobs, which must be undertaken during this period before the official opening.

6. MARKETING/MEMBER RECRUITMENT

- Continue marketing FSC and products and secure membership, member recruitment should be ongoing; and
- Publicity – official opening, services to be provided, hours of business.

7. OFFICIAL OPENING

- Launching – formal opening:
 - Arrangements
 - Programme prepared
 - Invited guests/VIPs
 - Groups from other potential FSC areas, etc.

Appendix 4. Target Achievement Update on 1998-1999 Annual Work Plan

USAID/South Africa Increasing Microenterprise Access to Liquidity (IMALI) Program

(Project No. 674-A-00-98-00056-00)

ANNUAL WORK PLAN I (October 1998 - September 1999)

ACDI/VOCA - FinaSol

A/V - A/DIRECTOR
AIPA - Africa Instn Policy Analysis
INAILI - USAID project
INGRY - German donor

FSC - Financial Service Coop
FSA - Financial Service Assoc.
FinaSol - Financial Solutions
TIGP/RAFAD - guarantee orgs
IP-AED

USAID - US Agency for International Dev
MD - Managing director
STA - Sr Technical Advisor
OM - Operations mgr

FM - Finance/MIS mgr
TM - Training mgr
RM - Regional mgr

Acct - Accountant
FSCA-FSC administrator
CO - FSC credit officer
OSTC - Outside Short-term consultant

TBD - To be determined

TASK	RESPONSIBLE PARTY	IMPLEMENTATION TIMEFRAME		OUTPUT	TARGET						COMPLETION STATUS	
		Start	End		1998/99		1999/00		2000/01		Actual % this year	Actual % of TOTAL
					Projected	Actual	Projected	Actual	Projected	Actual		
<i>USAID Strategic Objective 5. Increase access to financial markets for the historically disadvantaged population</i>												
I. FinaSol Establishment												
1 A/V project rep arrives in RSA on project	STA	Oct	Oct	Work begins FinaSol/IMALI	100%	100%	na	na	na	na	100%	100%
2 A/V meets w. USAID-Pretoria	A/V,STA,MD	Oct	Oct	Establish working relation w/ USAID	100%	100%	na	na	na	na	100%	100%
3 Interface with SASA agreed upon for year 1	MD	Qtr1	Qtr2	Provision of office space, telephone, IS network and administrative assistance, etc.	100%	100%	na	na	na	na	100%	100%
4 Organize FinaSol office arrangements (In SASA for 1 yr)	STA,MD	Oct	Qtr2	Establish FinaSol office	100%	100%	na	na	na	na	100%	100%
5 Interface with FAF agreed upon	MD	Qtr1	Qtr2	Devt. of non competitive, complementary services	100%	100%	na	na	na	na	100%	100%
6 Secure FinaSol's registration as a Section 21 company	MD	Nov	Qtr2	FinaSol formally registered as Section 21 company	100%	100%	na	na	na	na	100%	100%
7 Secure FinaSol's registration as a Trust	MD	Dec	Qtr2	FinaSol formally registered as a Trust	100%	90%	na	na	na	na	90%	90%
8 Select FinaSol's board of directors (Section 21)	MD	Dec	Qtr2	FinaSol's board of directors selected and in place	100%	90%	na	na	na	na	90%	90%
9 Select FinaSol's board of trustees (Trust)	MD	Dec	Qtr2	FinaSol's board of trustees selected and in place	100%	90%	na	na	na	na	90%	90%
10 Complete and sign project subcontract with A/V	MD,A/V	Dec	Qtr2	FinaSol/ACDI-VOCA partnership formalized	100%	90%	na	na	na	na	90%	90%
11 Prepare FinaSol FSC franchise agreement	A/V, MD	Dec	Qtr2	FinaSol/FSC franchise agreement formalized	100%	90%	na	na	na	na	90%	90%
12 Prepare FinaSol information brochure	MD,OSTC	Dec	Qtr2	FinaSol project promotion initiated	100%	50%	na	na	na	na	50%	50%
13 Establish FinaSol support systems	MD,STA,OSTC	Qtr1	Qtr3	FinaSol project management systems put in place	100%	50%	na	na	na	na	50%	50%
14 Draft Annual Work Plan, set w/ USAID	STA,MD,A/V	Qtr1	Qtr1	Annual implementation plan in place	100%	100%	100%	0%	100%	0%	100%	33%
15 Draft Procurement Plan, set w/ USAID	STA	Qtr1	Qtr2	Project procurement plan in place	100%	50%	na	na	na	na	50%	50%
16 Meet w. InfoWave to review MIS requirements	MD,STA	Qtr1	Qtr3	MIS requirements agreed on; design work started	100%	50%	na	na	na	na	50%	50%
17 MAF progress reporting parameters vetted w/ USAID	STA	Qtr2	Qtr2	MIS design parameters established	100%	0%	na	na	na	na	0%	0%
18 Place notice for FinaSol job openings (annual)	MD,STA	Qtr2	Qtr9	Staff hiring initiated	100%	50%	100%	0%	100%	0%	50%	17%
19 Hire staff	MD,STA,OM	Qtr2	Qtr9	Staff hired	100%	50%	100%	0%	100%	0%	50%	17%
20 Initiate in-house staff training	STA,OM	Qtr2	Qtr10	Staff trained	100%	50%	100%	0%	100%	0%	50%	17%
21 Coordinate on USDA SDA FSC initiative	MD,STA	on-going	Qtr12	FSC inputs coordinated with FinaSol	100%	75%	100%	0%	100%	0%	75%	25%
22 A/V SDA sign MOU on FSA/FSC development	A/V,NDA	Qtr2	Qtr2	MOU formalizes FSA development agreement	100%	75%	na	na	na	na	75%	75%
23 Annual Budget Prepared for FinaSol	MD,STA	Qtr1	Qtr2	Annual budget prepared and approved	100%	100%	100%	0%	100%	0%	100%	33%
24 Maintain relations w/ Registrar of Coops/Banks	MD	on-going	Qtr12	Legal status of FSC's and financial role formalized	100%	75%	na	na	na	na	75%	75%
25 Develop agenda for short-term TA/training	STA,MD	Qtr2	Qtr3	FinaSol technical capacity developed	100%	0%	na	na	na	na	0%	0%
26 1st annual team-building/strategic planning workshops	OSTC,MD,STA	Qtr3	Qtr4	Staff work under common set of objectives	100%	0%	100%	0%	100%	0%	0%	0%
27 Devt. liquidity cash management system for FSC's	MD,STA,OSTC	Qtr3	Qtr4	Development of liquidity/cash management manual	100%	0%	na	na	na	na	0%	0%
28 Develop a computer literacy training module	OM,FM,TM	Qtr2,3	Qtr2	Computer literacy training manual completed	100%	0%	na	na	na	na	0%	0%
29 Develop training module materials	STA,OSTC	Qtr1	Qtr3	Technical materials developed to establish FSC's	100%	100%	na	na	na	na	100%	100%
30 Prepare FinaSol personnel policy manual	MD,STA,OSTC	Qtr2	Qtr3	Development of a personnel policy manual	100%	50%	na	na	na	na	50%	50%
31 Develop S11 A agenda for FinaSol	MD,STA	on-going	Qtr4	Annual TA plan developed for FinaSol	100%	0%	na	na	na	na	0%	0%

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TASK	RESPONSIBLE PARTY	IMPLEMENTATION TIMEFRAME		OUTPUT	TARGET						COMPLETION STATUS	
		Start	End		1998/99		1999/00		2000/01		Actual % this year	Actual % of TOTAL
					Projected	Actual	Projected	Actual	Projected	Actual		
II. FinaSol Operations												
<i>Intermediate Results (1):</i>												
<ul style="list-style-type: none"> Number of microenterprises accessing loans through FinaSol FSCs Number of loans made to microenterprise by FinaSol FSCs Value of loans made to microenterprises from FinaSol FSCs 				Microenterprises accessing loans	310	1,758	3,742					
<ul style="list-style-type: none"> Total number of FSCs Total number of FSC's membership Total savings mobilized by FSC's Total capital mobilized by FSC's Total employment generated by FSC loans 				Loans made to microenterprises	410	4,482	12,742					
<ul style="list-style-type: none"> Total number of FSCs Total number of FSC's membership Total savings mobilized by FSC's Total capital mobilized by FSC's Total employment generated by FSC loans 				Value of loans to microenterprises	\$ 64,500	\$ 911,750	\$ 3,209,131					
<ul style="list-style-type: none"> Total number of FSCs Total number of FSC's membership Total savings mobilized by FSC's Total capital mobilized by FSC's Total employment generated by FSC loans 				FinaSol FSCs registered	15	40	58					
<ul style="list-style-type: none"> Total number of FSCs Total number of FSC's membership Total savings mobilized by FSC's Total capital mobilized by FSC's Total employment generated by FSC loans 				FSC membership	3,450	10,300	16,300					
<ul style="list-style-type: none"> Total number of FSCs Total number of FSC's membership Total savings mobilized by FSC's Total capital mobilized by FSC's Total employment generated by FSC loans 				Total FSC savings mobilized in Rands	R 617,895	R 1,888,936	R 3,011,203					
<ul style="list-style-type: none"> Total number of FSCs Total number of FSC's membership Total savings mobilized by FSC's Total capital mobilized by FSC's Total employment generated by FSC loans 				Total FSC paid in capital in Rands	R 195,431	R 347,887	R 603,776					
<ul style="list-style-type: none"> Total number of FSCs Total number of FSC's membership Total savings mobilized by FSC's Total capital mobilized by FSC's Total employment generated by FSC loans 				Number of jobs created	TBD	TBD	TBD					
52. Develop FSC selection criteria	STA,MD,OSTC	Qtr12	Qtr1	FSC site selection criteria established	100%	100%	na	na	na	na	100%	100%
53. Prioritize FSC geographic placement	MD,STA,OM	Qtr12	Qtr2	Communities identified for FSC development	15	18	25	0	18	0	120%	31%
54. Select target for new FSC establishment	MD,OM,RI	on-going	Qtr2-10	New FSC candidates agreed on	15	6	25	0	18	0	40%	10%
55. Carry out community resource appraisal	OM,STA	on-going	Qtr1-10	Community resource base identified	15	6	25	0	18	0	40%	10%
56. Carry out field market survey/comm. resour. appraisal	STA,OM	Qtr12	Qtr10	Microenterprise service demand better understood	TBD	0	TBD	0	TBD	0	0%	0%
57. Interested communities approach FinaSol	Community	on-going	Qtr2-11	FinaSol list of potential FSCs increased	15	6	25	0	18	0	40%	10%
58. Assist in start-up of FSCs	OM,STA	on-going	Qtr1-10	FSCs started	15	0	25	0	18	0	0%	0%
59. Carry out FSC awareness training and promotion	STA,MD,IM	on-going	Qtr1-10	Community, FSCs, clients aware of FinaSol services	15	6	25	0	18	0	40%	10%
60. Carry out FSC pre-establishment training	STA,IM	on-going	Qtr2-11	FSC founding committees trained	15	1	25	0	18	0	7%	2%
61. Carry out FSC operations training	STA,IM	on-going	Qtr3-12	FSC administrator, staff and board rep. trained	45	0	75	0	54	0	0%	0%
62. FSC management training	STA,MD,IM	quarterly	Qtr1-10	FSC management staff trained/strengthened	30	0	50	0	36	0	0%	0%
63. Community provides FSC premises	FSC	periodic	Qtr2-11	FSC office established	15	0	25	0	18	0	0%	0%
64. FSC applies to FinaSol program	FSC	on-going	Qtr2-11	Community resources deemed adequate	15	0	25	0	18	0	0%	0%
65. Respond to community requests for application	OM,STA	on-going	Qtr1-10	FSC applications received from communities	15	0	25	0	18	0	0%	0%
66. Facilitate the registration of FSCs	OM	on-going	Qtr1-10	FSCs registered	15	0	25	0	18	0	0%	0%
67. FSCs in process of registration	OM,STA,RI,IM	on-going	Qtr10	New FSCs established	15	6	25	0	18	0	40%	10%
68. Sign franchise agreement w/ FSCs	MD,FSCs	on-going	Qtr1-10	FSC/FinaSol franchise agreements signed	15	0	25	0	18	0	0%	0%
69. Assist FSCs w/ financial service delivery	OM,IM,STA	on-going	Qtr2-11	Customers receive financial services	15	0	40	0	58	0	0%	0%
70. Provide technical assistance as needed	OM,STA,OSTC	periodic	Qtr2-11	FSC delivery capacity enhanced	15	0	40	0	58	0	0%	0%
71. Assist FSC with business plan revision	OM,RI,STA	on-going	Qtr3-12	Revised business plans completed	15	0	40	0	58	0	0%	0%
72. Make periodic field visits to FSC	STA,OM	on-going	Qtr2-11	FSC capacity verified; TA provided as needed	15	0	40	0	58	0	0%	0%
73. Carry out annual FSC audits	OM,RI,STA	annual	Yr1-3	FSC mgmt/financial capability assessed	0	0	15	0	40	0	0%	0%
74. Certify FSCs	OM,MD,STA	annual	Qtr1-10	FSCs certified after annual audit	0	0	15	0	40	0	0%	0%
75. Provide FSC accreditation	MD,OM	annual	Qtr6-10	FSCs accredited	0	0	15	0	40	0	0%	0%
76. Carry out FSC peer review and report on findings	OM,RI,STA	annual	Qtr6-10	FSCs ranked according to performance	0	0	1	0	1	0	0%	0%
77. Design a FSC performance-based incentive plan	STA,FSCA	Qtr3	Qtr4	FSC standards/performance incentive plan in place	100%	0%	na	na	na	na	0%	0%
78. Contact, facilitate, negotiate link bank inputs	MD,STA	Qtr2	Qtr10	Link bank identified and prepared to participate	3	2	na	na	na	na	67%	67%
79. Update FSC products and services menu	STA,OM,MD	on-going	Qtr2-10	Revised FSC product line initiated	100%	0	100%	0	100%	0	0%	0%
80. Assist FSCs with management support systems	STA,OM,OSTC	on-going	Qtr2-11	FSC admin systems in place and functional	15	0	40	0	58	0	0%	0%
81. Facilitate negotiate wholesale loan funding	MD,STA	on-going	Qtr5-10	New loan capital available	0	0	TBD	0	TBD	0	0%	0%
82. Prepare the FSC credit policy manual	OSTC,STA,MD	one-time	Qtr3-4	Credit delivery manual completed	1	0	na	na	na	na	0%	0%
83. Undertake FSC credit officer training	OM,IM,STA	on-going	Qtr1-12	FSC credit officers trained and working in FSCs	15	0	25	0	18	0	0%	0%
84. Set up FSC MIS loan tracking impact monitoring	STA,OM,RI	on-going	Qtr2-11	FSC loan tracking carried out; impact reported	15	0	40	0	58	0	0%	0%
85. Microenterprises access loans	IM,RI,FSCA	monthly	Qtr3-12	Loan disbursement info recorded	310	0	1,758	0	3,742	0	0%	0%
86. Cumulative number of loans disbursed	IM,FSCA,CO	monthly	Qtr3-12	Overall portfolio loan info recorded	410	0	4,482	0	12,742	0	0%	0%
87. Value of FSC loans outstanding	IM,FSCA,CO	monthly	Qtr1-12	Loan value info recorded	\$64,500	0	\$911,750	0	\$3,209,131	0	0%	0%
88. Average loan size	OM,IM,FSCA	quarterly	Qtr1-12	Average loan size info recorded in quarterly report	2	0	4	0	4	0	0%	0%
89. Average loan duration	IM,FSCA	quarterly	Qtr1-12	Average loan duration info recorded in quart. report	2	0	4	0	4	0	0%	0%
90. Number of borrowers with gender breakdown	OM,FSCA	monthly	Qtr1-12	Number of women borrowers recorded in mo. report	4	0	12	0	12	0	0%	0%

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TASK	RESPONSIBLE PARTY	IMPLEMENTATION TIMEFRAME		OUTPUT	TARGET						COMPLETION STATUS	
		Start	End		1998/99		1999/00		2000/01		Actual % this year	Actual % of TOTAL
					Projected	Actual	Projected	Actual	Projected	Actual		
71. Cost of loan	OM,FM,FSCA	quarterly	Qrt3-12	Cost-per-loan info recorded in monthly report	2	0	4	0	4	0	0%	0%
72. Number of total FSC members	OM,FM,FSCA	monthly	Qrt2-12	New FSC member numbers recorded	3,450	0	10,300	0	16,300	0	0%	0%
73. Cumulative FSC savings on deposit	OM,FM,FSCA	monthly	Qrt2-12	Savings info recorded	617,895	0	1,271,041	0	1,122,267	0	0%	0%
74. Number of depositors with gender breakdown	OM,FSCA	monthly	Qrt2-12	Number of women savers recorded in monthly report	7	0	12	0	12	0	0%	0%
75. FSC capital accumulation	OM,FM,FSCA	monthly	Qrt2-12	Capital base info recorded	195,431	0	152,456	0	255,889	0	0%	0%
76. Total FSC's reaching break-even	OM,FSCA	monthly	Qrt5-12	FSC's reach break-even target (after 18-24 months)	0	0	8	0	20	0	0%	0%
77. Insurance program dev't. and provided to FSC	MG,OSTC,CC	Qrt3	Qrt4	System operational and FSC risk mgt enhanced	100%	0	na	na	na	na	0%	0%
78. Bank-to-bank transfer system developed	MD,Link banks	Qrt3	Qrt4	System operational and used for FSC transfers	100%	0	na	na	na	na	0%	0%
79. Pensions transmission service established	MD,FSC's	Qrt3	Qrt6	System operational and FSC client use increased	100%	0	na	na	na	na	0%	0%
80. Provide and set up FSC accounting system	OM,FM,STA	on-going	Qrt3-10	FSC accounting system is operational	15	0	25	0	18	0	0%	0%
81. Provide remedial input to "at-risk" FSC's	OM,STA,OSTC	periodic	Qrt3-12	"At-risk" FSC's performance improves	3	0	TBD	0	TBD	0	0%	0%
82. Document policy and regulatory issues	STA,MD,OSTC	on-going	Qrt3-11	Critical reform areas identified and documented	TBD	0	TBD	0	TBD	0	0%	0%
83. Prepare for project evaluation	MD,STA,FM	mid-term	Qrt6	Targets/deliverables of FinaSol assessed	na	na	1	0	na	na	0%	0%
84. Readjust according to evaluation findings	STA,OM	mid-term	Qrt7	FinaSol addresses issues, provides solutions	na	na	1	0	na	na	0%	0%
85. Negotiate and facilitate FSC institutional linkages	OM,STA	on-going	Qrt2-10	FSC interaction and exchange improved	1	0	2	0	2	0	0%	0%
86. FSC leaders visit other domestic/international projects	MD,FM,OM	periodic	Yr1-3	New management ideas brought into FSCs	5	0	10	0	15	0	0%	0%
87. RSA "best practices" identified	STA,OM,MD	quarterly	Qrt2-12	Best practices recorded in quarterly reports	3	0	4	0	4	0	0%	0%
88. Prepare quarterly report	STA,MD	quarterly	Qrt2-12	Quarterly report prepared and submitted	4	1	4	0	4	0	25%	8%
89. Prepare FinaSol annual report	STA,MD	annual	Yr1-3	Annual report prepared and submitted	1	0	1	0	1	0	0%	0%
90. In-house staff training and TOT workshop	STA,TM	semi-annual	Qrt2-12	TOT's improve training skills	2	1	2	0	2	0	50%	17%
91. Annual FSC management workshop/strategic planning	STA,TM	annual	Yr1-3	FSC management improved	15	0	40	0	58	0	0%	0%
92. Creation of the FSC forum	MD,TM,OM	Qrt4	Qrt6	FSC forum functioning	na	na	1	0	na	na	0%	0%
Organize FSC forum semi-annual meetings	MD, OM, STA	semi-annual	Qrt6-12	FSC forum meeting held and minutes published	na	na	2	0	2	0	0%	0%

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