Historically, member-owned cooperative banks have played a major role in smoothing the challenges of rapid economic transformation and have contributed to a high degree of economic and social integration. In 19th century Germany, savings and credit cooperatives known as Raiffeisen banks provided long term farming loans and other financial services to poor rural farmers. Today the consolidated Raiffeisen banks are amongst the largest banks in Germany. The same is true for a number of other European countries including the Netherlands, France, Spain, and Italy.

Cooperative banks also played a major role in the United States and Canada in fighting usury and enabling millions of their members to have access to consumer loans and build equity in housing and small businesses. In Canada, for example, cooperative banks have assets equivalent to R. 1 trillion, loans of R. 900 billion, savings of R 950 billion and 10.6 million members (1 out of 3 adults is a member). In the United States the total assets of credit unions (the North American name for cooperative banks) amounts to $ 700 billion (R. 4.2 trillion) with 87.4 million members. A recent World Bank study has concluded that cooperative banks in Latin America are sustainable and have provided savings and credit facilities for their poor and low middle-income members. In Argentina, for example, the largest bank in the country is a cooperative bank that emerged through the merger of many smaller savings and credit cooperatives over the past twenty years. Around the world as at mid-2003, credit unions served 123.5 million member-clients in 84 countries, more than two-thirds of which were in the developing countries. South Africa has probably the lowest penetration of cooperative banking in the world: i.e. 47 savings and credit cooperatives with 12,000 members and R. 47 million and 62 rural village banks with approximately 60,000 members and R.60 million in assets.

Historically, there have been two approaches to the design of financial cooperatives. The two prominent advocates of financial cooperatives namely Schulze Delitsch and Raiffeisen developed these two approaches in Germany. Both approaches practiced the democratic principal of one person - one vote and practiced unlimited liability of members to attract capital\(^1\). Apart from these two similarities, however, they diverged on almost every organizational principal. The contrast between these two approaches is instructive as they present opposing approaches to cooperative design that have existed since the beginnings of the cooperative movement. The differences are also instructive for informing the debate for the future design of cooperative banks in South Africa.

Schulze Delitsch, who was a liberal politician, believed in open membership that was generally urban based and attracted salary earners and urban traders and artisans. These cooperatives were non-selective in their membership, had a strong emphasis on expensively priced and redeemable shares, issued short term loans (usually for three months) that were commercially priced, aimed at attracting shareholders by allowing multiple shareholding with the promise of high dividends, had a paid board of directors and, to ensure adequate incentives for the managers, they were given a commission based on the cooperative’s income. Schulze Delitsch cooperatives were therefore operationally similar to for-profit finance companies with the only difference being that they were member-owned with a one person one vote system of voting in the General Meetings. Wolff in his classic study of European cooperatives written \(^1\) - Both approaches had to later abandon unlimited liability as it became illegal under the law.
towards the end of the 19th century describes the Schulze Delitsch model as “an association of lenders”\(^\text{2}\). The profit motive and the payment of dividends therefore played a key role in the Schulze Delitsch cooperatives. Because of the contradictory combination of dispersed cooperative ownership with the commercial objectives of these organizations, many of these cooperatives did not achieve high loan recovery rates and therefore failed. Those that survived were often demutualized and transformed into public shareholding companies.

Raiffeisen, on the other hand, was deeply religious and believed in cooperatives that were targeted at the rural poor. He attracted mostly small farmers, local artisans and small rural traders. Local teachers and priests who were also members usually ended up being elected to the governing boards. They had a selective and closed membership based on the parish where they were located. They didn’t believe in high priced shares and in fact initially there were no shares or entrance fees in Raiffeisen cooperatives. Raiffeisen wanted his cooperatives to be strictly driven by high social ideals of service, voluntary labour by officeholders, and social incentives. They had an entirely volunteer board of directors with a small paid office staff. Raiffeisen banks emphasized the growth of institutional reserves and most of the surplus was reinvested as opposed to paying dividends to shareholders. Wolff describes the Raiffeisen banks as “an association of consumers”\(^\text{3}\). The organization was based on mobilizing member savings in order to make low cost and affordable loans and free the members from usury that was prevalent in rural Germany at that time. The loans were largely long term (average 5 years) with “short notice”, meaning that they could be recalled after three months if the borrower does not make timely repayments or if the loans were used for a purpose other than the one for which it was approved. As a result of their cooperative ownership and social objectives, Raiffeisen banks had a stellar record of loan recovery and extremely low incidents of embezzlements.

An important question here is how did the Raiffeisen cooperatives manage the imbalance between short-term savings and long-term loans which bankers consider to be the pillar of liquidity management? The answer lies in fact that the members’ savings proved to be stable even in periods of economic hardship. Savings outstripped loans in most years. Moreover, many farmers started using lines of credit or overdrafts that did not require many formal procedures or the presentation of security and was based on the personal standing of the members with the cooperative. Raiffeisen cooperatives carried out face-to-face business and developed strong trust with its members.

Furthermore, from the beginning, Raiffeisen cooperatives had a heavy emphasis on supporting central institutions: regional and national unions, centralized wholesale societies, and regional and national banks for the settlement of payments. Professional know-how was thus concentrated in these central institutions which had paid professional managers. These centralized institutions were indispensable as they organized the money flow between the surplus and the deficit cooperatives. Regional audit associations provided low-cost cooperative auditing services and their role was helped by parliamentary legislation which forced all registered self-help organizations to submit annual accounts to an official auditor. Since the local coops did not produce large profits, however, the central institutions of the Raiffeisen movement initially faced major financial difficulties and they were often sponsored by private businesses or financed through state subsidies\(^\text{4}\).

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\(^3\) Ibid.