

# Bringing Banking Services to More South Africans

Up to 35 percent of households in South Africa have never had bank accounts, but this may soon change. South Africans who have never been banking customers will now have the opportunity to benefit from expanded lending and savings services as a result of a deal signed in March between South African companies Capitec Bank and Future-growth Asset Management and USAID.

USAID is providing a guarantee that allows Capitec, a company that provides accessible and affordable banking services to the mass market, to borrow up to 50 million rands (approximately \$7.5 million)—the company's first loan from the private sector. Futuregrowth Asset Management, a specialist asset manager with a focus on socially responsible investments, will make the loan and Capitec will become the country's first fully fledged retail bank providing accessible and affordable banking services to the mass market, including the "under-banked" sector—those who have typically been ignored by the major lending institutions.

Studies in South Africa indicate that lower income groups often have savings, but most formal banks charge significant deposit, withdrawal, and other fees, making smaller accounts impractical for either the customer or the bank. Capitec is the only deposit taker available to lower income groups that provides returns on entry-level savings accounts. A recent USAID study on competition in banking found that while effective returns on entry-level savings accounts at Capitec are typically 4.04 percent, all other banks examined showed entry-level savers actually losing between 4.4 percent and 19.49 percent on a typical entry-level savings deposit. Among all banks in South Africa, Capitec is singularly able to encourage regular savings, providing both positive returns on savings and convenient banking for lower income savers with branches located at train stations, taxi-bus ranks,

townships, and rural, urban, and peri-urban centres.

No similar private sector venture to service the under-banked has been tried in Southern Africa and international experience with this approach is extremely limited.

USAID Deputy Administrator Fred Schieck noted, "USAID supports Capitec's efforts to expand its services to families which have not yet participated

with banking opportunities. This is an innovative program and a practical way of encouraging South Africans from lower and middle income households to benefit from savings and lending products." USAID is providing a guarantee for 50 percent of the loan.

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