

Connecting the World's Poorest People to the Global Economy

New models for linking informal savings groups to formal financial services



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Front cover photo:

(Left to Right) Francine Nizigiyimana (deputy chief), Donathe Butoyi (group president), and Melanie Misago (cashier) with their VSLA group "Dushirehamwe Muri", or "Let's be united", near Bujumbura, Burundi.

CARE/Valenda Campbell, 2010

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01. Executive summary

The importance of expanding access to financial services for the world's poorest people is increasingly recognised, but despite the growing international attention to the issue, numerous barriers remain. A key challenge has been finding cost-effective ways to connect the millions of people who participate in informal community savings groups to banks and other financial institutions. Over the past four years, CARE has tested eight innovative models for linking informal savings groups with companies in five African countries, with exciting results that could help connect the developing world's remaining "unbanked" populations with the formal global economy.

Financial inclusion has risen up the international development agenda over the past decade for good reason. An estimated 2.5 billion people, most of them in developing countries, do not have an account with a bank or other financial entity, severely limiting their ability to save, invest and plan for their future. In sub-Saharan Africa, this is the case for three quarters of adults. Poor people's low and unpredictable income makes it difficult for them to bank with formal financial institutions, while banks have struggled to find a business model that justifies the high transaction costs of reaching the very poor.

One cause for hope is the "savings revolution" taking place in many developing countries, which has seen millions of people join informal community savings groups. CARE's Village Savings and Loan Association (VSLA) model has proven to be one of the world's most effective, allowing members to save flexibly, access loans to invest in small businesses, and build a social fund to strengthen their ability to cope financially with unexpected events such as an illness in the family. Today, CARE's VSLAs reach over three million people in 26 African countries, with around three million more participating in savings groups supported by other development organisations globally. In 2012, New York Times columnist Nicholas Kristof called VSLAs "among the hottest ideas in development."

But while these groups can act as a critical first step toward financial inclusion, they are not a panacea. As groups mature, many seek the security of a bank account to hold their growing savings, or wish for larger loans than the group can provide.

A savings group meeting in Kenya.



To respond to these needs, CARE established partnerships with a range of companies to explore models for connecting savings groups with formal financial services. In Uganda and Kenya, it partnered with Barclays to offer groups low-cost savings accounts with no minimum deposit. In Rwanda, it teamed up with Vision Finance Company (VFC), the microfinance arm of World Vision, to offer savings and small loans specially designed for poor people in rural areas. In Tanzania, a joint venture with Vodacom and Mwanga Community Bank has brought banking products to groups via Vodacom's mobile M-Pesa service, while in Kenya a similar service has been made possible through a partnership with Orange and Equity Bank. Finally, in Uganda, CARE and Jubilee Insurance have partnered to offer funeral insurance to group members.

The results have been encouraging. High take-up of savings, credit and insurance products has allayed concerns that the products might prove too expensive for very poor communities or that the transaction costs involved would deter large-scale participation. In total, 4,200 savings groups, representing approximately 105,000 individuals, have been linked to one or more of the eleven different financial products developed for them. Early data suggests the services are having a positive effect on group members' financial well-being. A sample of linked groups saw significant increases in their savings, investment, and rates of return on savings as compared with non-linked groups, while those with savings accounts started to save more each week because they were less concerned about the security of their money. Linked groups also reported a rise in self-esteem and confidence in dealing with formal institutions.

Businesses, too, are benefitting. It took VFC 11 years to build its portfolio of 17,000 clients in Rwanda, but after just six months of linking to VSLAs, its customer base had grown by 6,000 people. Moreover, the groups almost never missed a loan repayment, lowering VFC's overall Portfolio at Risk. CARE's financial sector partners are demonstrating their interest by investing in custom products for savings groups. Orange, for example, has designed a special multiple PIN system that requires three nominated group members to endorse payments.

Despite these encouraging results, transaction costs remain high. In all eight pilots, CARE or its local partners have played an important role in identifying mature savings groups, providing them with basic financial literacy training, and brokering the relationship with the financial sector partner. CARE has tested models for outsourcing this subsidised function to fee-for-service "village agents" with some success, but a bigger question remains as to whether the costs for savings groups of travelling to distant bank branches to deposit or withdraw funds are prohibitive. Evidence from the pilots is mixed, but the advent of mobile banking and the possibilities opened up by the vast networks of rural agents used by mobile network operators seems to provide an answer for the future. Of CARE's existing pilots, all but one are now trialling or planning a mobile application.

Linking the world's poorest people via savings groups to financial service providers offers huge potential as a means of fostering greater financial inclusion, but it is critical that CARE and other actors proceed cautiously. Poor people are often ill-equipped to deal with the financial sector and are at high risk of taking on too much debt or being manipulated by predatory lenders. As the cost of reaching individuals decreases through the use of mobile banking, it is even more important that the most vulnerable members of society are protected. To help guard their interests, CARE has distilled its experiences into a set of principles for linkage, covering issues such as minimum requirements for group eligibility, the importance of financial literacy training, and avoiding using group savings as collateral. CARE has also developed a step by step "how to" guide for other development agencies interested in linking savings groups with financial service providers.



A savings group member uses a mobile phone to transfer money

Perhaps the best consumer protection mechanism is the group format itself. Groups are less likely than individuals to be duped by unscrupulous moneylenders. Financial literacy training is more easily (and cost-effectively) provided to groups, and concepts are better understood when weaker members have a regular setting in which to interact with stronger members whom they trust. The group mechanism is also attractive to lenders because of the peer pressure that members exert on one another to pay back loans, which is a principal driver of savings groups' low levels of credit default.

Figure 1: CARE's principles for linking savings groups to financial institutions

1. Link groups, not individuals
2. Only link mature groups that have saved for at least a year
3. Focus on demand from groups rather than supply from institutions
4. Provide financial literacy training to groups before linking them
5. Protect core savings group principles
6. Start with savings before credit
7. Maintain a conservative savings to credit ratio
8. Minimize the use of savings and collateral

CARE has called elsewhere¹ for a global push to expand access to financial services for the poor, including through policy changes that promote financial literacy training and amend national regulatory frameworks to encourage the use of savings groups as a springboard to financial inclusion. Whether such clusters of “ready-made customers” offer a commercially viable market for providers is not yet clear, but initial results offer hope that, with mobile banking, sustainable models are within reach. To succeed, partnerships with business are needed to encourage investment in products that can serve this market at scale. At the same time, governments, foundations, civil society and the private sector must step up their efforts to test new, responsible ways to connect poor and marginalised people with the financial services they so desperately need.

Figure 2: A snapshot of CARE's eight pilot initiatives (2009-2012)

- In Kenya and Uganda, CARE has linked 400 savings groups with **Barclays**, where they have saved over **\$120,000**.
with **Vodacom M-Pesa and Mwanga Community Bank**, and **Orange and Equity Bank**, respectively.
- In Malawi and Rwanda, CARE has linked 1,600 savings groups, comprising **40,000 individuals**, with **Opportunity International Bank of Malawi** and **Vision Finance Company**.
- In Tanzania, CARE has initiated a partnership between 39 savings groups and **Vodacom M-Pesa's Money Wallet service**.
- In Uganda, CARE has partnered with **Jubilee Insurance** to offer funeral insurance to savings groups, selling **1,515 premiums**.
- In Tanzania and Kenya, CARE has brought banking products to 300 savings groups via their mobile phones, in partnership



A savings group member queues up to deposit her group's savings at their local bank in Soroti, Uganda

1. Banking on Change: Breaking the Barriers to Financial Inclusion, Barclays, CARE and Plan International, January 2013.
www.careinternational.org.uk/breaking-barriers-to-financial-inclusion

Key Recommendations

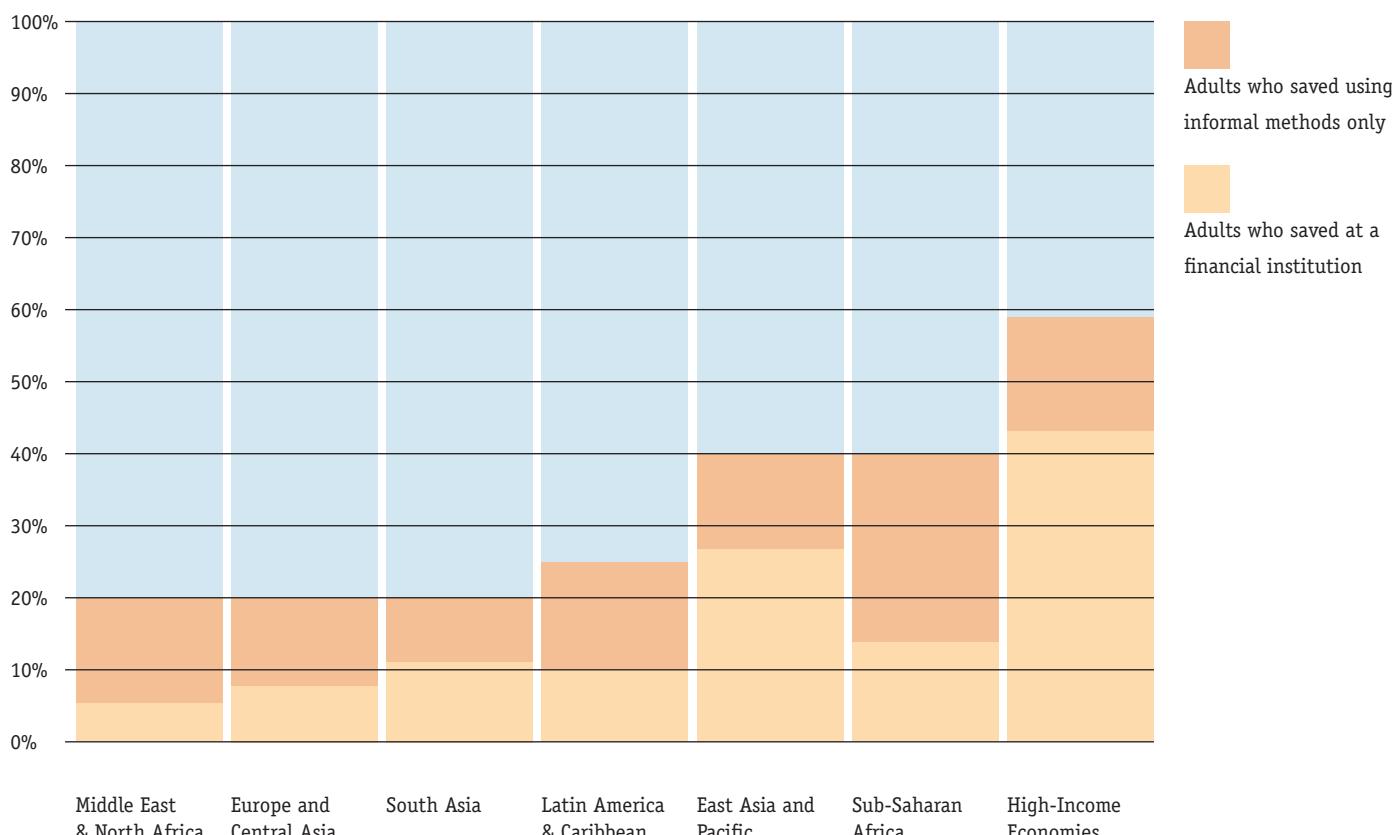
- 01 Recognise savings groups as a springboard to financial inclusion:** Developing country governments should recognise, rather than regulate, savings groups and ensure they form a key pillar of national financial inclusion strategies.
- 02 Build more public-private partnerships to expand access to formal financial services:** The eight pilots described in this report prove that linking poor savers to formal financial services is possible. More mobile providers, banks, governments, donors and NGOs need to work together to achieve greater scale and lower the risk for business.
- 03 Promote and adopt CARE's principles for linking savings groups to formal financial services:** CARE is calling upon development agencies and formal financial providers to adopt the principles in this report to protect customers and ensure that linkage is carried out responsibly.
- 04 Expand financial literacy:** Governments should pursue a range of measures to expand financial literacy, for example by including financial education in the national school curriculum and as part of social protection programmes.
- 05 Invest in further research:** The search for commercially viable linkage models that benefit and at the same time protect consumers is still in its infancy. Donors, foundations, private sector actors and governments need to invest in finding more answers to maximise the opportunities and reduce the risks.

02. Introduction

In recent years, governments, donors, civil society, and business have recognised the critical role that access to financial services can play in the fight against poverty. For poor households, having somewhere to deposit their savings securely, get a small loan or buy insurance can make all the difference between a hand-to-mouth existence, in which a sudden illness can lead to financial disaster, and the security of being able to plan and invest for the future. The importance of "financial inclusion" has been reflected in its appearance on the agendas of a growing number of international groupings such as the G20 and the World Economic Forum on Africa, and in the establishment of the Alliance for Financial Inclusion², through which 35 national central banks have pledged action on the issue by signing the Maya Declaration³.

The challenge, however, is immense. Over 2.5 billion people, most of them in developing countries, do not have an account with a bank or other financial institution⁴. In sub-Saharan Africa, this is the case for 76% of adults⁵. Despite the high-level attention that financial inclusion is now receiving, the barriers to progress are numerous. Most extremely poor households have neither the assets nor the skills to interact with formal institutions. Those that do may find that no institutions exist within physical reach, particularly in rural areas, or that the products on offer do not meet their needs. For their part, banks have not found a compelling business case to justify the high transaction costs of reaching the very poor.

Figure 3: Formal and informal saving: Adults saving any money in the past year



Source: Demirguc-Kunt and Klapper 2012

2. The Alliance for Financial Inclusion was established in 2008. It facilitates peer-to-peer learning amongst central banks and regulatory agencies in developing and emerging economies.
3. The Maya Declaration, established in 2010 by the Alliance for Financial Inclusion, commits countries to create and implement regulatory frameworks that balance inclusion, stability and integrity. More than 80 countries – representing over 75 per cent of the world's unbanked population – have supported the Declaration. Each country makes measurable commitments in four broad areas that have been proven to increase financial inclusion.
4. Demirguc-Kunt and Klapper, "Measuring Financial Inclusion: The Global Findex Database", The World Bank, Policy Research Working Paper 6025, April 2012.
5. Demirguc-Kunt and Klapper, op. cit.

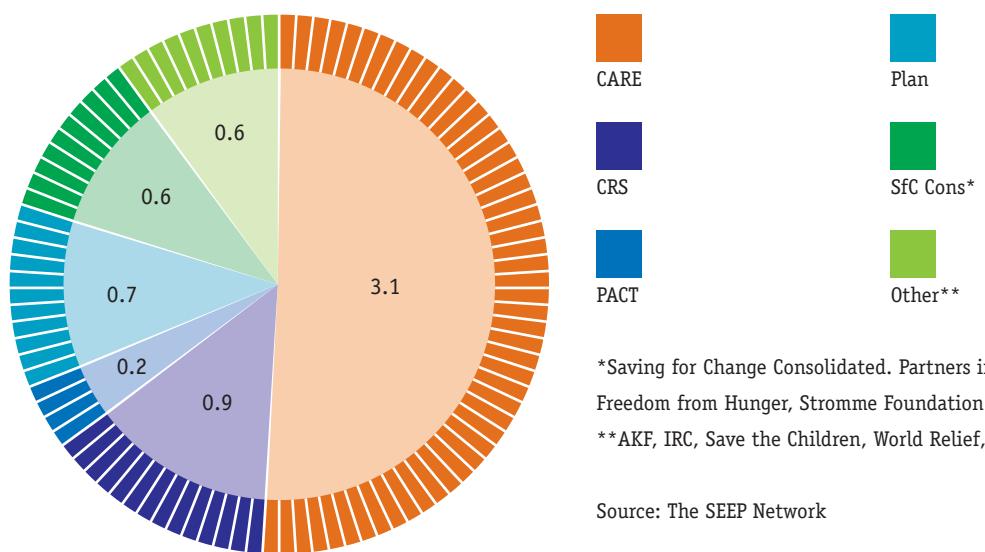
Informal savings groups: a partial solution

Poor people have filled some of the gap left by the absence of financial institutions by relying on informal means to save, obtain credit, and manage risk. Community-based savings groups, which have existed in various forms for centuries, are one common method, whereby members deposit a fixed amount on a regular basis, usually weekly or monthly, and pay out the pooled savings to a different member each period. According to the World Bank, nearly half of all adults in sub-Saharan Africa who report having saved over the past 12 months used an informal community-based method.⁶

In 1991, CARE pioneered what has proven to be one of the world's most effective informal

savings methods, the Village Savings and Loan Association (VSLA). VSLAs allow members to save flexibly, access small loans for investment, and build a social fund to strengthen their resilience to external shocks such as illness or drought. Participation in a VSLA boosts members' average incomes and household assets, and also brings non-economic benefits such as increased self-esteem, particularly for the approximately 70% of participants who are women⁷. Today, CARE's VSLAs reach an estimated 3.1 million people in 26 African countries, with approximately 3 million more participating in VSLAs supported by other development organisations globally.⁸

**Figure 4: Global Outreach of Savings Groups
Total Members (millions)**



Source: The SEEP Network

One of the critical success factors of VSLAs has been their simplicity and the ease with which communities are able to manage them independently. This has led to particularly low levels of attrition: a study conducted in

Zanzibar in 2006 showed that of a sample of 25 VSLAs, all but one of the original groups were still operating six years after CARE withdrew direct support.⁹

6. Demirguc-Kunt and Klapper, op. cit.

7. Based on periodic analysis of data from CARE's VSLA management information system.

8. Current figures according to The SEEP Network, <http://www.seepnetwork.org/savings-groups-global-outreach-pages-20015.php>. Data does not take into account spontaneous groups which form without institutional support. CARE's 3.3 million figure is as of December 2012. SEEP latest data is as of June 2012.

9. *Village Savings and Loan Associations* in Zanzibar, Ezra Anyango, Ezekiel Esipisu, Lydia Opoku, Susan Johnson, Markku Malkamaki and Chris Musoke, DFID-FSDU 2006. A further study showed that in fact groups continue to form without CARE's intervention: COSALO Replication Study: Counting Results, Digital Divide Data, commissioned by FSD Kenya, September 2011.

How VSLAs work

Much of the growing interest in microfinance over the past decade has focused on expanding access to credit. Village Savings and Loan Associations are different in that they are “savings-led”: they encourage communities to save and to make more productive use of those savings.

The basic principle is that a self-selected group of people come together to form a VSLA and become members of it. Members save money each week, and use the funds that accumulate to finance small loans to each other. This simple form of banking can have a dramatic impact on members’ ability to invest in income-generating activities and cope with erratic cashflow. There are also significant impacts on self-respect and social capital, particularly among women.

Fundamental principles of the VSLA

The primary purpose of a VSLA is to provide simple savings and loan services in a community that does not have access to formal financial services.

A self-selected group forms a VSLA where all members save money in the form of shares. The savings are invested in a loan fund, from which members can borrow money at a reasonable rate of interest.

Members also contribute a small sum to a compulsory insurance fund which can be used to provide grants or no-cost loans to members in distress.

All transactions are carried out at regular

meetings in front of all members with each person holding their own individual passbook, promoting transparency and accountability.

A lockable cash box requiring three keys is used to prevent unauthorised cash movement and minimise the risk of record tampering.

The cycle of savings and lending is time bound. At the end of an agreed period the accumulated savings and interest earnings are shared out among the members.

The VSLA methodology relies on a carefully structured system of training. The objective is to assist groups in their initial formation, definition of common purpose, election of officials and agreement of their savings, insurance and lending mechanisms. After the initial training, groups start saving under the regular supervision of CARE or a local “implementing partner organisation”.

To ensure cost-effectiveness and scalability, strong members of the community are often selected and trained as Community-Based Trainers or Village Agents, who supervise a portfolio of groups on a fee-for-service basis. The quality of training and initial supervision is a critical determinant of the sustainability of the groups, and key for successful replication in neighbouring communities. VSLAs that have successfully managed their own money for two years have an excellent chance of survival, and evidence shows they continue long after the implementing organisation withdraws active support.

Much of the growing interest in microfinance over the past decade has focused on expanding access to credit. Village Savings and Loan Associations are different in that they are “savings-led”

But as groups mature, some reach a stage at which they essentially outgrow the savings group model and express a desire to access financial products offered by external institutions. Many seek the greater security of a bank account to hold their growing

savings, which for most VSLAs are kept under the supervision of an appointed group member in a locked box. Others are interested in accessing larger loans than the group can provide from its pooled savings.

Table 1: The impact of VSLAs

Indicator	Impact over three years
Income growth	In Uganda, VSLA members' monthly household income rose from \$60 to \$95.
Accumulation of household assets	In Rwanda, members' spending on household assets increased by 300%.
Education spending	In Tanzania, members increased their spending on children's school fees by 76%.
Small business growth	In Rwanda, VSLA members running small businesses grew from 19% at baseline to 43% at the end of the project, and business investment grew by 339%.
Women's empowerment	In Uganda, 42% said they could solve problems themselves compared with 31% at baseline, while 63% indicated their husbands respected and valued their role, compared with only 48% at baseline.
Food security	In Rwanda, the average number of meals per day eaten by VSLA members rose from 2.1 to 3.2.
Investment in health	In Rwanda, the average amount members spent annually on healthcare increased from \$5.60 to \$10.30.

Linking savings groups to formal financial institutions

Beginning in 2008, in response to these demands, CARE launched a series of pilot initiatives to connect savings groups with formal financial institutions.¹⁷ The goal was not to replace the core VSLA methodology, but rather to address its limitations by offering complementary products and services that the group could not provide itself. Although some VSLAs had already opened bank accounts independently of CARE, CARE wanted to take a comprehensive approach to examining how and whether such linkages should be encouraged, and under what conditions they were most likely to be successful, bearing in mind that linkage is not for everyone and that not all groups express a demand for it.

Eight such pilots were started in five African countries¹⁸, bringing savings groups together with a variety of private sector service providers including banks, microfinance institutions, mobile money transfer providers and insurance companies. While the principal demand

originated with CARE's VSLA clients, the pilots were started at a time when formal financial institutions themselves had started to consider low income markets. For many of these firms, poor people represent an untapped market on a potentially vast scale. The challenge for the private sector has been how rather than whether to enter this market.

This paper examines the emerging lessons of these eight pilots. It is based on research conducted in each of the countries, using a variety of methods. While it is too early to present definitive impact data, the paper describes initial findings and highlights the potential that savings groups have to act as a first rung on the financial ladder for those who are otherwise excluded. It also reflects on some of the pitfalls involved in connecting poor and often illiterate people with private sector actors, and suggests principles for ensuring that this is done responsibly, with consumer protection paramount.

10. Final impact evaluation, Banking on Change, Uganda, October 2012, Kemigisa Margaret.

11. Final impact evaluation, Sustainable Access to Financial Services for Investment (SAFI) project, May 2012, Abdoul Karim Coulibaly.

12. Final impact evaluation, Wekeza project, 2012, Abdoul Karim Coulibaly.

13. Final impact evaluation, SAFI, op. cit.

14. Final impact evaluation, Banking on Change, op. cit.

15. Final impact evaluation, SAFI, op. cit.

16. Final impact evaluation, SAFI, op. cit.

17. The "linkage" terminology is derived from Indonesia and India, where programmes to connect "self-help groups" to banks have been underway for several years.

18. The five countries are Kenya, Malawi, Rwanda, Tanzania and Uganda.

03. The pilot initiatives

CARE designed and launched eight pilot initiatives connecting mature and interested savings groups¹⁹ with formal financial service providers (FSPs).

Figure 5: The eight pilots by country and service type

	Mobile Money Transfer	Savings	Credit	Insurance
Tanzania	Vodacom M-PESA			
	Mwanga Community Bank & Vodacom M-PESA		*	
Kenya	Equity Bank & Orange		*	
		Barclays		
Rwanda		Vision Finance Company		
Malawi		Opportunity Bank		
Uganda		Barclays		Jubilee Insurance

*Loan product is in the process of being launched.

Banking on Change: connecting savings groups to a global commercial bank

Two of the pilots, in Kenya and Uganda, are part of Banking on Change, an eleven-country partnership between Barclays, CARE and Plan International aimed at improving access to financial services for around 400,000 people. Testing ways to link a small proportion of these savings groups to Barclays branches was an explicit objective from the outset of the project. CARE's Uganda and Kenya offices, which had been supporting savings groups since 1998 and 2004 respectively, were keen to take part, as many of their groups had expressed interest in accessing formal financial services. For Barclays, which had 111 branches in Kenya and 50 in Uganda, it was an opportunity to understand the financial needs of poor communities, a market it had yet to penetrate. A modest target was set of linking 210 groups in Uganda and 200 in Kenya.

In designing Banking on Change, CARE and Barclays were informed by some of the early lessons that had emerged from savings groups which had already sought out financial services on their own initiative. Often groups hadn't had any training in using financial services, bank staff didn't know how to work with this new type of customer whose needs were unlike those of other clients, and some groups had been left with unmanageable debt and a suspicion of banks. CARE and Barclays took a number of steps to avoid such a scenario. Suitable groups were identified using CARE's Linkage Readiness Assessment Tool²⁰, as well as by their proximity to bank branches. Banking staff were briefed on working with groups, and members were given training on using financial services and on the Barclays product.

19. For the remainder of this report, we refer to VSLAs as "savings groups". Many other organisations follow a similar methodology but under a different name. "Savings groups" is a commonly used generic term for these groups.

20. The Linkage Readiness Assessment Tool can be found in section five of this report.

Key facts

- 445 group savings accounts opened
- Total deposited: \$119,154
- Interest on savings: 2.5% p.a.
- Overdraft now available in Uganda at 8% p.a.



BOC/TINE FRANK 2011

A member of a savings group linked to Barclays in Katine, Uganda counts the group's weekly savings.

After a needs assessments in Kenya and Uganda,²¹ CARE and Barclays decided to start with savings accounts rather than credit, in line with CARE's linkage principles²². In Kenya, Barclays' Uwezo account was chosen, a special low-cost savings account already on offer to schools and NGOs, which allowed free withdrawals and deposits, no monthly maintenance fee, a 2.5% interest rate, and a relatively low minimum opening deposit: 2,000 shillings (approximately \$23). In Uganda, a group current account was chosen, with no account set up or monthly fees and no minimum balance.

Savings groups report that it has been easy to open and run accounts. They welcome the fact that they can keep their funds in a safe place and that they are treated as equals by the

bank. "I thought, banks are not for people like me. They are for rich people, and people with big businesses," says Sarah Mutanda, 23, of a savings group in Buwologoma village, Uganda. The growing trust between groups and the bank has encouraged members to request additional services, particularly access to credit.²³

The overall target has been exceeded, with over 400 groups opening accounts with Barclays and depositing nearly \$120,000 by the end of September 2012.

In April 2012, Barclays Uganda launched its first credit product specifically targeted at savings groups – an overdraft facility which allows customers to borrow and pay interest only on the amount they need,²⁴ which is particularly

21. *Bank Linkages Model for VSLA Groups in CARE Uganda*, Accenture Development Partnership, December 2009; *Market Research and Product Development for Linking VSLA groups to Financial Institutions, Kenya*, M2i Consulting, January 2011.

22. See section five of this report for CARE's linkage principles.

23. Barclays has made extensive efforts to adjust its account opening procedures and account features to the needs and reality of the VSLA groups. For example, the application form was made a larger font with larger spaces for inserting the names and other answers.

24. Other types of loans tend to be for fixed amounts or terms.

appropriate for customers with volatile incomes. CARE ensured that the product was available to groups that were already regular users of a savings account, came with comprehensive financial literacy training and was viewed as complementary to the savings group, rather than as a replacement. So far all groups have paid interest on time and repaid within the set period: as of December 2012, the Portfolio at Risk (PAR) on this product was 0%.

The future is promising. There is now a pool of over 1.2 million savings group members in Kenya and Uganda, trained and supported by CARE, who may be ready to access formal financial services. Banking on Change has set a new target of linking over 4,000 groups in Kenya over the next three years. But challenges remain for the many groups that are too far away from its branch network. Barclays is exploring the potential of mobile banking as a means of expanding outreach to these groups.

Savings groups and microfinance institutions

Two of the eight pilots involve partnerships between CARE and microfinance institutions: Vision Finance Company in Rwanda, and Opportunity International Bank of Malawi.

Vision Finance Company, Rwanda

CARE's linkage pilot in Rwanda began as part of its Sustainable Access to Financial Services for Investment (SAFI) project²⁵. In the three years up to May 2012 SAFI established 4,812 savings groups, reaching 148,047 people. As with Banking on Change, one of SAFI's objectives was to connect a proportion of savings groups with formal financial services²⁶.

In 2010, CARE signed a Memorandum of Understanding with Vision Finance Company (VFC), a subsidiary of World Vision²⁷. With only 13 branches, VFC was not the largest player in Rwanda, but its experience of working with small groups of savers, coupled with its mission to provide loans to poor people – and particularly women – in rural areas, made it an attractive partner for CARE. For VFC it was an opportunity to expand its client base and to experiment with a new business model to reach poor communities.

VFC offered two main products adapted specifically for savings groups: a group savings account with 4% annual interest and no set-up or monthly fees, and a loan product with a 2.5% monthly interest rate, four-month term, and 3% commission. CARE used its Linkage Readiness Assessment Tool²⁸ to identify suitable savings groups, then VFC and CARE provided training on the VFC products, the requirements for opening a savings account and the somewhat more stringent requirements for a loan²⁹.

VFC's products were highly successful. As of October 2012, 1,160 groups had opened VFC savings accounts, depositing over \$30,000, and a third of those groups had also taken loans totalling over \$413,000. Linked group members invested their savings and loans in livestock, small businesses, health insurance and children's school fees. "I got a loan of 50,000 francs (\$83) and bought a pig and a goat," said Vulely Mukantabama, a group member. Groups with successful track records were able to access steadily larger amounts of capital from VFC³⁰.

25. SAFI was funded by the Mastercard Foundation and Canadian International Development Agency. CARE implemented SAFI through six international and local NGO partners: Plan International, Norwegian People's Aid, Eglise Episcopale au Rwanda, Association Rwandaise des Travailleurs Chrétien Féminins, and African Evangelistic Enterprise.

26. CARE had some prior experience with linkage in Rwanda. In 2004, it partnered with Banques Populaires du Rwanda to offer savings and credit to "federations" of its VSLAs. Lessons from this experience have informed CARE's subsequent thinking on linkage.

27. Vision Finance Company (VFC) is a wholly-owned microfinance subsidiary of World Vision International represented by its program in Rwanda, World Vision Rwanda. Read more: <http://www.mixmarket.org/mfi/vision-finance-company#ixzz2Jb6ZUgfP>

28. The Linkage Readiness Assessment Tool is described in detail in section five of this report.

29. Requirements for a savings account included photos and national IDs of the president, secretary and treasurer of the VSLA; a copy of the VSLA's internal regulations; 1,200 Rwandan francs (approximately \$2) for a passbook and bankcard; and a minimum deposit of 2,000 francs. For a loan, groups had to have saved with VFC for a minimum of three months, and had to provide an application letter signed by all group members, a photo of the group, a registration form signed by the community leader, and a statement of the amount the group had shared out in their previous savings cycle.

30. For its first loan, a group was eligible for a maximum of 50% of the value of its previous share-out. Subsequent loans could rise by 50% each time provided the previous loan had been paid back.



Key facts

- 1,160 savings groups with savings accounts at VFC
- Total deposited: over \$30,000
- 4% annual interest on savings
- 391 loans made by VFC at 2.5% per month
- Total loans outstanding: \$413,000

A group member weaves a basket as part of a business she started with her savings.

In 2011, a study by the Tepper School of Business at Carnegie Mellon University revealed that linked groups showed significantly higher savings, investment, and rates of return on savings than non-linked groups, and that linkage strengthened savings group methodology and improved the performance of the group. A SAFI member commented: "Everyone is now more responsible for the loan because it is external money" ³¹.

Having built its portfolio of 17,000 clients over a decade, VFC was delighted to see its books grow by 300 new groups (around 6,000 clients) in just the first six months of the pilot. The other surprise was the groups' reliability: their risk of loan default was almost negligible, as reflected by their Portfolio at Risk of 0%, compared with the international standard of 5% and 8% for VFC's other clients. "When you look at their discipline, what they've built from scratch... In a way the group is more of a bank than a commercial bank," said Bright Batamuriza, VFC's Head of Marketing and Special Projects in Kigali.

However there are challenges. Many groups are a considerable distance from their nearest branch and have to pay for taxis to take group deposits to VFC. To help address this issue, CARE has partnered with four additional microfinance institutions that have a strong rural presence, doubling the number of linked groups and reducing the distance they have to travel³².

In the future CARE plans to strengthen and expand the partnership with VFC and to look for interested microfinance institutions to reach more savings groups. As travel costs remain an issue, VFC is now working with MTN, the mobile network provider, to develop targeted mobile products for groups. In the meantime, CARE has signed an MoU with mobile phone network provider TIGO to pilot mobile financial services with savings groups in the Eastern Province before scaling up.

31. Learning document on Financial Linkages, Satyam Bakliwal and Mfoniso Umoh, Tepper School of Business, July 2011. Coordinated by Sophie Chitedze.
 32. The four MFIs are Urwego Opportunity Bank plus the three local partners of Terrafina Microfinance: Umutanguha, CLECAM, and Ingunga.



Key facts

- 484 savings groups with savings accounts at OIBM
- 35% interest on agricultural loans up to \$654
- 6% annual earned interest rate on savings accounts
- Loan repayment rates of 97%

Opportunity International Bank of Malawi

CARE launched its savings group programme in Malawi in 1999 but only began large-scale operations in 2008. It saw Opportunity International Bank of Malawi (OIBM) as an obvious choice for a linkage partner for mature savings groups. Established in 2002 and a member of the Opportunity International network of non-profit microfinance institutions,³³ OIBM had 34 outlets throughout the country and wide experience of working with small, rural groups of customers such as farmers' clubs. For OIBM, the partnership fitted well with its mission to reach marginalized individuals in semi-urban and rural areas.

In October 2009, OIBM signed an MoU with CARE to provide financial services to CARE-supported savings groups. OIBM offered its standard "Kasupe" savings account to groups, an account with no minimum balance or monthly administrative charges and an annual interest rate of 6%. Some savings groups would also be offered OIBM's agricultural loans - up to \$654 per group at an annual interest rate of about 35%.

Of the seven districts in which CARE's programme was operating, three were chosen for the linkage pilot based on their relatively high level of security, proximity to CARE offices and, where possible, proximity to OIBM banking kiosks³⁴. By June 2011, nearly 20% of the 2,600 savings groups in the target districts had opened savings accounts with OIBM.³⁵ Average account balances stood at approximately \$50 per group. In early 2012, loans worth \$654 each were disbursed to 29 groups with high loan repayment rates of 97%.

While the numbers were encouraging, the pilot experienced several challenges. Progress overall was slow on developing and rolling out the products. Some groups were linked before they had completed a full savings cycle (usually nine months to a year after they start saving), and no linkage assessment had been completed. And though training in financial processes and OIBM products was planned, this did not take place because of a misunderstanding between CARE and OIBM. It also transpired that some groups were just too far from the OIBM kiosks - some as far as 64 kilometres - to conduct transactions.

33. As of late 2012, OIBM became Opportunity Bank Malawi and is no longer affiliated with Opportunity International.

34. OIBM also had a mobile banking van that served these districts along the paved roads.

35. In the process of opening the group accounts, OIBM staff took it upon themselves to recommend group members for individual savings accounts. OIBM staff encouraged this because they assumed it would be easier to distribute loans to groups via individual accounts; they had never disbursed loans to savings groups before. As a result, 2,145 individual VSLA members opened savings accounts.



Key facts

- 39 savings groups with M-Pesa accounts
- Total deposited: \$15,148

An M-Pesa/Vodacom stand in Arusha, Tanzania.

There were also challenges with the credit product. Disbursement of funds was delayed, and some OIBM staff were unaware of the pilot, the account opening procedures, or the products on offer. Though account opening procedures were usually completed in a location near the groups, members often had to travel some distance to the branch to conduct transactions. Malfunctioning account numbers and duplicate group accounts have contributed to a lack of reliable data that can be pulled from OIBM's system on the linked groups.

The experience has provided many lessons, including the importance of having savings group members undergo financial literacy training before linking to financial institutions, having specialized staff who understand and are dedicated to advancing savings group business linkages, and introducing mobile money banking systems to help access more rural savings groups. These have been incorporated into CARE's principles and guidance for linkage, discussed in detail in section five of this report.

Going mobile: savings groups, banks and mobile service providers

Much has been written about the explosive growth in mobile phone use across the developing world. Coupled with the advent of mobile banking applications, this has the potential to revolutionize the financial services industry, particularly for the largely unserved market of poor clients in rural areas.

Three of CARE's linkage pilots involve mobile services. The first of these, a partnership between CARE and Vodacom Tanzania, provides savings groups with access to a basic mobile wallet and payment service, but does not offer savings or loans products. The second and third pilots involve both mobile service providers and commercial banks – Orange and Equity Bank in Kenya, and Vodacom and Mwanga Community Bank in Tanzania – and allow savings groups to access banking products via their mobile phones.

Stand-alone mobile wallet, Tanzania

CARE's savings group programme in northern Tanzania was launched in 2009 and has since established some 4,800 groups with over 100,000 members. As part of the programme,

CARE sought to test Vodacom's popular mobile phone payment service, M-Pesa, with a small number of these groups.

M-Pesa (M for mobile, pesa is Swahili for money) is a mobile phone-based money transfer and microfinancing service which allows users to deposit, withdraw and transfer money using a mobile device. Users put money into their M-Pesa account by making a cash deposit with a registered M-Pesa agent (eg a supermarket or petrol station). To withdraw cash, users simply send money by text message to an M-Pesa agent who pays out the required amount. All transactions are authorised and recorded in real time by text message.³⁶

Talks with Vodacom began in late 2009. By February 2010 CARE and Vodacom had agreed a partnership and the pilot was launched. In the first phase, CARE selected 27 savings groups to participate on the basis of their maturity and to ensure geographical representation across the project sites. CARE trained the groups on the

M-Pesa technology and the procedures necessary to safeguard their funds, such as a multiple PIN code system that Vodacom enabled through the provision of higher-functioning, 64K SIMs.³⁷ CARE then accompanied them through the process of opening an account, which consisted of six simple steps described in Figure 6.

Figure 6: Opening a Savings Group M-Pesa Account

- Group receives training
- Members sign resolution paper affirming intent to open account
- Group representative obtains a 64K SIM card from an M-Pesa agent
- SIM card is registered to group chairperson or secretary and any phone can be used by inserting the SIM card
- Four appointed PIN holders choose new PIN code and change the PIN
- Group is ready to transact or check M-Pesa balances

Groups began using their M-Pesa accounts on a weekly basis to store cash that otherwise would have remained in the group's box – funds that were either surplus to what was required for internal lending, or were part of the social fund reserved for members' emergency needs. As Lilian Mushi, a member of a savings group in Longido district, explained, "as soon as [my] group completed its weekly meeting, a member would rush to the M-Pesa agent to deposit the money collected". They viewed this as a more secure option than leaving the

funds in the safe box. Some group members who worked away from home, sent weekly savings or loan repayments to the group via M-Pesa. As with its individual customers, Vodacom did not charge groups for depositing money but did charge for withdrawals and electronic transfers³⁸.

The groups quickly adopted a simple bookkeeping method taught by CARE to record their funds kept on M-Pesa. The table below shows an example.

36. Information on M-Pesa is from Wikipedia and GSMA website (telecom company) here: <http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2012/03/keystompesassuccess4jan69.pdf>

37. 64K SIMs allow for additional programming functionality that the normal 32K SIM does not have. Using the 64K SIM, the group chooses four members as 'PIN keepers' who are not currently the box key holders. The PIN keepers are divided into 2 pairs. Each of the pairs is responsible for two of the numbers on the PIN. When the first two numbers are entered an asterisk will appear on the screen concealing the PIN from view. PINs are never shared or written down.

38. The fees started at \$0.33 per transaction, rising with the transaction amount. For example, a withdrawal or transfer worth approximately \$50 incurred a fee of about \$1.

Table 2: A Savings Group M-Pesa Book Showing Deposits, a Withdrawal and a Transfer

Date	Purpose (if payment note telephone number)	Opening M-Pesa Balance	Money Added to M-Pesa	Money Withdrawn from M-Pesa	Fee Paid	Ending M-Pesa Balance	Verification
11/02/10	Cash deposited	0	200,000		0	200,000	Signature
25/02/10	Cash deposited	200,000	100,000		0	300,000	Signature
11/03/10	Cash deposited	300,000		420,000	0	650,000	Signature
25/03/10	Withdrawn for share out	650,000	420,000		7,000	223,000	Signature
06/05/10	Cash deposited	223,000	230,000		0	453,000	Signature
03/06/10	Cash deposited	453,000	230,000		0	683,000	Signature
05/08/10	Cash deposited	683,000	230,000		0	913,000	Signature
01/10/10	Payment for fertilizer	913,000		800,000	400	112,600	Signature

Following the linkage of the first 27 groups, new groups were steadily added. As of January 2013, 39 groups had opened M-Pesa accounts, and deposited \$15,148. While group members have on the whole been pleased with the M-Pesa service, many of them – like Lilian’s group in Longido – wish for lower transaction fees³⁹. Another challenge has been the lack of liquidity on the part of some M-Pesa agents, who on occasion have been unable to service the relatively large withdrawals that savings groups have wanted (as compared with the typical withdrawal size of an individual). A third challenge has been the low awareness among some Vodacom staff of how to deal with group accounts, which has meant that some groups have struggled to get the assistance they need at Vodacom outlets.

Perhaps the most important challenge has been the desire on the part of many savings group members for access to financial products, in particular loans, via their mobile phones. While CARE did have initial plans to expand this pilot to more groups, its experience is that the popularity of stand-alone mobile wallet services without access to financial products will always be limited. CARE has therefore sought to concentrate future expansion on partnerships that include commercial banks, as described below.

39. CARE Tanzania Human Interest Story, August 2011.



A community-based trainer explains mobile banking technology to savings group members in Kenya.

Mobile plus commercial bank linkage, Kenya

Since 2004, CARE has established nearly 30,000 savings groups in Kenya, with a membership of over 600,000 people. As in many other countries, CARE's experience in the Kenyan microfinance sector led it to conclude that some groups had reached the limit of what the savings group model could provide, and that they could benefit from access to formal financial services.

In 2010, with support from the Bill and Melinda Gates Foundation, CARE commissioned a needs assessment to determine the most appropriate type of linkage arrangement. The report recommended Equity Bank as CARE's linkage partner, principally because of its large branch network, its willingness to develop custom products for savings groups, and its existing partnership with Orange, the mobile services company.

Teaming up with Orange had the potential to offer significant advantages to group members. Customers who signed up for an Equity-Orange Iko-Pesa account could instantly access both an Equity bank account and a linked Orange Money mobile payment account. They could also carry out their transactions at either an Equity branch or through one of Orange Money's vast network of agents. Moreover, thanks to Equity Bank's Eazzy 24/7 app, mobile phone transactions could be completed on a number of mobile networks - including Safaricom, the country's largest - making Equity's banking products available in even the most remote parts of the country.

Key facts

- 223 savings groups with savings accounts
- Total deposited: \$35,316
- 2.5% annual interest on savings
- Free deposits, no monthly fees
- 24% p.a. interest on loans
- Maximum repayment period of 12 months

Figure 7: Customers have multiple transaction options

For cash transactions	For non-cash transactions
Equity Bank branch	Equity Bank branch
Equity Bank agent	Equity Bank agent
Orange Money agent	Orange Money agent
ATM machine	Orange Money mobile phone app
	Eazzy 24/7 mobile phone app

Two challenges stood out: designing products that would meet savings groups' needs, and ensuring the security and transparency features of the account were appropriate to a group setting. CARE and Equity put in place a joint product development team that was able to address these challenges. The savings product that was ultimately agreed offered a 2.5% annual interest rate, free deposits, and unlike other accounts on offer to the Kenyan public, had no monthly maintenance fees and a minimal charge (\$0.60) for withdrawals.

On the security side, CARE, Orange and Equity Bank developed a first-of-its-kind security verification system that requires three savings group members to provide PINs for every transaction, the electronic equivalent of the three-padlock savings group metal lockbox that prevents any one person from accessing the group's cash. Although individuals had accessed bank accounts with mobile phones before, this was the first system that allowed groups the same type of secure mobile access⁴⁰.

With these features in place, the pilot was rolled out in March 2012. As of December 2012, 223 savings groups with a total of 4,126 members had opened savings accounts with Equity Bank, with deposits totalling \$35,316.

Developing a credit product proved to be more of a challenge, mainly due to the non-recognition of savings groups as legal entities that a bank could lend to. Nevertheless, the Pamoja loan product was ultimately developed in November 2012.⁴¹ Finalization of the product between CARE Kenya and Equity Bank coincided with the share out of many groups and thus no groups as of December 2012 had accessed a loan.

As the first project across the savings group sector to have comprehensively piloted group linkages to a financial institution via a mobile platform, the Equity-Orange pilot has provided many valuable lessons. Plans now are to expand the pilot into a full-scale initiative covering new geographic areas; an initial target of 300,000 savings group members (both old and new group members) has been proposed. As stated by a representative of Equity Bank, "It is in line with the Bank's vision and mission to be the champion of the socio-economic prosperity of the people of Africa by offering financial services that socially and economically empower our clients and other stakeholders."⁴² CARE and are also seeking ways of expanding the Equity Bank model to neighbouring countries.

40. CARE, Equity and Orange went a step further, putting in place a multiple SMS notification system, so that the moment a transaction takes place on the group account, three SMS messages are generated and sent to three different mobile numbers registered on the group account.

41. The basic requirements of the product requires groups to have been in existence for at least 18 months, to have an account with Equity Bank, and to have received a recommendation letter from CARE.

42. CARE Kenya Bank Linkages End of Project Report, CARE Kenya. January 2013. Page 9.



"When the idea of connecting CARE savings groups in northern Tanzania to Mwanga Community Bank came about, it seemed a logical way for us to test new innovations around group management of the mobile money wallets. Through this partnership, we are able to advance better financial management practices even amongst the very poor."

Jacques Voogt, Vodacom Chief Officer, M-Commerce

Mobile plus commercial bank linkage, Tanzania

One of the insights CARE gained from the earlier M-Pesa pilots was that VLSAs wanted to access more banking products, such as loans, through their mobile phones. To explore this, CARE began a partnership with Vodacom and Mwanga Community Bank (MCB) in March 2012.

MCB is a small community-owned regional bank in the Kilimanjaro region of northern Tanzania, which already worked with groups and some savings groups. As one of the few banks in the country with headquarters outside the capital and a reputation for strong rural outreach, MCB was an attractive partner for CARE. MCB had little experience of working with mobile network operators but was keen to develop mobile banking. For Vodacom, it was an opportunity to expand their network of agents and customers, and to develop and test the M-Pesa platform further.

The "Akiba" savings account, designed for group savings and used by other MCB customers, was the first product offered. Seventy-six groups opened a group savings account and between them deposited \$182,242, with withdrawals totalling \$172,304 as of December 2012.

However there have been some challenges. Administrative problems meant it took a while for M-Pesa to come online; and because M-Pesa agents were unfamiliar with the 64K SIM cards savings groups used for their group accounts, they were unable to help if problems arose. Groups were able to make deposits with a Vodacom M-Pesa agent near their homes but for withdrawals they had to visit an MCB branch.

The initial phase of the pilot ends in spring 2013. In the next phase, MCB, CARE and Vodacom plan to add a credit product, to extend the pilot to 2,000 savings groups across the whole of Kilimanjaro, and to develop a model that can be replicated by neighbouring community banks across Tanzania.

Key facts

- 76 savings groups opened savings accounts
- \$182,242 deposited

Piloting insurance products



BOC/TINE FRANK, 2011

Key facts

- Policy costs \$13.60 per year for family of eight
- Insurance payout of \$227 for adults
- 24 claims filed to date out of 1,515 policies sold

Betty Wagulo, a member of Dabani savings group, Uganda

In 2009, CARE conducted a needs assessment among savings groups in Uganda to determine the financial service that members most wanted. Their top priority was funeral insurance. Funeral expenses can run to as much as \$300 with the cost of hospital bills, burial services and food for mourners, who often visit the bereaved family for several days. Such costs are a huge burden on the average family.

To meet this need, CARE approached MicroEnsure, an insurance intermediary owned by the non-profit microfinance network Opportunity International, to design a product appropriate for savings groups. MicroEnsure developed a policy with a premium of \$3.15 for each group member, covering up to six people per household. The product was sold by field officers employed by CARE's local partner, Community Vision, who explained to group members how the product worked and received a commission for each sale.

MicroEnsure and Community Vision sold 498 policies before MicroEnsure realized that the premium was too low to be viable and it withdrew from the partnership after less than a year. CARE brokered a new partnership with another provider, Jubilee Insurance, whose product offered additional features, such as cover for pre-existing conditions and for up to eight family members, but with an increased premium of \$13.60 per year⁴³. Even with the price increase, the product was attractive to savings group members, and sales continued.

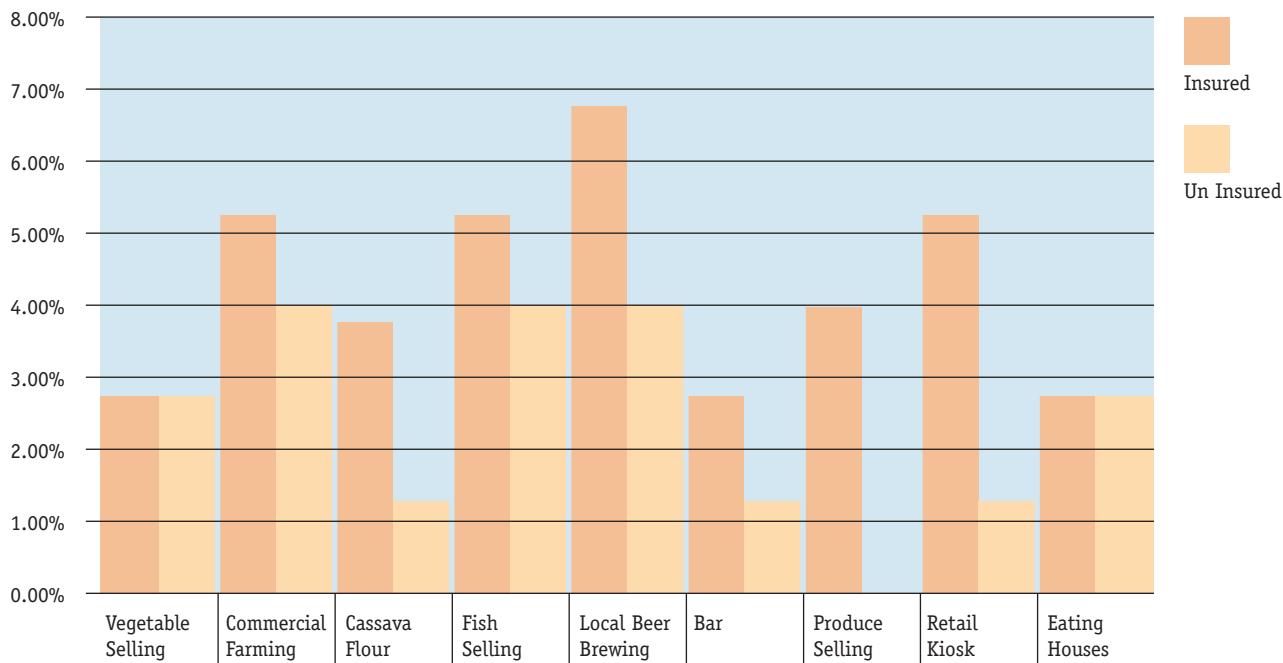
The experience of Margaret Omonyi of Tororo reflects what many savings group members have found: "I did not get trouble in organising my husband's funeral because I was assured of the compensation from the insurance. I received these funds after two weeks, and I was able to pay back all the debts I incurred during the funeral, with some left over; this saved my land which I would have had to sell to meet this sudden expense".

CARE has found that funeral insurance can have benefits for a family beyond simply covering the costs of a funeral. A study⁴⁴ conducted in 2011 showed that insured group members were more likely to invest their savings in productive

43. The insurance payout is \$227 for adults and \$136 for children.

44. Access Africa Technical Learning Series #3-Funeral Insurance Uganda, November 2011. In 2009 CARE's Save Up program launched three pilot projects to provide such linkages in the three Save Up countries: bank accounts in Malawi, mobile phone banking in Tanzania and funeral insurance in Uganda. This publication describes the process of linking VSLA members in Uganda with funeral insurance.

Figure 8 shows how economic behaviour differs between insured and uninsured group members.



businesses than those without insurance. "Sometimes group members save the money that they would otherwise invest just as a way of insurance" says Rebecca Nyonyozi, Lead Advisor on the "Save Up" programme for CARE in Uganda. "They think, 'What if someone dies, what do I do then?' But when they are sure there is insurance, then instead of just saving that money, they invest it."

Economic activities by insured and non-insured members

According to the study, members of insured groups also felt more confident about borrowing money and took out more loans than their uninsured counterparts, which in turn enabled them to diversify into income-generating activities that require more capital.

Funeral insurance can also have other positive effects on family wellbeing. CARE found a link between insurance and mortality rates. Although evidence is anecdotal, Ms Nyonyozi believes that families feel more able to spend money on health care if they don't have to worry about funeral expenses, which then lowers their mortality rates. Some evidence seems to support this theory: during the 3½ years of the pilot, only 24 claims were filed out of 1,515 family policies sold.

A key success factor has been a requirement that savings groups decide collectively whether to buy insurance. This was not the case in the first phase of the MicroEnsure partnership, when individuals could make the decision on their own. Forcing the group to decide whether it is "all-in or all-out" reduces insurance risk for the provider and helps achieve scale, both of which are crucial ingredients to long-term viability.

Realizing the potential outreach and efficiencies that can be obtained through Mobile Money Transfer (MMT) platforms, Jubilee has initiated a process to allow clients to make premium payments through mobile phones, and in the future, hopes to use that same technology to settle claims. So far, Jubilee has been able to use M-Pesa to settle member claims.

But it is far from settled if and at what scale the insurance product offered will become commercially viable. Microinsurance experience elsewhere suggests that companies must commit for the long-term and achieve scale to be successful. For CARE, given the satisfaction and positive renewal rates among savings groups, developing more insurance products for its Ugandan group members is a priority for the future.

04. Key findings

While all but two⁴⁵ of the pilots are ongoing, a number of lessons are already emerging. In this section we look at what preliminary conclusions we can draw from the experiences of the past few years.

Significant demand

The first clear lesson that has emerged is that demand among savings groups for the financial products offered in all eight pilots is remarkably strong. As can be seen from Figures 11 and 12, large numbers of the groups took up the savings, loans and insurance products they were offered, despite the fees involved, the time required to travel to the branch, and the many common misperceptions about financial institutions that prevailed among savings groups at the outset of the pilots (see Figure 9).

Figure 9: Common group concerns about formal financial services⁴⁶

- Groups are not registered with authorities so banks will not engage with them.
- Bank charges are very high on saving accounts.
- Groups do not have enough money to keep in a bank account.
- Banks may not have enough cash when groups want to withdraw their savings.
- Banks charge very high interest rates and other charges on loans.
- Banks are very harsh on repayments.
- Banks have high collateral requirements.
- Members may not have all the documents required.
- Groups will need to keep their entire savings in the bank to get a loan, so they will not be able to lend their own funds.
- Financial sector partners ask for joint liability, so even if only one member defaults, the others have to pay, which is not acceptable to the group⁴⁷.
- Members do not have the ability to prepare business plans to access loans.
- The process is cumbersome.

Savings

In total, 2,427 savings groups have opened savings accounts, depositing \$386,693. Groups have been unexpectedly active in their savings behaviour, frequently depositing their excess cash, particularly towards the end of the annual cycle when savings have accumulated and internal loans are no longer being made.

Overall, members seem to find the accounts affordable and fit for purpose. With one exception (Mwanga Community Bank), none of the savings accounts come with an initial charge or a regular maintenance fee. Similarly, only one of the accounts – offered by Vision Finance Company – requires a minimum balance. Withdrawal fees vary, with banks such as Barclays Uganda, OIBM and Equity Bank charging less than a dollar per transaction and others, such as Barclays Kenya, offering free withdrawals

That groups considered the bank charges affordable is borne out by a 2012 study conducted among savings groups in Kenya, which found only 9% of non-linked group members citing high fees as an obstacle to linkage⁴⁸.

Some groups have struggled with lengthy account opening procedures. For example, Barclays Uganda requires letters from the local council or social services, while Vision Finance asks savings groups to supply photos. In both cases, however, these requirements are imposed to meet conditions set out by financial regulatory bodies and accepted by the groups. In Kenya, the majority of savings groups - 63% - were satisfied with the process of opening a bank account while 25% were very satisfied.⁴⁹

Finally, a key lesson from the pilot in Tanzania with the stand-alone mobile wallet is that the popularity of these services without access to financial products will always be limited.

45. The two that have ended are the OIBM pilot in Malawi and the M-Pesa stand-alone mobile wallet pilot in Tanzania.

46. Common misperceptions identified during market research in Kenya. A similar list was found in most of the pilot countries. Market Research and Product Development for Linking VSLA Groups to Financial Institutions, Kenya, M2i Consulting, January 2011.

47. Currently in VSLAs every individual is responsible for his/her loan and hence there is no joint liability.

48. The most common obstacle to using financial institutions, cited by 39% of group members, was lack of funds. (Study conducted by M2I consulting in June 2012)

49. Linkage monitoring findings report, Banking on Change Kenya, August 2012.

Table 3: Savings and Mobile Money Deposit Product Features

Savings Product Account name, institution, country	Procedure
Group Savings Vision Finance Company (Rwanda)	<ul style="list-style-type: none"> Photos and national IDs of the president, secretary and treasurer of the savings group; Copy of the group's internal regulations; 1,200 Rwandan francs (approximately \$2) for a passbook and bankcard
Group Account Barclays (Uganda)	<ul style="list-style-type: none"> Weekly/Monthly Depositing/Withdrawal depending on the groups' decision Documentation needed: Group resolution, letter from local council and copy of certificate of group registration Application form; certified copy of group constitution, Passport photos and valid IDs for 3 nominated signatories.
Group Savings Kasupe Opportunity Int'l Bank (Malawi)	<ul style="list-style-type: none"> Bank staff visit communities and open accounts Biometric data of group signatories taken at kiosks
Equity-Orange, (Kenya)	<ul style="list-style-type: none"> Group registration certificate from relevant government ministry or agency Original group officials identification documents; national ID Minutes of the group/association specifying the signatories and mandates Certified copy of group constitution Recommendation letter from the local CARE office
Akiba Mwanga Community Bank – (Tanzania)	<ul style="list-style-type: none"> Identification letter from local/village office; signed by respective leaders Group meeting minutes, stating the agreement of opening bank account Passport size picture of the signatories (3 to 4 people) Minimum deposit of \$6.33
Group Savings Uwezo Barclays Kenya	<ul style="list-style-type: none"> Proof of member agreement for linkage; Copy of group's constitution for registration certificate (Ministry of Social Services and Development); Original identification documents; National ID or passport and Minutes of the groups specifying the signatories and mandates. 100 Ksh stamp duty (around \$1)

Credit

Experience across the pilots suggests that there is large-scale demand for capital that group savings cannot meet, for example for expensive purchases such as fertilizer and seed. This is the main reason savings groups in Malawi and Rwanda have taken loans from OIBM and VFC, respectively. Similarly demand

for credit has been high in the pilots in Kenya and Uganda, but until recently no credit products had been available.

Loan products can be broadly categorised into three types:

Amortised loans: (a loan with scheduled periodic payments of both principal and interest)

Key Features (interest rate, fees, minimum deposit, requirements)	Number of accounts, members	Amount saved (in USD)
<ul style="list-style-type: none"> Interest rate: 4% p.a. No account set-up or monthly fees Minimum balance: RWF 2,000 	1,160 groups linked as of September 2012	\$30,833 as of September 2012
<ul style="list-style-type: none"> 2.5% p.a paid monthly depending on the amount on the account No account set-up or monthly fees No minimum balance Group can withdraw fully at share-out Otherwise, 2,000 Ushs (USDO.74) per withdrawal from account Account opening within 30 minutes Cheque and quarterly statements 	214 groups linked as of September 2012	\$74,660 as of September 2012
<ul style="list-style-type: none"> Interest rate: 6% earned No account set-up or admin fees No minimum account balance Fee depending on use/ transactions Access via branch, kiosk and mobile outlets 	484 linked	\$4,000 deposited by groups by end of 2011
<ul style="list-style-type: none"> Interest rate: 2.5% Free cash deposits Free standing order into the group account Minimal withdrawal charges Withdrawal and deposits at agency location Agency withdrawal tariffs apply Free initial cheque book with each account 	223 groups; 65% of members (2,675) opened individual savings accounts as of December 2012.	\$35,316 deposited as of December 2012
<ul style="list-style-type: none"> 3% annual earned interest, Monthly or admin fees No withdrawal fee 	76 groups linked for savings as of December 2012	\$182,242 deposited as of December 2012
<ul style="list-style-type: none"> No opening balance or maintenance fee Free deposits and withdrawals Cheque book (excluding stamp duty) charged once, renewal free Option of individual accounts for members No maintenance fee Opening balance Kenyan Shillings 2,000 (around \$23) Interest paid monthly, calculated daily with rate up to 2.5 per cent per annum. 	231 groups linked as of September 2012	\$ 44,494 deposited as of September 2012

to augment savings group loan capital; offered by Vision Finance in Rwanda and MCB in Tanzania

Balloon payment loans: (a loan with a large payment due at the end of the loan period) that allows groups to use capital longer, especially for agriculture purposes; offered by OIBM in Malawi

Flexible overdrafts: offered by Barclays in

Uganda.

While members saw OIBM's loan term of six to ten months as adequate, savings groups found the short-term loans of three to four months offered by Barclays and Vision Finance Company challenging to service and less beneficial. Nevertheless, demand for these short-term loans was significant.

Table 4: Credit product features

Institution, country	Procedure
Vision Finance Company (Rwanda)	Documentation needed: an application letter signed by all group members, a photo of the group, a registration form signed by the community leader, and a statement of the amount the group had shared out in their previous savings cycle.
Barclays Uganda	<ul style="list-style-type: none"> Documentation needed: Group resolution to borrow, application form, valid IDs for signatories.
Opportunity International Bank of Malawi	<ul style="list-style-type: none"> Groups have a valid Kasupe savings account OIBM staff visit groups and support the filling of forms Groups deposit a guarantee 15% of loan value Loans disbursed to groups at kiosks Loan officers visit groups to service loans
Mwanga Community Bank (Tanzania)	<ul style="list-style-type: none"> Group accounts have been active for at least 6 months Letter for application of loan Summary/Minutes of group meeting, signed by all members regarding the need and purpose of accessing loans (at least 50% of entire group members must sign the agreement) List of beneficiaries of the loans i.e. person and amount intended per each member. Deposit of 1/3 of the intended loan as collateral Legal form signed by groups' leaders and certified by court.

Insurance

Overall, demand for insurance in the Uganda pilot was strong, with 1,515 policies sold. However, marketing such an unusual concept as insurance – even in the midst of an expressed need on the part of communities for support in dealing with costly funeral expenses – was not straightforward. Up-front investment in awareness-raising and trust-building was required to explain how a new type of product could meet the demand from groups. The Jubilee partnership found that innovative thinking – for example on the delivery channel – coupled with an attractive product (covering eight members of a group member household) helped to increase the rate of enrolment. Jubilee Insurance also increased the range of banks from one to three across the project area to help group members deposit their premium, and designed special pre-printed bank deposit slips

to help prevent errors during deposits. CARE and local partner organisations have continued to support and inform local leaders and savings groups about the product and microinsurance in general. Groups are gradually beginning to appreciate the importance of insurance and are increasingly requesting additional products such as, health and agriculture insurance.

Benefits for savings groups

While it is too early to make a final judgment about the impact of the savings, credit and insurance linkages, preliminary information about their effects is emerging from studies in Uganda, Kenya and Rwanda and from participant feedback across the eight pilots.⁵⁰

Overall, financial performance and profitability of the linked groups seems to have improved as a result of linkage, without a corresponding

50. VSLA Bank Linkages Initiative Pilot, Action Research Report, Uganda, Friends Consult Ltd, January 2012; Linkage Monitoring Findings, GSL, Kenya, August 2012; Tepper School, 2011, op. cit

Key Features (interest rate, fees, minimum deposit, requirements)	Number of loans, members	Outstanding loan amount (in USD)
<ul style="list-style-type: none"> • Max – 50% of last share-out value, 1.5 times for repeat loan • 4 month term, amortized repayment • Interest: 2.5% monthly flat; 3% fee up-front • Savings for minimum 3 months 	391 loans as of October 2012	\$62,939 as of October 2012
<ul style="list-style-type: none"> • Product tenure: 3 months and 12 months maximum • Interest rate: 8 per cent p.a. • Payment method: Monthly instalments 	9 groups accessing overdraft product as of September 2012	\$5,948 as of September 2012
<ul style="list-style-type: none"> • Maximum loan size: \$654 • Term: 4-8 months, balloon payment • Interest: 2.92% monthly flat • Includes drought and credit life insurance 	29 groups received loans	By close of project, 97% of the loan had been repaid. The 3% was for groups that refused to repay the loan due to a disagreement with the bank
<ul style="list-style-type: none"> • Typical 1st loan size: \$506 • \$506 maximum 1st loan size • Term: 12 months • Interest: 1.6% monthly flat (19.2% per annum) 	3 groups have received loans to date	The loans are so new that all loans are currently outstanding

increase in loan defaults or negative influence on groups' internal management. In Rwanda, after six months of accessing savings accounts and loans from VFC, linked groups reported significant increases in their savings, investment, and rates of return on savings as compared with non-linked groups.⁵¹ In Uganda, groups with savings accounts saved more each week because they were less concerned about the security of their money.

In addition to financial performance, linked groups report increased confidence in dealing with financial institutions.⁵² Asked about the benefits of linkage, Mrs Celeniani Gatesi, a group member in Rwanda, said, "Before, we were afraid of large amounts of money...but

now we have confidence to work with money and banks." Groups in Uganda reported a similar growth in confidence in dealing with banks, but they also said that their overall cohesion and self-esteem had grown as a result of the linkage initiative.

Also, reports from many of the pilots suggests formal registration of groups with local authorities and financial institutions improves members' attendance at meetings, raises the quality of their bookkeeping practices, and fosters more rigorous credit appraisal and internal controls within the group. This may be a factor in the improved internal loan repayment rates observed in many linked groups.

51. Satyam Bakliwal, Mfoniso Umoh, Learning Document on Financial Linkages, Tepper School of Business, July 2011.

52. One of the unexpected outcomes of the pilots has been demand from VSLA members for individual savings accounts. Financial sector partners have been surprisingly responsive in meeting this demand. OIBM and Equity Bank, for example, have offered individual accounts to all VSLA members linked to group accounts, while Barclays has also offered individual accounts to a large number of its VSLA clients. Interestingly, one of the factors reported to be motivating members to open individual accounts is the prestige associated with banking at an institution like Barclays, which is seen by some as a bank of the elite.

The main effects observed on groups as a result of linkage

- Change in amount and frequency of savings within groups
- Improved internal loan repayment rates
- Better management practices within groups
- Group cohesion and self-esteem
- Higher profitability and return on savings

Generally, linkage is perceived as a positive process. In Kenya for example, all of the savings groups surveyed agreed that holding a bank account was beneficial and said they would link again to the bank because of the guaranteed security of their money and the good features of the Uwezo account⁵³.

However, the initial results of the pilots are beginning to shift those expectations. Vision Finance, for example, has been pleasantly surprised by the credit-worthiness of its savings group clients, despite the fact they require only 10% of the loan value as a guarantee (as compared to 20% from VFC's other clients). Defaults have been so few as to lower VFC's overall Portfolio at Risk. "We were worried that those below the poverty line couldn't pay back our loans, but now that we have penetrated this market segment we know they can", says VFC Branch Manager Alphonse Batumanyeho. Moreover, linkage with savings groups increased VFC's client base by 35% in just six months, and VFC is already developing expansion plans. "We want more groups", says Mr Batumanyeho.

Barclays, too, is recalibrating its expectations. It has found that savings groups can provide enough business to make certain bank branches financially viable. As Abdullah Bukenya, Barclays Branch Manager of Soroti in Uganda, says, "They [the savings group members] are good potential. When you look at their savings, they keep growing. We are impressed". In the countries where Banking

A savings group with their money box in the village of Bunju, Tanzania



CARE/ABDOUIL KARIM COULIBALY, 2007

53. A sample of 24 groups linked to Barclays branches in Homabay, Kisumu and Embu participated in this survey (out of the 205 groups linked in August 2012). The selected groups in the three sites must have had interacted with the Barclays branches for the last six months.

on Change has begun to link informal savings groups with its branches, there are already known to be two million savers in groups, and Barclays is increasingly thinking about these people as its individual clients of the future. According to Michael Kaddu, Head of Corporate Affairs at Barclays in Uganda, the partnership with CARE started as a largely philanthropic venture, but it is now moving towards "a core business stream".

The financial sector is clearly taking savings groups seriously and investing heavily in servicing a segment of the population that has for years been seen as "unbankable..." Examples include Barclays' overdraft facility, the Equity-Orange product, and the multi-pin and messaging functionalities that Vodacom and Orange have specifically supplied and developed for savings groups.

Challenges in linkage implementation

Despite the positive outcomes described above, the pilots have encountered a number of challenges.

For the groups

- **Few banks:** the limited presence of formal financial institutions in rural areas makes it impossible for many people to access basic financial services
- **Distance to the Bank:** some groups have decided not to link because of the cost and time incurred to travel to the bank
- **Risk of cash in transit:** groups face a risk of theft while transporting the funds from and to the bank
- **Limited knowledge of bank or microfinance staff about savings groups and the linkage process:** some branch managers or staff have not been trained and are not able to provide the right kind of support to savings groups
- **Internal changes in systems and processes within the bank:** leading to confusion among group members
- **Inadequate communication between the headquarters of the financial institution and its branches:** leading to confusion among group members as staff are not aware of procedures

For the financial services partners

- **Working with clients is time-consuming:** a bank official in Uganda commented that "it is very unlikely you will get a well prepared rural customer coming to the branch ready to make a deposit without any effort from the bank."
- **Low literacy levels in rural areas:** making it difficult to provide consistent signatures to the bank when withdrawing money
- **Language:** some members can only communicate in their local language which not all bank staff can understand.
- **Internal software system malfunction** causing delay in opening accounts in some branches
- **Absence of mandatory documents from the group or change in signatories by group leader:** created delays in opening bank accounts as groups had to go back several times to the branch
- **Distance from the groups:** some mature groups targeted for linkage are too far away from the branches and therefore dropped out of the pilot.

Three-padlock metal lockbox used by savings groups, Rwanda



Comparing delivery channels

One of the biggest obstacles to expanding the availability of financial services is the physical distance between financial institutions and poor people and the consequent prohibitive transport costs. For people in Kenya, the average distance from their nearest bank branch is 19 kilometres and the typical cost of travelling this distance is \$2.50, the equivalent of several weeks' worth of savings for many group members. How to tackle this problem is one of the central challenges of the eight pilot models, and indeed of wider efforts to foster greater financial inclusion for the world's poorest people.

In Kenya, the agent networks belonging to both Orange and Equity Bank allow savings groups to deposit and withdraw cash without having to travel to Equity branches, instead conducting their business at participating shops and kiosks, which earn commission on each transaction. Vodacom M-Pesa agents play a similar role in the Tanzania partnership with MCB and the stand-alone mobile wallet pilot. By allowing banks to connect their products to the far-reaching agents of mobile network operators, these models offer perhaps the best potential for overcoming the distance challenge.

Agents are not involved, however, in the Banking on Change partnership or the pilots in Rwanda and Malawi. In the Banking on Change pilots in Kenya and Uganda, groups must travel to Barclays branches to conduct their business. In Malawi, groups must either travel to branches of OIBM or wait for one of its mobile banking vans to service their district. In Rwanda, it is VFC which travels out to rural areas to conduct operations.⁵⁵

It is difficult to say whether models that do not employ agents are sustainable. As described above, savings group demand for financial products has generally been high even where travel is required. The majority of groups in Kenya and Uganda appear to be happy to bear the cost of travel if it allows security of their



CARE/KATE HOLT, 2011

funds and access to further capital. But there are exceptions. Groups in the west Nile region of Uganda, which were selected to link with the Barclays branch in Arua town, decided not to link because of the distance. In Malawi, the distance to bank branches, and mistrust of the mobile vans (which were often unmarked because of the bank's security concerns), were cited as a significant challenge by pilot participants. In Rwanda, Vision Finance has reduced its costs by organising visits to ten savings groups or more rather than attempting to travel out to meet each group individually, but even with lower costs VFC appears to have decided that the only way to reach remote groups is through a mobile platform. Indeed, it is telling that of the financial partners who have not yet linked with a mobile network operator, all but OIBM are in the process of rolling out such partnerships or have plans to do so in the near future.

Preparing savings groups

There is also the question of how best to select, mobilise and educate groups about the formal financial sector prior to linkage. The pilots vary from country to country in the extent to which this function is carried out by trained fee-for-service village agents or local NGO partners whose costs are covered by charitable grants. The role of these facilitators is critical as they hold the trust

54. SACCOs, or Savings and Credit Cooperatives, are another option for playing the role of agents for banks and mobile network operators. SACCOs have a wide presence in number of countries such as Rwanda and Uganda, which could position them to solve the cash-float problem that some rural agents face. MCB in Tanzania and VSF in Rwanda are also utilising local SACCOs as a point for cash-transactions where they themselves cannot reach through their branch structure.

of communities, brokering relationships and addressing concerns and misperceptions about the role of financial institutions. CARE has in recent years turned to village agents as a low-cost means of achieving scale with its financial inclusion programming, but further research is needed to determine the most sustainable and cost-effective model, how this will be funded, and what role other actors can play in promoting it⁵⁶.

Savings vs credit

Though saving has been emphasised as a first point of entry in CARE's linkage guidelines, this hasn't always been followed and some moved quickly into loans. For example, in Malawi, there was greater emphasis on loans and OIBM has linked more easily for loan products than savings products. In other cases, loans are not an automatic or compulsory product in the overall linkage initiative. In Rwanda, for example, particularly in more remote areas, many groups do not wish to borrow and even their internal loan fund utilization rate was low in many cases. Out of 1,160 savings groups linked, only 391 groups have received loans, and the rest have savings accounts. In Malawi, not all groups that have opened accounts with OIBM were interested in taking out large loans. For many, the savings accounts served them sufficiently.

Banks vs microfinance institutions

At this stage it is difficult to draw firm conclusions. The bigger financial partners (Barclays, MCB and now Equity) seem to be able to offer more, through their flexibility in product customization, and in their readiness to build relationships with groups by offering savings products first, rather than loans. They are able to do this in part because of their larger budgets and non-dependence on microfinance for their income.

Microfinance institutions are less able to compete on price, to offer customised products, or to foster partnerships with mobile service providers (because they lack the required technology platforms) – though VFC in Rwanda played an important role in attracting other players in the formal sector.



Microfinance banks like OIBM are committed to the sector, but they have shown a lesser degree of flexibility in adapting to the needs of savings groups. On the other hand, microfinance institutions have more in common with savings groups – they share a mission to reach under- or un-served populations and are more used to working with groups than commercial banks.

Nevertheless, large commercial banks like Barclays have demonstrated their commitment to the linkage initiative, even though savings groups are unlikely to become a central part of their business. Barclays Uganda has even found the resources to underwrite the risk for its overdraft product. Barclays, Equity and MCB, with their stronger technological capabilities, are working to offer their savings and loan products to more and more groups by partnering with mobile network operators and their agent networks.

Commercial viability

For CARE's commercial partners to take these models to scale, they must see potential profit in them. At present the transaction costs in dealing with savings groups are high and the models rely on subsidies in the form of the brokering, group selection, and training that CARE and its local partners provide. The discussion about delivery channels and fee for service village agents shows that there are promising solutions on the horizon, especially with the emergence of mobile banking, but the business case for the private sector to invest in this market segment is still being developed.

56. See for example CARE Access Africa Technical Learning Series. Village Agents: Self Replication and Sustainability of CARE's Village Savings and Loans Associations, July 2010.

05. A roadmap to responsible linkage

We have seen the benefits that savings group members can gain through group access to formal financial services. We have also seen the scale of the potential market –hundreds of millions of people could gain access to financial services through a linked savings group model. This could not only make a huge difference to poor people's lives all over the world, but could spur new growth in the global economy by connecting the informal income-generating activity of millions with the formal financial system.

But despite this vast potential, it is critical that actors engaged in promoting financial linkage proceed with caution. Introducing savings group members, many of whom are illiterate, to banks and other financial institutions can expose some of the most vulnerable members of society to significant financial risk. As the cost of reaching individuals decreases through the use of mobile banking, it is even more

important that the most vulnerable members of society are protected.

Perhaps the best consumer protection mechanism is the group format itself. Groups are less likely than individuals to be duped by unscrupulous moneylenders. Financial literacy training is more easily (and cost-effectively) provided to groups, and concepts are better understood when weaker members have a regular setting in which to interact with stronger members whom they trust.

To help guard groups' interests, CARE has distilled its experiences into a set of principles for linkage, described in Figure 10 below. This is part of a broader roadmap for other agencies that are already working with savings groups and believe there is or may be a demand from those groups for additional financial products and services.



Figure 10: CARE's principles for linking savings groups to financial institutions

01 Link groups, not individuals

Groups should be linked to financial institutions rather than individuals. The purpose of the relationship is to complement the group's existing activities. The result should be a strengthening of group cohesion and should benefit all members. Individual linkages that rely on the group as a guarantee is not recommended for savings groups. If a group is not ready for linkage, but there are some individuals within the group seeking linkage, then they should proceed independent of their membership in the group.

02 Only link mature groups

No group should be linked before they complete at least one cycle and share-out. In some exceptional cases, it may be necessary to begin a savings linkage during the first cycle, but no exceptions should be permitted for credit linkage. All groups who have completed at least one complete cycle of savings and share-out and express a desire to link to a financial institution should be rated using the Linkage Readiness Assessment Tool (or similar). Groups that attain a satisfactory rating should be linked.

03 Focus on demand rather than supply

Linkage relationship should be based on the needs and demands of the groups rather than being thrust upon the groups. Because linkage creates additional liabilities for the group, it is important that the groups are ready for such liabilities. Groups should be provided with all information necessary to understand the products and services on offer.

04 Prepare groups before linking them

Groups must be provided with training prior to linkage. This should cover any basic financial literacy modules not already provided as part of the process of forming the group, as well as specific information about the proposed institution they will be linked with, the products the institution is offering, account opening requirements, and any other relevant information.

05 Protect core savings group principles

The linkage relationship should not alter the fundamental operating principles of the savings group methodology. The group should maintain its governance structures and procedures, record-keeping and internal controls, and regular meetings with a focus on savings. Linkage decisions should be made by consensus as far as possible rather than by majority.

06 Start with savings

VSLA is a savings-led approach and linkage should not alter this focus. Savings linkage should precede credit linkage, and access to credit should not undermine the overall group emphasis on savings.

07 Maintain a conservative savings to credit ratio

To prevent groups from becoming over-indebted, it is important that a conservative savings to credit ratio is maintained. Using the group's previous cycle share-out amount as a measure of savings (rather than the current savings amount, which is an unreliable indicator of the group's capacity), the amount of the group's first loan should be no greater than twice the previous year's share-out, ie a savings to credit ratio of 1:2. For subsequent loans, it can be increased, but should never exceed a ratio of 1:5.

08 Minimize the use of savings as collateral

The flexibility and accessibility of savings is considered an important attribute by group members. Thus, where possible, group savings should not be held as collateral by financial institutions. It is recognised that financial institutions seek to secure their loans, so this principle must be applied in a way that balances the priorities of the savings group and financial institution. The principle does not mean that no collateral should be provided to the financial institution, but that collateral should be kept to a minimum.

Recommended stages to develop linkage

1 Analysing the context

Needs analysis

The first step in exploring any linkage initiative is to assess the group's needs and demand for linkage to ensure appropriate products and services are offered. Focus group discussions with a sample of groups is generally the most appropriate method for such an assessment⁵⁷.

Identify potential partners

In parallel, the broader financial sector context should be studied, mapping out which formal financial institutions target – or could potentially target - savings groups. Even if a bank does not have an extensive branch network, it may still be a potential linkage partner if it is interested in the low-income market and is willing to invest in mobile banking, for example.

Assess the regulatory environment

In most countries, regulations do not allow informal groups to become clients of formal banking institutions or mobile service providers without being formally registered and recognised as a legal entity. It may be necessary to work with national and local authorities and the partner FSPs to help groups to become registered.

2 Setting up an effective partnership

Plan how to work together

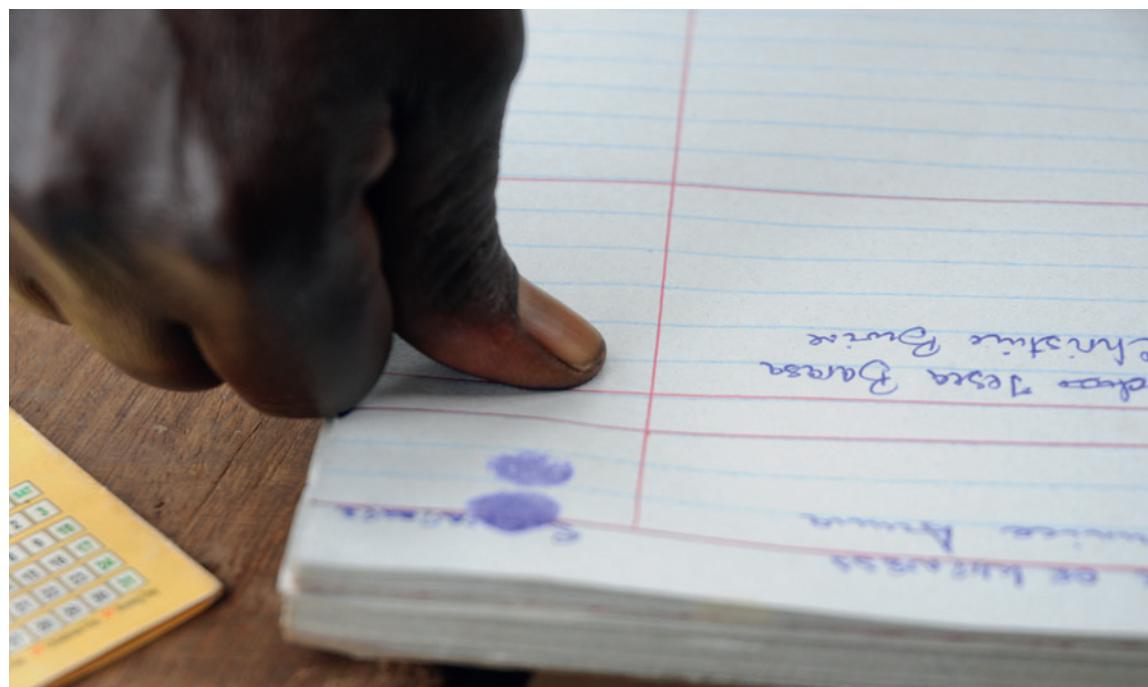
Develop a common vision between all partners outlining the objectives, the strategy for achieving them, and the key milestones. This includes defining roles and responsibilities for each partner, setting up joint working committees for specific tasks (such as product research and designing), and encouraging staff to work together on designing and delivering products and services.

Senior staff involvement

The FSP's senior management must be actively involved from the outset. Partnerships that are signed off at high level but include no major engagement from decision-makers in the design and implementation phases tend to struggle. Decisions at headquarters stand a better chance of being effectively carried out in branches if they are endorsed and promoted by senior management.

Acknowledge differences

It is important to acknowledge that partners' interests and motivations may be different. Frank and open discussions about mutual expectations will help to keep the focus on developing a sound partnership and appropriate products for savings groups. As discussed below



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57. Questions should probe perceived needs around both savings and credit, typical cashflow patterns for group members, how existing cashflow volatility is managed, perceptions of formal financial institutions and proximity of these institutions to the group, and whether members have existing savings accounts or external sources of credit.

(see “Working toward long-term commercial viability” on page 41), the sustainability of the partnership will almost certainly depend on its long-term commercial viability, but this need not be the primary driver at the outset.

Develop a Memorandum of Understanding

A clear Memorandum of Understanding outlining the details of the agreement between the partners is essential. It should include success indicators, mitigating and managing risk, monitoring mechanisms and procedures for leaving the partnership.

Ensure clients are protected

It is important to follow the linkage principles to ensure savings groups’ interests are protected and that they are not introduced to loan products too quickly. CARE was closely involved in the pilots – during demand assessment, product customization, delivery channel design, group training and in ensuring quality of service delivery.

3 Designing the product and delivery channel

Product design

Products and processes need to be designed collaboratively to ensure they provide groups with what they need, and that they don’t undermine or replace the existing cohesion and ownership of the group. This does present challenges. FSPs are usually the partner with the most technical know-how, but they don’t always understand how savings groups work; groups are not usually familiar with FSP’s requirements. There is a significant risk that groups will borrow too much. Products and processes should complement the way groups already save and work together.

Delivery channels

Access and transaction costs are the most important factors in choosing delivery channels. Proximity to the branches, use – or not – of mobile banking and transaction costs will determine who among the savings groups will be included or excluded from the linkage scheme. The collaboration with a linkage partner should be assessed in terms of the distribution channels that can be offered.

4 Preparing the groups and the financial service provider for linkage

Before committing to linkage, it is essential that groups and the formal financial institution staff are well prepared.

Assess savings group preparedness for linkage

The VSLA Linkage Readiness Assessment Tool (or similar) should be used to determine which groups are sufficiently mature for linkage. The tool works as a scorecard that assesses nine quantitative elements (ranging from savings information to the value of the funds that have been loaned). Six qualitative factors capture group characteristics such as member discipline, meeting procedures and quality of record keeping. On the basis of the total score obtained by a group (75% from quantitative factors and 25% from qualitative elements), CARE recommends to the group and the financial institution whether or not the linkage should take place.

Preparing groups for linkage

CARE recommends a structured training programme⁵⁸ delivered to savings groups as part of their routine weekly meetings. It should tackle misperceptions about financial services and provide grounding in financial literacy.

Awareness building for bank staff

An awareness workshop with partner bank staff (both management and front-line staff) will help them to understand the savings group methodology, linkage product delivery and linkage principles⁵⁹.

The pilot

Once the product prototype and the delivery channel have been developed and groups and FSP staff have been trained, the pilot can be rolled out with a small sample of existing mature groups. The purpose of the pilot is to determine whether it will be sustainable at scale and to adjust product features and delivery accordingly.

58. CARE’s own programme contains the following five modules: Overview - what is linkage and why linkage; Understanding the linkage product; Formulating groups’ internal norms for participating in linkage; Managing VSLA records for linkage and Understanding the impact of external linkage on members and VSLA. These modules will soon be publicly available on CARE’s website.

59. This awareness workshop with partner bank staff includes five modules: functioning of a VSLA, key principles in VSLA functioning; record keeping system in a VSLA, linkage product to be offered to the VSLA and assessing a VSLA.

Table 5 Linkage Readiness Assessment Tool

No.	Criteria	Measure or Variable	Scoring Criteria	Score
QUANTITATIVE MEASURE – TOTAL MARKS 75%				
1	Maturity of group	Date of first savings cycle	Measure < 1 year 1-2 years > 2 years	Score 0 6 10
2	Savings volume on previous cycle (in U.S. dollars)		< \$678 \$678 – \$1,017 \$1,017 - \$1,695 > \$1,695	0 7 10 12
3	Savings volume of this cycle (in U.S. dollars)	Net value of savings at this cycle	< \$254 \$254 - \$339 > \$339	0 3 5
4	Attendance rates	Number of members attending meetings	< 80% 80% - 90% > 90%	0 3 5
5	Loan fund utilization	Value of loans outstanding / Total assets of the group (i.e., value of fixed assets and other funds)	< 50% 50% - 75% > 75%	0 6 10
6	Portfolio at risk	Portfolio at risk	PAR > 10% PAR > 5% & < 10% PAR > 3% & < 5% PAR > 1% & < 3% PAR = 0%	0 3 5 8 10
7	Amount written off as a % of last share-out amount	Amount written off at share-out	5% or more 2% - 5% 1% - 2% 0%	0 3 6 10
8	% of members with active loans	% of members with active loans	< 40% 40% - 60% 60% - 80% > 80%	0 3 6 8
9	Value of investment (in U.S. dollars)	Amount of money that has been used; average loan per member	< \$8.47 \$16.95 – \$33.90 \$33.90 – \$50.85 > 50.85	0 3 4 5

No.	Criteria	Measure or Variable	Scoring Criteria	Score
QUALITATIVE MEASURE - TOTAL MARKS 25%				
1	Member discipline during the meeting	Did all the members come on time for the meeting, or, if some members came late, did they pay a fine?	Yes	4
			No	0
2	Meeting procedures	Were all the members seated according to their number and did they carry out transactions in that order?	Fully as per procedure	4
			Generally as per procedure	2
			Significant deviation from procedures	0
3	Member awareness of group norms	Did all members appear to have good awareness of group norms?	All members display awareness	4
			Most members display awareness	2
			Very few or none display awareness	0
4	Decision-making about loans	When a member wanted to take a loan, did the secretary check how much they had saved in this cycle and apply the rule of providing a loan not more than 3 times the member's savings in this cycle? Were all decisions made with consensus?	Yes	1
			No	0
5	Quality of record keeping	Errors in transactions recording	Loan recording Principal Yes=0; No=1	1
			Interest Yes=0; No=1	1
			Savings and date of saving recording Yes=0; No=1	1
			Closing balances Yes=0; No=1	1
6	Members' discipline during the meeting	Discipline and participation in decision-making, group transactions	No discipline or participation	0
			Good discipline and participation	3



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The scoring categories and point allocation system applied are as follows:

Table 6: Scoring Categories and Point-Allocation System

No.	VSLA Marks Obtained	Decision about Linkage
1	Less than 40 marks	The group should not be linked.
2	40 – 59 marks	Link the VSLA ONLY for savings products.
3	60 – 79 marks	Link the group for both savings and credit, but credit not to exceed 50% of the amount shared out in last cycle.
4	80 marks or above	Link the group for both savings and credit, but credit not to exceed 2 times the amount shared out in last cycle.

5 Monitoring the linkage process

Because linkage between savings group and formal financial institutions is still at a pilot stage, monitoring progress is critical to identify dysfunctional aspects and to make regular adjustments on delivery channels or products. CARE, its implementing partner organization and the linkage partner must jointly agree on a comprehensive monitoring and evaluation plan including a set of indicators that can be tracked through the regular management information system⁶⁰.

Objectives should be formally reviewed every quarter using the Linkage Readiness Assessment Tool to determine what adjustments need to be made to improve the development and integration of the linkage process into the financial institution business stream. While CARE and its implementing partner organization have a role in facilitating the linkage, especially in the initial phases of a pilot, it is equally important for the FSPs to ‘own’ the business relationship with the linked groups, for it to be sustainable beyond the project.

60. Useful questions include: 1)At client level: Who are the clients who are using the linkage product? Do they understand the key features of the linkage products? How are they using the different linkage products? What is the impact of linkage arrangement on the routine functioning of the group? How are the clients finding the delivery channels designed for delivery of linkage products? 2)At implementing partner organisation level: Is linkage an arrangement helping in faster and automatic replication of VSLA methodology? How does linkage impact the cost per client? Are there clients who are suffering negative consequences due to linkage? 3)Financial service provider level: What does the linkage partner financial institution think about linkage? Has it helped the financial institution in penetrating a new market segment? Has the front line staff developed adequate understanding of the VSLA methodology? What is the value that the senior management of the financial institution perceives in the linkage arrangement? What are the ideas from the financial institution’s senior management and front line staff about scaling up the linkage programme or to bring down the operational costs? Source: Practitioner’s Guide to Facilitate Linkage between VSLA and Formal Financial Institutions, CARE Access Africa 2009.



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6 Working toward long-term commercial viability

Long-term business viability

The most important criterion for partnership is the FSP's commitment to savings groups as a viable market segment, on a long-term basis. CARE, on reflection, feels that it is not critical for partners to design 'perfect' products for the groups from the beginning. It is more important that there is evidence that FSPs are interested in savings groups as a viable business opportunity, are willing to understand their demand, invest their own resources for designing and offering products, and thus demonstrate their commitment in concrete ways. The long-term motivation for the FSPs will depend upon the business viability of their group products. Eventually, for the linkage partnership to survive in the long run, the relationship must be mutually beneficial.

There seems to be some tension between the FSP interest in scale and profitability and CARE's interest in the group's readiness, capacity building and more cautious approach to loan products. Balancing of interests and trade-offs will need careful management.

FSPs that have included mobile technology as a means for reaching remote clients are the ones that are most likely to achieve scale. The FSPs that are open and have strategically developed a space for mobile technology have been the forerunners in loan product development and linkages on the ground. Banks like MCB and Equity Bank have included in their strategies two major mobile network operators in the region. Initiatives that have gained the most savings group clients have the greatest chance of reaching across borders, being scaled up and adapted to the varying contexts in which savings groups and their members operate.

Business case

For each linkage pilot, all parties must understand the critical mass of clients and groups that is needed for the business model to work. The viability equation will be different for microinsurance products than for savings or loan products. There are some concerns that a focus on commercial viability may compromise the ability to reach deeply into remote areas to the poorest people. Sound data and regular monitoring are necessary to determine whether this is the case.

06. Conclusion and recommendations

Linking the world's poorest people, via savings groups, to financial service providers offers huge potential as a means of fostering greater financial inclusion. Participants of the eight CARE pilots have shown strong demand for the savings, credit and insurance products that have been offered to them, and early data suggest they are benefitting as a result of these products. Businesses, too, are seeing the opportunities of working with poor people and are taking steps to increase their engagement with this market segment.

However, the twin issues of profitability and consumer protection remain significant challenges. If these models are to be truly scalable, they must be profitable, or at least cost-neutral, for the financial institutions involved. At present transaction costs in dealing with savings groups are high, and the models rely on subsidies from donors in the form of the brokering, group selection, and training that CARE and its local partners provide. Mobile banking technology will in theory allow companies to reach more people at lower cost, but up-front investment is needed to design products and platforms appropriate to poor clients in savings groups.

At the same time, any efforts to expand access to financial services for the most vulnerable members of society must be coupled with robust consumer protection mechanisms. One of the most effective such mechanisms is the savings group format itself. Together with CARE's linkage principles, the group model ensures that take-up of financial products is demand-driven, that groups have a basic level of financial literacy, and that measures are in place to reduce the possibility of exploitation by predatory lenders.

The advent of mobile banking offers a tremendous opportunity to expand financial inclusion, but much more needs to be done by governments, donors, NGOs, and the financial sector to ensure any such expansion is driven by the interests of poor people. Action is needed on five fronts:

Recognise savings groups (but don't regulate them)

- Savings groups can act as a responsible first step toward formal financial inclusion for millions. But because they are informal they are often unrecognised by national regulatory bodies and struggle to access the services and protection they need. At the same time, governments should avoid the temptation to regulate savings groups, as this would add a crippling layer of bureaucracy.
- Developing country governments should recognise savings groups as a key plank of their financial inclusion strategies, as has happened in Rwanda, and ensure their national regulatory frameworks are conducive to their growth.
- Developing country governments should support the scale-up of savings groups, and explore innovative ways of expanding group access to formal financial institutions, for example India's policy of mandating banks to service savings groups.

For scale to be achieved, mobile network operators, banks, governments, donors and NGOs need to work together.

Build public-private partnerships to expand access to formal services

The eight pilots described in this report prove that linking poor savers to formal financial services is possible. For scale to be achieved, mobile network operators, banks, governments, donors and NGOs need to work together.

- More public-private partnerships are needed, involving both donor and developing country governments working alongside major mobile operators and financial institutions to develop and support products that can serve this market at scale.
- The technology exists to significantly expand mobile banking, but the business case for the private sector to invest in this market segment is not yet strong enough. Donors should seek to invest in innovative financial linkage models such as those described in this paper to help lower the risk for business.

Promote and adopt CARE's linkage principles to protect consumers

This report illustrates the vast potential that exists in linking informal savings groups to formal providers. However, it is critical that actors engaged in promoting financial linkage proceed with caution. Introducing savings group members, many of whom are illiterate, to banks and other financial institutions can expose some of the most vulnerable members of society to significant financial risk.

- CARE is therefore calling upon development agencies and formal financial institutions to promote and adopt the 'Principles for Linkage' detailed in this report.
- In addition, if group accounts with formal providers continue to increase in number, national consumer protection policies will need to reflect this trend and ensure these accounts remain appropriate and fair for consumers.

Expand access to financial literacy

- Poor financial literacy represents a significant barrier to accessing and properly using formal financial services. It is also central to consumer protection.
- Governments should pursue a range of measures to expand financial literacy, for example by including financial education in

the national school curriculum and as part of social protection programmes.

- Bank agents, mobile providers, other private sector actors and NGOs should provide training on financial literacy to savings groups, placing particular priority on women and young people.

Invest in research

The search for commercially viable linkage models that benefit and at the same time protect consumers is still in its early stages. More data is needed on the impact of linkage and the comparative benefits of different savings, credit and insurance products for both poor consumers and businesses. There is also a need for analysis of the most cost-effective distribution channels. Are there alternatives to bank and mobile network agents? In Uganda, for example, CARE is exploring using post offices and Western Union offices as agents. What other possibilities exist and which offer the most potential? Finally, how should savings groups be contacted, selected and trained? Are fee-for-service village agents the best option? Is there a conflict of interest in giving banks and mobile agents a role in financial education? Answers to these and other questions are within reach, but require global support for research and innovation around financial inclusion.



CARE/SARAH ELLIOTT, 2011

About CARE International

CARE International is one of the world's leading aid agencies. Last year, we worked in 84 countries, supporting 1,015 poverty-fighting projects that reached 122 million people. For more information about CARE, visit: www.careinternational.org.

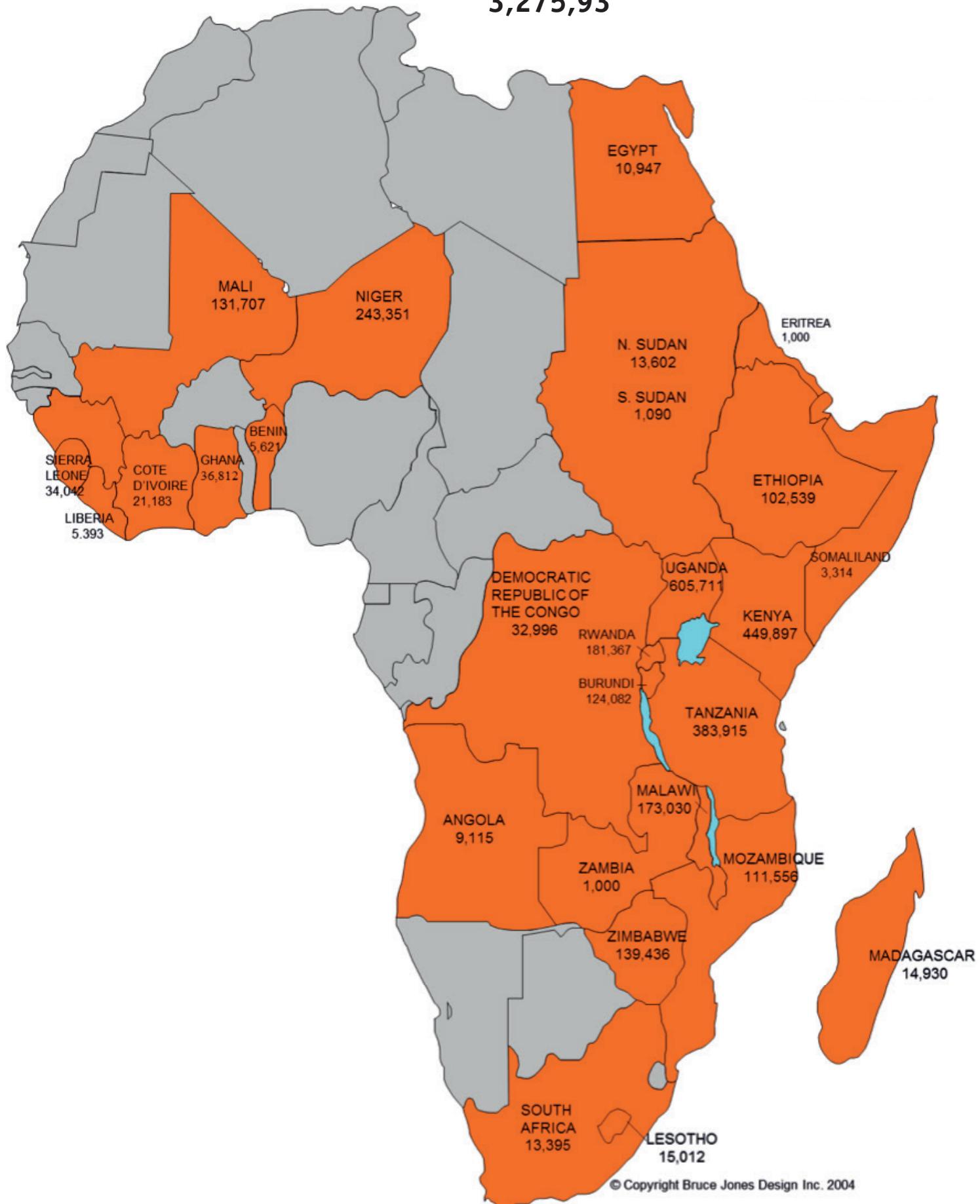


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The Coady International Institute ignites leadership that inspires collaborative effort to address challenges, discover opportunities and create sustainable development at the community level. Established by St. Francis Xavier University in 1959, the Coady International Institute is a world-renowned centre of excellence in community-based development and leadership education.
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