South Africa has performed well with its financial inclusion initiatives as 75% of the adult population now has some form of bank account. But social savings and lending groups can play a role in reaching the rest of the population that remains under or unserved, especially in rural areas.

One example of a group that supports channels like these is SaveAct, a KwaZulu-Natal-based NGO, which has been supported by the Genesis Analytics CSI programme for the past five years.

SaveAct functions in three ways. It facilitates the creation and functioning of stokvels and village savings and loan groups (VSLAs). It also develops the financial capacity of individual members and by provides enterprise development support.

The majority of its 52 000 members are women living in rural areas and the average age is 46, although youth membership is on the rise and future initiatives will focus on encouraging saving in this segment. Collectively, members mobilise about R230 million a year to meet basic needs, improve homes and invest in their livelihoods.

In general, members mobilise their savings in similar ways, beginning with saving, then moving on to borrowing and later to enterprise funding. They may, for instance, start with saving for home improvements and then move on to borrowing for durable goods or education. Once they have gained some confidence in these areas, they often move on to borrowing in order to fund enterprise activities.

Given the demand for SaveAct services and the current state of financial inclusion in South Africa, we estimate that there is scope for an additional two to three million savings group members, which could be sourced from the approximately 20 million individuals who make up the country’s lower income groups in rural areas.

The SaveAct model does, however, present a number of challenges. As a non-profit organisation, it requires continuous donor funding in order to support its activities, and savings groups run the risk of losing momentum without its continuous support. It costs SaveAct approximately R130 per member per year to operate.

In many countries, financial institutions have established linkages with organisations such as SaveAct, enabling stokvels and VSLAs to provide banking services to both the groups themselves and their individual members. As individuals later graduate from personal to enterprise banking, their needs evolve beyond those that can be met in the savings group environment.

This presents a number of opportunities for these financial institutions, including the opportunity to cross-sell such products as short-term insurance. One significant challenge that remains is lack of proximity to points of banking representation. Neither agency banking nor mobile money platforms have proliferated into the rural areas here.

The SaveAct story is a useful reminder of where the frontier of financial inclusion now lies and that the next mile will need both philanthropic support and renewed efforts to leverage retailers in low income areas to distributing financial services.

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