

## Saving money and developing enterprise activities: a virtuous circle

In a country in which over 70% of the population would be unable to survive a personal economic downturn lasting more than three months, according to Visa's financial literacy barometer for 2012, South Africa's poorest are leading the way. Recent research conducted in rural areas in KwaZulu-Natal and the Eastern Cape has decisively challenged the perception that poor people do not save or that they do not need financial services because of limited incomes.

A research study funded by FinMark Trust focused on the activities of savings and credit groups led by SaveAct. The research showed that accessing savings and credit, as well as bigger lump sums in the form of share-outs, can dramatically improve the livelihoods of poor people and increase their likelihood of diversifying their income sources by engaging in enterprise activities. In particular, the study found that there are several ways in which savings group membership can support enterprise development.

Indirectly, having regular access to a safe place to save and take loans allows members to smooth their household consumption, thus supporting their irregular and small sources of income. Having access to cheaper credit changes the financial behaviour of members who are now no longer reliant on 'loan sharks' in case of emergencies. This leads to better household and financial stability which represents an ideal platform for diversification of investment and engagement in more risky activities, such as the starting of an enterprise.

Directly, the research found the following main pathways in which being a member of a savings group can support enterprise development:

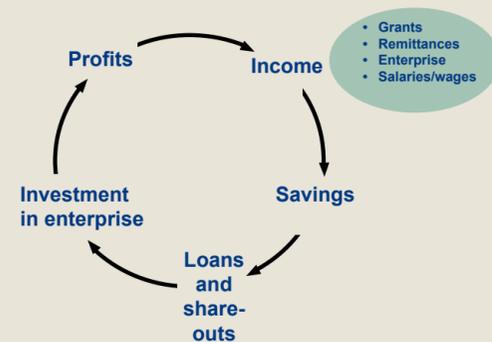
- Members are able to access funds, in the form of loans and share-out, to start and support their enterprise activities, which they may not otherwise have had. Most members reported that being able to access credit enabled them to buy inputs and stock that they needed to start a new activity or support an existing one. The greater level of financial stability and the knowledge shared within the group were also mentioned as helpful factors in the development of enterprise activities.
- There exists a 'virtuous circle' of savings and small enterprises that shows that, while small enterprise activities are supported by funds from savings groups, the profits generated through enterprise are reinvested into savings, thus providing funds for further enterprise development. As one of the Community Based Promoters (CBPs) put it: "Members would borrow money to improve their businesses and they know that they can borrow money from the group if anything in their business is



lacking... it is a two-way process because [when] I have sold things, I take the profit and save it to the saving scheme".

- Membership enables investment both into household assets, thus increasing household stability, and into enterprise activities. In particular, as members become familiar with the methodology and see the returns on their money grow, their trust in the model grows, their involvement in enterprise increases and they tend to buy more shares and join multiple groups.
- Social capital is being built alongside financial capital. Savings group membership helps individuals increase their ability to manage their finances and gives them a new sense of confidence. Members share a sense of ownership of the programme and build trust and mutual support within communities. Also, through savings groups members share ideas and challenges, both in terms of enterprise activities or financial management and more broadly. They work together and start collective initiatives.

### Virtuous circle of savings and small enterprise activities



## Annual Financial Statements

### As at 29 February 2012

	2012 R	2011 R
<b>ASSETS</b>		
Cash and cash equivalents	1 999 292	1 177 974
Property and Equipment	77 979	226 850
<b>TOTAL ASSETS</b>	<b>2 077 271</b>	<b>1 404 824</b>
<b>FUNDS AND LIABILITIES</b>		
<b>LIABILITIES</b>		
Accounts Payable	295 764	809 743
<b>TOTAL LIABILITIES</b>	<b>295 764</b>	<b>809 743</b>
<b>FUNDS</b>		
Trust Capital	100	100
Accumulated Surplus	1 781 507	594 981
	1 781 507	595 081
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2 077 271</b>	<b>1 404 824</b>

### 1 March 2011 to 29 February 2012

	2012 R	2011 R
<b>SUPPORT AND REVENUE</b>		
Grant income	3 531 698	4 379 362
Interest and dividends	27 745	46 599
VAT recovery - prior years	456 360	-
<b>TOTAL SUPPORT &amp; REVENUE</b>	<b>4 015 803</b>	<b>4 425 961</b>
<b>EXPENSES</b>		
Consulting and professional fees	807 428	1 014 311
Employee Costs	1 013 005	1 387 932
Enterprise Training	13 154	23 363
Networking	-	19 830
Non-recurrent capital expenditure	3 547	11 050
Recurrent programme costs	381 304	750 164
Recurrent costs - local office	212 538	394 297
Research and development	50 272	69 270
Savings and lending course	182 130	-
Travel	165 999	163 685
<b>TOTAL EXPENSES</b>	<b>2 829 377</b>	<b>3 833 901</b>
<b>SURPLUS/(DEFICIT) FOR YEAR</b>	<b>1 186 426</b>	<b>592 060</b>



## Annual Report 2011-2012

SaveAct gratefully acknowledges the support of the following donor partners:

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## Message from the Chairperson of SaveAct Trust



SaveAct's work could not be more relevant at this time. The global financial crisis and growing concerns about financial service practices require that we re-examine some fundamental questions. What should financial services look like? How should they be organised particularly for the poor and economically excluded in South Africa? There is growing consensus that financial

services should be: less expensive, much simpler, easy to comprehend, and should encourage wise and informed decisions. They should be savings rather than credit-based. There is much to be done. SaveAct's clients are reluctant to enter the formal bank environment. For good reason they fear: not understanding the finance-speak and high service charges. They do not find banks the accessible places they need to explore their financial needs and reach appropriate decisions with confidence.

On the other hand savings group members embrace SaveAct and their savings groups with relief and joy. It is a familiar space to them, one that they understand and manage. They are offered a range of valuable services at virtually no cost. Savings groups attract the rural poor in droves, empowering them to take control of debt and enabling them to build and manage their assets. This has been a wonderful revelation.

Yet, beyond these finance service polarities, we know there is need for savings group members to secure other financial services to complement what they have. We know that formal financial services have a role to play in this. SaveAct has the challenge of bringing these two systems together in a way that protects the interests of the poor, whilst making it viable and attractive for the formal sector to operate in a new space. As the board of SaveAct, we look on with interest. With our roots and commitment to the poor, we are reassured. Experience in the sector amongst staff and board will assist in identifying potential pitfalls and opportunities. The strong benefits that savings groups bring must be protected and built upon. These benefits bring fortitude as members explore alternatives.

I congratulate staff on the extraordinary progress made over this year.

Milton Ncolosi, Chairperson

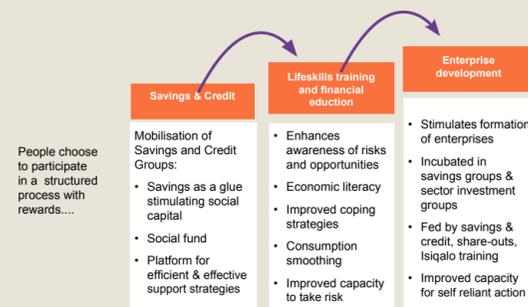


## Overview by Executive Director Anton Krone: 2011/12

### A Period of Affirmation

After six years of exploration and pioneering effort, SaveAct has been rewarded with affirmation - from savings group members, financial service specialists and policy promoters, as well as stakeholders with an interest in anti-poverty work. The range of interest from across multiple sectors (social security, enterprise and agriculture, financial services and economic development) is indicative of the flexible and responsive power of our savings model. It literally can be just about all things to all people: members whose primary interest is social security benefit as well as members who are concerned with expanding their agricultural or other enterprise, and so on. This is indicative of a robust model that meets people where they are and allows them to take control of and use the model, technology and systems to meet their particular needs. For a detailed overview of the model itself, visit <http://www.saveact.org.za/about/saveacts-model>. The model is represented below:

### A stepped-approach, with self-selection 'filters': Channelling human capital



People choose to participate in a structured process with rewards....

Towards more sustainable livelihoods & financial services for the poor

Despite tighter budgets and restrictions on staff capacity, SaveAct's programme enjoyed strong growth. The following graph shows expansion since 2008 (to Feb 2012).



### New evidence from randomised research

SaveAct was fortunate to partner with FinMark Trust to conduct in-depth, rigorous research into our work. This follows from a smaller study done the year before. This time the focus was on exploring the relationship between members of savings groups and enterprise development, with particular emphasis on agriculture. With a reasonable budget, it was possible to conduct randomised research in two sites, one in the Eastern Cape and the other in KwaZulu-Natal. We are thrilled with the findings of this research (see section overleaf), which established a positive relationship between savings and enterprise development and agriculture. The report may be downloaded off FinMark Trust and SaveAct's websites.

With the exposure that has come from the research, SaveAct has played host to a large number of visitors from government and NGOs. SaveAct is inundated with requests to introduce its model to new parts of South Africa, and is preparing to do this. At this point, the only significant constraint is secure and dependable medium- to long-term funding. SaveAct has tried various government funds for support. However we have thus far been unsuccessful as the fit is often not a good one, since there is as yet no programme designed to support this kind of (pioneering) work. Whilst this inability to secure funding is challenging and at times frustrating, SaveAct is not deterred and continues to persevere. The obvious relevance and impact of its programme spurs us to explore many avenues to ensure that the rural poor, especially women, may be assured of financial inclusion and access to opportunities to develop sustainable livelihoods.

### Relevance to Social and Economic Policy and Practice

The savings model offers an effective way to address several issues. Savings group members make a natural link to social grants, structuring their activities as a channel for investing social grant capital to achieve consumption smoothing and sustainable livelihoods.

South Africa has one of the lowest levels of entrepreneurship in the world. The study shows how members of savings groups move from a state of indebtedness to loans sharks, into an asset building mode. They reduce debt and save increasingly larger amounts over time, acquire assets, and many go on to establish a new enterprise or grow existing enterprises, drawing on the financial services and supportive environment offered by their savings groups. The research describes in unique detail how these changes occur, how people engage

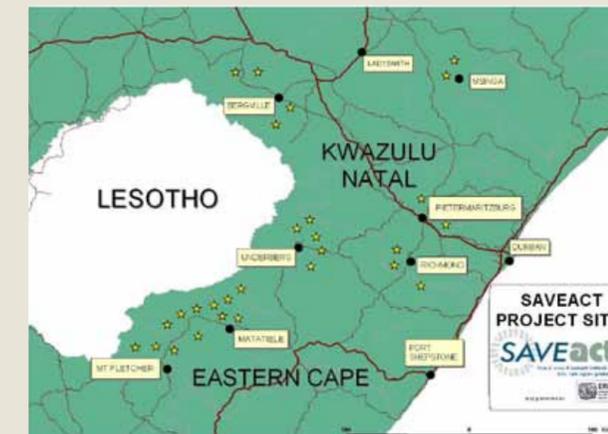
in virtuous circles of activity, and experience upward spirals of economic development. These trends are self-generated by savings groups and their individual members, with this extraordinary outcome being sustained in the long term.

These experiences offer a clear path for South Africa to enable the poor to develop self-reliance, enterprise skills and a culture of entrepreneurship. It sends a strong message that the promotion of savings-led models can make a vital contribution to dealing with poverty and exclusion. Since democratisation, policy makers have been searching for effective strategies to deal with the challenges of the former homeland areas. This approach must surely qualify as a key strategy in redressing the unfortunate and devastating legacy of apartheid.

### Note of Thanks: Board, Staff and Donors

In the past year SaveAct expanded its board, inviting Prof Krish Govender from Management Studies (UKZN), Dr Mary van der Riet of the School of Psychology (UKZN), Father Zaba Mbanjwa, and Timothy Hobden of Genesis Analytics, an economic development consultancy firm, onto our board. Genesis is kindly offering pro bono technical support to SaveAct as a social responsibility contribution. We wish to thank all board members for their dedication and commitment, in particular we acknowledge the role played by Milton Ncolosi and Illan Lax. It must be placed on record that SaveAct board members are not remunerated for their involvement.

We would like to thank the staff and donors for their support to the SaveAct project. In the period we bade farewell to Didi Makanye in the Pietermaritzburg office.



By Feb 2012 there were:

- 13 619 members in 644 groups meeting to save and borrow every month
- Repayments rates on credit exceed 99%
- Volume of capital in circulation: approximately R15 million (\$1,875 000)
- Membership retention 99%
- Membership comprises of 94% women.

