Mushonga, Master: University of Stellenbosch
master.mushonga@yahoo.co.uk
Authors: Master Mushonga, University of Stellenbosch, South Africa
Nyankomo W. Marwa, University of Stellenbosch, South Africa
Thankom G. Arun, University of Essex, England
Title: Social and Financial Efficiency of Co-operative Financial Institutions: Evidence from South Africa

The mainstream financial sector has experienced an intense process of concentration in recent decades resulting in the sharp decrease of financial institutions while their average size has risen. As a result, small and growing businesses, and marginal communities are experiencing inadequate access to financial services as banks consider them too costly to serve. Community-based co-operative financial institutions (CFIs) are emerging globally as an alternative source of financing for those rationed out from the financial markets. During the recent global financial crises CFIs proved to be better resilient to global shocks as they limit transactions in speculative activities. As a result, their total assets and membership increased during and after the global economic crisis. CFIs face a dual objective of attaining social and financial efficiency in their role of improving access to financial services for the poor and marginalized communities. The CFI industry in South Africa had experienced contraction in the period 2011-2017 prompting the need to evaluate their social and financial efficiency. We employed the two-stage double bootstrap data envelopment analysis (DEA) methodology on unbalanced panel. Our results find evidence which suggest that the industry is socially and financially inefficient at 91.6% and 61.57% respectively. Second-stage results suggest that size does matter in improving efficiency whilst age does no matter, return of assets is important but not significant, whilst average savings balance per member improves financial efficiency but has a negative significant impact on social efficiency. In addition, capital adequacy ratio has negative significant impact whilst the association of the CFI to a group does negatively affects its social and financial efficiency but not significantly. Our findings are of interest to global CFI movement, management, regulatory authorities and the CFI trade association to implement bold measures such as an industry strategy, business leadership skills, membership outreach programs and an effective asset allocation approach. These measures will help to build better performing CFIs to contribute meaningfully toward global poverty reduction.