



2011 | Microfinance in Africa: State-of-the-Sector Report

CLOSING THE GAP

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Acronyms

AKF	Aga Khan Foundation
ASCA	Accumulating Savings and Credit Association
BP	Banque Populaire
CARE	Cooperative for Assistance and Relief Everywhere, Inc.
CBT	Community-Based Trainer
CBO	Community-Based Organization
CLASSE-B	Community Learning and Action for Savings Stimulation and Enhancement & Business
CO	Credit Officer
CRS	Catholic Relief Services
FA	Facilitating Agency
FFH	Freedom from Hunger
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IGA	Income-Generating Activity
IPA	Innovations for Poverty Action
MIS	Management Information System
MF	Microfinance
MFI	Microfinance Institution
MFO	Microfinance Opportunities
OVC	Orphans and Vulnerable Children
PIN	Private Identification Number
PSNP	Productive Safety Net Program
PSNP Plus	Productive Safety Net Program Plus
PSP	Private Service Provider
RCT	Randomized Control Trial
ROSCA	Rotating Savings and Credit Association
SAFI	Sustainable Access to Financial Services for Investment
SAVIX	Savings Group Information Exchange
SfC	Saving for Change
SEEP	Small Enterprise Education and Promotion Network
SG	Savings Group
SILC	Saving and Internal Lending Community
STRIVE	Support to Replicable Innovative Village Level Community Efforts
TSU	Technical Support Unit
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
VA	Village Agent
VFC	Vision Finance Company
VSLA	Village Savings and Loans Association
WARO	West Africa Regional Office
YEE	Youth Economic Empowerment Project
YFS	Youth Financial Services
YSL	Youth Savings and Loan
YSLA	Youth Savings and Loan Association



EXECUTIVE SUMMARY

Overview

This review focuses on the potential for the savings-led microfinance (MF) movement in sub-Saharan Africa to close an important gap in MF so that all poor people can access the financial products and services (including most fundamentally savings, credit, insurance, and remittances) that they need to improve their lives and livelihoods. The three sections of this review include (1) taking stock of where the savings-group (SG) movement fits within the larger MF sector and what different facilitating agencies (FAs) are doing in SG programming and where; (2) assessing program integration, in which SGs are implemented with other development programs, and linkage, in which SGs can opt into the formal financial sector; and (3) urging advocacy for changes in financial regulatory systems to enable MF development – and development policies more broadly – to be much more pro-poor and supportive of gender equality than they now are.

Taking Stock

In taking stock of the MF sector, it is clear that the mission of the MF industry developed from the inability of the traditional formal financial sector to meet the needs of poor people. Since the 1970s there has been explosive growth in credit-led microfinancing that works to reach the poor and better-off poor. However, just as the traditional formal financial sector has not been able to serve the poor, so the credit-led MF industry has been ill equipped to reach hundreds of millions of people with the least financial resources. There is a mechanism that can fill this gap, no matter where poor people may live or work, that can give the very poor access to the basic financial services they need. That mechanism is the savings group (SG).

SGs build directly on a ubiquitous tradition of savings clubs, burial societies, and rotating savings and credit associations (ROSCAs) found in almost all societies and known by such terms as “merry-go-rounds,” “susus,” and “tontines.” Formal SG development programming began in the early 1990s and today multiple agencies are engaged in SG development (the Aga Khan Foundation, CARE, Catholic Relief Services [CRS], Oxfam, Pact, Plan International, World Vision and others). Although many of these organizations have developed slightly different SG models and delivery systems, all serve the poor and very poor and all value and promote the underlying principles and attributes of SGs as self-managed, autonomous, highly participatory, community-based, democratic, sustainable and replicable entities. This report outlines what these different organizations are doing and where they are working in sub-Saharan Africa.

Program Integration and Linkage

Initially SG development programs were single purpose. The objective was to establish SGs to provide members, usually women, a safe place to save and the opportunity to obtain loans to meet subsistence needs or to invest in income-generating activities. The norm today is for SG development programs to be integrated with other development interventions focusing on, for example, health, HIV/AIDS, agriculture, market access, business development or natural resource management. This integration happens when other programs are added to SG programs or when SG programs are introduced to complement other programs. Either way generates synergies. This report documents several examples of such programs involving social protection, food security, health, literacy and business training, and special youth programs.

Concomitantly there is growing recognition that some SGs want to access products and services offered by the formal financial sector and that the demand for this will only grow as members' income-generating capacity and the savings group movement grows. Deliberate action is being taken to make it possible for those groups that want to link to do so. Historically, however, linkage has not always been positive. Learning from those failures, agencies that are working to link groups recognize that, on the demand side, it is crucial that members of SGs be financially literate and understand the implications and effect that particular agreements can have on a group and its members. On the supply side, providers need to offer products and services that acknowledge and accommodate the fundamental principles, norms and operational structure of the SG itself. Several examples of pilot programs involving linkage that are underway are profiled in this report including a program involving savings, credit and loan insurance products in Rwanda; a pilot offering a funeral insurance product in Uganda; and a test of the use of mobile-phone technology for groups to secure and transfer cash in Tanzania.

Advocacy for Systems Change

The importance to poor people of MF in general, and the emerging SG movement in particular, makes it clear that it is not enough simply to promulgate SG programming on the ground. Although FAs work to establish, support and help SGs proliferate, developing increasingly sustainable systems to do so, it is important for agencies also to work to improve the environment in which the MF sector functions. Advocacy efforts that are pro-poor and gender-sensitive can have enormous impact on the success of MF – indeed, of development much more broadly defined – in reaching the disadvantaged. Changes in the enabling environment, within which all of MF operates, have the potential to enable very poor and marginalized people to leverage the power and versatility of the savings group to be more effective than ever before.



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Several others took considerable time to pull together data and write analyses to paint the picture of people's livelihoods and the environmental conditions in which SGs proliferate. Among those to acknowledge include Abdoul Karim Coulibaly of Access Africa and the numerous country office staff across the CARE programs in sub-Saharan Africa, Janina Matuszeski and Andrea Teebagy at Oxfam, Michaela Kelly at Plan International, and Thuli Chapa and James Phiri at World Vision.

Access Africa personnel were unceasingly patient with my many questions, multiple phone calls and seemingly endless e-mails. Prabhat Labh fielded questions on linkage and Abbie Laugtug was key to articulating the role that advocacy plays in Access Africa's agenda. Lauren Hendricks, a major architect of CARE's global microfinance initiatives, provided important perspectives on background and context. Sybil Chidiac not only crafted and guided the overall scope of this study, clarifying many issues in the process, but facilitated contacts with her broad network of resources. She deserves special thanks for her time, technical insights, interest and unwavering commitment to this report.

Marcia Larson Odell

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INTRODUCTION

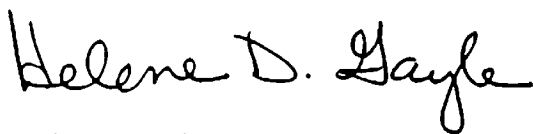
I am pleased to introduce the second edition of the Microfinance in Africa: State of the Sector Report, Closing the Gap. This report highlights the ways in which the savings-led movement links some of the continent's poorest households to the global economy.

Savings-led approaches to microfinance are now recognized as one of the most effective means of reaching poor, rural households in Africa. The initial CARE Village Savings and Loan Association (VSLA) movement started in 1991 in rural Niger, reached around a million households across Africa in the first 17 years. Since CARE launched its ACCESS AFRICA program in June 2008, we have reached over two million additional households in just the past three years. With the help of other organizations, over four million households have accumulated around \$33.5 million in assets, which is truly remarkable!

We know from our experience, that savings-led approaches are not only pulling entire families out of poverty, but also building women and girl's financial skills and assets. They are using the skills they learn in these groups to grow their businesses, link with formal financial markets and turn pennies into thriving businesses.

As these women and girls increase their net worth, it has a ripple effect in so many other areas of their lives. Increased income for a woman often means she can afford proper prenatal care for the first time, decreasing her chances of dying in childbirth. It means she can pay for uniforms to send her children to school and is more likely to use the leadership skills she has learned to take a more active role in her community. It is this virtuous cycle that shows us time and time again that — **empowered, financially literate women and girls truly are one of the most powerful forces in the fight against global poverty.**

This report outlines the potential for the savings-led microfinance movement to close an important gap for the world's poorest communities. It is thrilling to see how these savings groups are being used as a launching pad to link to the formal financial sector, create broader change in other sectors and advocate for financial policy change. As we first saw in Niger, these are truly "Women on the Move".



Helene D. Gayle, MD, MPH
CARE President and CEO



PART 1: TAKING STOCK OF SAVINGS

Overview

By any reckoning the field of microfinance (MF) has experienced explosive growth over the past 30 years. With origins in the 1970s in a \$27 loan to 42 women in a rural village of Bangladesh, MF has grown to be a pan-national, multi-billion dollar industry that is serving an estimated 150 million clients around the world. Yet in sub-Saharan Africa, whose population includes the highest number and rate of people living in extreme poverty of any developing region in the world,¹ with almost half the population surviving on less than \$1 a day,² no financial institution (MF or otherwise) is reaching 80 percent of the 800 million people living there. A survey of formal-sector financial institutions offering saving and loan services to lower-income people (microfinance institutions [MFIs], postal savings banks, state-owned banks, rural banks, credit unions and financial cooperatives) that the Consultative Group to Assist the Poor undertook in 2006, revealed that poor people in sub-Saharan Africa held only 4 percent of the global total of such accounts.³

Microfinance is the provision of financial services to low-income clients who lack access to banking and related services. It is a response to the failure of mainstream financial institutions to provide financial services for the poor.

Those who do benefit from MF services that are offered by institutions in the formal sector tend to live in urban or peri-urban areas. There are several reasons for this. It is expensive for an institution offering these services to travel long distances to communities that are often rural, if not remote, and on bad roads, in order to provide small loans to the poor. Such factors make bank transaction costs high. By comparison the urban poor are relatively easy and inexpensive to reach. For institutions whose commercial viability depends on cost-efficiency and a healthy bottom line and that have a mission that encompasses both the social performance and financial performance spheres, achieving the MF sector's

¹ CARE. (2008). *The power of financial services*. Access Africa. (Forty-two percent of sub-Saharan Africa's economy is informal; this is the highest proportion on earth.)

² United Nations. (2008). *Millennium Development Goals report*, p. 1. Available at <http://www.un.org/millenniumgoals/pdf/Sub-Saharan%20Africa.pdf>

³ Helms, B. (2006). *Access for all building inclusive financial systems*. Community Group to Assist the Poor. (This compares to 17 percent of those living in Asia and the Pacific. Note that the survey did not include commercial banks since low-income people tend not to be their clients.)

stated historical mission of reaching the poor and even the poorest with their services is problematic. To complicate matters, even if a MF institution were to appear in a community, villagers might not have the assets or skills to take advantage of its offerings.

There is a further complicating factor for MFIs: often the products they offer to very poor people are not well suited to their needs. MFIs enter the marketplace offering credit even though those who are living at subsistence levels often want a safe place to save rather than access to credit. They want to build assets that help mitigate risk before they incur debt. In fact the credit products that MFIs offer usually meet best the needs of the better off or the “entrepreneurial poor.” They find it easier to invest a loan productively than does the individual of lesser means, whose greatest need is apt to be a place to safely store cash in order to be able to deal with a subsistence household’s requirements.

Because MFIs lead with credit products, that part of the MF sector is often termed “credit-led.” This is in contrast to saving groups, which are the primary focus of this report and are termed “savings-led,” since the first service they offer group members is the opportunity to save.

The Savings Group

If the traditional MF sector has not been able adequately to meet the needs of the very poor, there is a grassroots structure that is. It is through groups functioning in villages across sub-Saharan Africa (in which members meet to save together; lend their savings to each other; and, like tiny financial institutions, charge interest that they periodically share among themselves) that the very poor are finding the MF services they need. These are called “savings groups” (SGs) and are part of a rapidly growing movement involving poor people who want a safe place to save, access to credit, and the benefit of being part of an informal social safety net that group membership provides. These groups are sustainable (as studies of SGs in Niger, Zanzibar and Nepal, for example, show) and reflect remarkable adaptability and resilience in economically and politically challenged settings.⁴

SGs are structured somewhat similarly to ubiquitous, age-old, community-based entities that for centuries have provided their members with access to basic financial services. SGs are related to rotating savings and credit associations (ROSCAs) in which each of perhaps 10 to 30 members contributes the same amount to a collective “pot” and then, across meetings held regularly, each member has a turn to receive the total collected. A more complex version of the ROSCA is the Accumulating Savings and Credit Association (ASCA). In ASCAs, members bring their equal contributions to regular meetings, but because the money is not immediately disbursed but put into a fund managed by the group to provide loans to members, the fund increases over time. The SG is a type of ASCA in which group members contribute and then, periodically, at a time pre-determined by the group, distribute the fund among themselves.

The self-managed, autonomous and community-based SG thus serves as a mechanism that allows poor people, men and women alike, to access financial services in the community. It is highly appropriate for the poor and extremely poor, many of whom live at subsistence levels, because it offers the highly valued chance to save, not just borrow, and saving can be flexible – extra cash, when in hand, can be deposited so that it does not get spent, and it can be withdrawn when needed, when food for the family is in short supply or there is an unanticipated household need. Even borrowing from the SG can be flexible. Within the group’s banking-cycle parameters, a small amount may be borrowed for the length of time it is needed. The SG even may offer loans at low-interest rates to help a member meet an emergency, which can be a welcome source of support.

⁴ Grant, W. J., & Henry, C. A. (2007). Successful financial intermediation in the rural Sahel. *Journal of Microfinance*, 4:2. Anyango, E., Espipisu, E., Opoku, L., Johnson, S., Malkamaki, M., & Musoke, C. (2007). Village savings and loan associations: experience from Zanzibar. *Small Enterprise Development*, 18:1, p. 12. Mayoux, L. (2008). *Women ending poverty: The WORTH program in Nepal: Empowerment through literacy, banking and business*. Valley Research Group, Pact.

⁵ Organization for Economic Cooperation and Development. (2011). *Women in Africa*. Available at http://www.oecd.org/document/34/0,3746,en_2649_33935_39324S962_1_1_1_1,00.html; Mugerwa, W. K. (2001). *Sustainable food security for all by 2020*. Available at http://conferences.ifpri.org/2020conference/PDF/summary_kisambamugerwa.pdf; Lewis, K. (2006). *Poverty Reduction*. UNPD. Available at www.undp.org/women/docs/TakingGenderEqualitySeriously.pdf (According to UNDP, women comprise more than half of the world’s population, but own only one percent of the world’s wealth.)

As in credit-led MF, it is common for women to dominate. Today nearly three-quarters of group members are female. There are good reasons why facilitating agencies (FAs) that are promoting SGs, like their MFI counterparts, focus deliberately on bringing women into their programs. FAs see this as a way to create permanent social change. Women are a cornerstone of African economic development, providing an estimated 70 percent of agricultural labor and producing between 78 and 90 percent of all food – and they do so on subsistence and small land holdings, owning very little land or other productive resources. According to the United Nations Development Program (UNDP) women comprise more than half of the world’s population but own only 1 percent of the world’s wealth.⁵ Women are hard working and persevering, typically working 15 to 18 hours a day, twice as long as men, even though they often earn only one-tenth as much as men. Women are guardians of their children’s welfare, with explicit responsibility to provide food, nutrition, water, and health – a responsibility they take with the utmost seriousness.⁶

Within a MF framework, women are willing to work with the very small loans initially available from the group fund, and over the years they have proved particularly credit worthy. Small investments made by women often yield significant benefits in terms of family well being because that is where women invest their earnings. The social and business case to be made for investing in women in MF is irrefutable. As one observer noted, “The economic empowerment of women is not a women’s issue, it is a development issue.”⁷

But whether it is for women or men, SGs provide a secure and convenient place to save at very little cost. A member may borrow on flexible terms at a level that is appropriate to a borrower’s needs and that can be geared to the seasonality of the farming year. Members might use loans to shore up a household’s subsistence existence, to meet other wide-ranging household needs or to invest in an income-generating activity (IGA).

Furthermore, because of their lending activities, SGs can generate a generous financial return on members’ savings, since many groups lend commonly at between 2 and 10 percent per month. This means that SGs not only can help protect their owners/managers from external shocks, but they can help them build assets too. In short, SGs can fill an important part of the financial services gap left by the credit-led MF sector and become income-generating enterprises in their own right.⁸

No review of SGs would be complete without pointing out that SGs not only meet important financial needs of poor people, but they are often structured to provide an informal form of insurance for members. Most groups establish a “social fund” and decide what the regular mandatory contribution from each member will be to capitalize it. Funds may be used for emergencies and other non-productive expenditures such as medical bills or school expenses. Sometimes this support takes the form of a grant; at other times it is given as a low-interest loan.

In addition there is evidence from across the continent that belonging to an SG has a social dimension that many members come to value as much as its financial services. Members frequently turn to the SG as a solidarity group, a place where they can come for counsel in stressful times. It is a place where women, especially, can develop leadership skills and realize that amorphous concept of empowerment. The group might also become an advocate for social change and community development. Altogether the SG provides a social safety net from which members and non-members alike can benefit.

SGs do have shortcomings. Because, at least early in the life of a group, savings are small, the fund to lend is also small. This means that the demand for loans may well exceed the capital available. Another drawback of the model is that, after the fund has been shared out at the end of the banking cycle, which is usually 9 to 12 months, there is very little to lend at the beginning of the new cycle since there has not been time for savings to accumulate. On a different front it is indisputable that attending group meetings and managing group business takes time.

⁶ UNDP. Overall status of women in Africa. Available at <http://unu.edu/unupress/unupbooks/uu37we/uu37we0t.htm>

⁷ Leipziger, D. (2007). *Under-investing in women’s economic opportunity limits economic growth and slows down progress in poverty reduction*. World Bank.

⁸ Stewart, R. C., van Rooyen, K., Dickson, M., Majoro, T., & De wet. (2010). *What is the impact of microfinance on poor people? A systematic review of evidence from sub-Saharan Africa, Technical report*. London: EEPPI-Centre, Social Science Research Unit, University of London, p. 6.



Who Promotes Savings Groups, and Where, in sub-Saharan Africa?

The promotion of SGs as a mechanism for community-managed access to savings, credit and insurance services began 2 decades ago in Niger, in a program implemented by CARE. Since then, CARE has focused its SG development efforts on Africa because, as pointed out previously, it has the largest percentage of its population both living in extreme poverty and unbanked. CARE's Access Africa program to develop financial access for Africa's poorest through village savings and loans associations (VSLAs), to be discussed below, has become one of CARE's flagship SG development efforts. Today CARE has reached nearly 2.4 million people in 26 countries in sub-Saharan Africa.⁹

Because of the capacity of SGs to provide both financial and social benefits to poor people, because of their sustainability, and because groups succeed in a wide range of contexts, a number of international organizations besides CARE have become FAs for SG development. These organizations generally work through local partners, training them to help villagers establish their SGs as proficient, transparent, democratic entities. In addition to CARE, major FAs operating in Africa include Catholic Relief Services (CRS), Plan International, Oxfam¹⁰ and Freedom from Hunger (FFH), which collaborate closely with each other, the Aga Khan Foundation, World Vision and Pact, Inc. A number of smaller organizations are implementing SG development programs as well, reaching perhaps several hundred thousand people.¹¹ Taken together the outreach of the larger FAs to develop SGs in eastern, western and southern Africa over the past 20 years has encompassed nearly 3.9 million people. Table 1 details programming by country and facilitating agency.

⁹ CARE. (in press). Village savings and loans: A pathway to financial inclusion for Africa's poorest households. *Enterprise Development and Microfinance Journal*. (CARE's work with SGs also encompasses Egypt, where a program to link SGs to the formal financial sector, Banking on Change, is underway through funding from Barclays Bank.)

¹⁰ Oxfam's program differs somewhat in different countries. Its work in Mali, where its largest Saving for Change program is underway, is what is referred to in this report.

¹¹ Allen, H., & Panetta, D. (2010). Savings groups: What are they? p 5. The SEEP Network: Washington, D.C.

Table 1: Savings Groups Outreach

	AFK	CARE	CRS	Oxfam	Pact	Plan	World Vision	Totals	
N. Africa	Egypt		2,845			17,231		20,076	
	Benin		5,621	33,450		19,722		58,793	
	Burkina Faso			9,766	4,000	35,340		49,106	
	Cameroon		500	5,833		4,614		10,947	
	Congo Republic							0	
	Cote d'Ivoire		21,244					21,244	
	Gabon							0	
	The Gambia							0	
W. Africa	Ghana		22,382	11,238		18,414	1,202	53,236	
	Guinea							0	
	Guinea-Bissau					1,478		1,478	
	Liberia		1,634	779		498		2,911	
	Mali		117,562	10,387	338,745	18,903		485,597	
	Niger		238,366	451		15,830		254,647	
	Nigeria			1,214				1,214	
	Senegal			8,345	40,344	849		49,538	
	Sierra Leone		30,322	4,516		7,394	6,926	49,161	
	Togo					23,008		23,008	
East and Central Africa	Burundi		153,209	11,526				164,735	
	CAR			1,046				1,046	
	Chad							0	
	DRC		12,977	5,402				18,379	
	Ethiopia		85,223	16,998		14,604	85,875	202,700	
	Eritrea		1,000	135				1,135	
	Kenya		284,300	89,221		7,276	10,945	391,742	
	Rwanda		181,367	37,850			2,340	389,092	
	Somalia		2,000					2,000	
	Notern Sudan			6,028				6,028	
	Southern Sudan		1,090	2,049				3,139	
	Tanzania	2,556	383,915	71,333		10,255	40,396	12,524	520,979
	Uganda		456,932	72,893		7,600	53,367	4,520	595,312
S. Africa	Angola		9,115					9,115	
	Lesotho		12,847	1,499				14,346	
	Madagascar	1,909	8,513	1,511		3,010		14,943	
	Malawi		102,633	18,179			4,165	124,977	
	Mozambique	876	92,630				10,971	104,477	
	South Africa		10,906					10,906	
	Swaziland						15,786	15,786	
	Zambia		1,000	1,005			13,309	15,314	
	Zimbabwe		136,781	11,467			2,620	652	151,520
Total # of SG Members		5,341	2,376,914	434,124	383,089	42,745	286,258	310,156	3,838,627
Total # of SGs		284	119,409	22,702	17,555	1,989	6,867	3,299	172,105
Avg. # of Members per SG		19	20	19	22	21	19	N/A	20
% of Members Who Are Women		65%	77%	70%	100%	99%	73%	77%	80%
% of Groups Formed By Non Paid Project Staff		0%	64%	8%	60%	N/A	40%	N/A	43%
Avg. Savings Balance/Member		\$14.05	\$19.66	\$11.32	\$14.34	\$10.49	\$24.11	\$1.29	\$13.61
Avg. Loan Size/Member		\$29.35	\$29.71	\$108.20	\$2.00	\$11.87	\$60.00	N/A	\$40.19
Total Assets		\$4,494	\$17,278,332	\$5,288,451	\$5,492,141	\$483,797	\$4,547,735	\$399,490	\$33,494,440

Table 1 Notes

Explanation of Ratios used on the SG Table:

Average savings balance and average loan size figures represent the total averages of members to date. Depending on the average number of weeks the program has been in implementation in each country determines the average contribution levels to date.

Total assets are made up of member savings, property, outstanding loans and interest on loans. In the MIS on the Consolidated Programme Results page of an aggregated file, this response is the total of E22 – E26. For this analysis, not all programs of each FA submitted group asset values but may have submitted value that total the savings only not including assets.

CARE

Group performance related data only taken from 14 countries (Ethiopia, Ghana, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Sierra Leone, Tanzania and Uganda) and represents current projects with an average age of 23.7 weeks. Data does not represent past programming or graduated groups. For a complete list of programs included in this analysis, send an email to: acoulibaly@care.org.

Catholic Relief Services

Average loan size and percentage of groups formed by non-project staff both have data from three countries represented: Kenya, Tanzania and Uganda.

For the calculation depicting average savings balance, all countries except Eritrea, South Sudan, Niger, CARE and DRC reported data.

Oxfam

The groups reported for Senegal, Burkina Faso and Mali are being implemented in conjunction with Freedom From Hunger.

Plan International

The groups reported on for Mali were funded by Plan. However, the implementing partners are also partners of Oxfam. Plan is part of a consortium in Mali led by Oxfam but funds SG projects in Plan Program Units. There is a strong possibility that groups have been double counted with Oxfam Mali programming and possibly counting the groups formed by CARE in Egypt. Previous higher numbers for Kenya deleted as was double counting with CARE VSLAs.

Rwanda programming is 100 percent youth.

MIS data comes from a limited number of countries and does not represent the total portfolio of Plan International's VSL programming.

World Vision

Amount noted in total assets represents total savings value.

The SG development programs that FAs implement are similar to one another, with CARE's VSLA approach being the most prevalent model in the field. It works like this:

VSL groups are self-selecting groups ... that come together to save money and make loans through regular member savings contributions to a central group fund. Members [may] borrow from the group fund, repaying interest and growing the fund. Loans are usually \$2 to \$20 and only peer approval is required.

CARE facilitates the formation of groups who elect management committees, meet regularly, set the rules for saving and borrowing and agree [to] an end date for the fund. At the end of the agreed period, usually 9 to 12 months, all loans are repaid and the fund, along with the interest earned on the loans, is shared out to members based on the amount that they have saved. The group can then choose to reform and start another cycle.

Money is handled solely by the groups themselves, and all net interest income remains their property. By distributing all or part of the portfolio at the end of the cycle, [members each receive a] lump sum ... and interest paid on loans becomes a return paid on their savings. All transactions are carried out at regular meetings in front of all members of the association, promoting transparency and accountability.¹²

Plan International, which like CARE, calls its groups VSLAs; AKF, whose groups go under the name of "community-based savings groups," and World Vision, which calls its groups "SGs," all use the VSLA methodology. CRS, whose groups are developed as "saving and internal lending communities" (SILCs) and Pact's WORTH village banks, keep somewhat more detailed records than most VSLAs, which allows for greater flexibility in the term of a loan and repayment schedules. In fact Pact's system for record keeping allows groups to maintain quite versatile savings and lending products in which the group's fund can be carried over multiple banking cycles. Oxfam/FFH's program is called Saving for Change (SfC) and is the only program in which groups do not depend on written accounts but instead rely on memory and oral record keeping alone. Whatever the differences among programs, however, fundamental operating principles that include self-selecting membership, group election of a management committee, group autonomy in setting all of its policies; group responsibility for the security of funds and group record keeping are embedded in every approach.¹³

The local organization with which FAs partner for the delivery of their SG development programs run a wide gamut from NGOs to faith-based groups to franchisees to the equivalent of community-based organizations (CBOs). Like any effort to develop a value chain in a community, FAs know that the more that knowledge and structures build upon indigenous capacity, the greater the chance that all the links in the chain of resources that support SGs will remain strong, long after the FA has moved on.

Building Sustainable Delivery Channels for Group Replication

It is virtually universal that funders and implementers of any development program like to be involved in efforts that are sustainable and replicable. SGs score very high on the scale for both of these traits, which are inextricably intertwined. Sustainability and replicability, however, are more complicated than they might at first appear.

A definition of sustainability is in order. The authors of a study carried out for the Aga Khan Foundation in 2010 suggest that the definition of "sustainability," as it refers to SGs, be expanded. This study of SGs in western Kenya frames sustainability in three ways:

- Group sustainability: To what extent do the individual groups that were formed by the facilitating agency continue to survive after the end of project assistance?
- Permanence of member access: If the original group no longer exists, or if members drop out for whatever reason, do the ex-members have access to another group?
- Permanence of the concept: Is the concept of SGs sufficiently understood and owned by a critical mass of people to allow new groups to form indefinitely after the project has ended?

¹² CARE. (2010, January). *CARE's microfinance and microenterprise experience in Africa*.

¹³ For a fuller description of the different SG development programs, please see SEEP 2010.

For the purposes of this discussion, the definition of “group sustainability” is used, but in considering SG formation and operations as a movement, the broader definitions may be useful.¹⁴

Measuring the Performance of Savings Groups

Through the auspices of the Savings-led Working Group of the Small Enterprise Education and Promotion (SEEP) network, FAs together have developed a management information system (MIS) that allows tracking of key SG-appropriate performance ratios for the monitoring of group-level financial and operating performance. Through the development of the performance information system, it is now possible to compare different SG programs on such indicators as the ratio of savings to loans, annualized return on assets, and cost per member assisted. Comparative data regarding trainer effectiveness are also available, which materially supports any assessment of group performance under different delivery channels and fee structures, discussed above.

In recent years the Bill & Melinda Gates Foundation has supported the development of a Web-based relational database, the Savings Group Information Exchange (SAVIX), which currently houses SGs’ performance data, their core ratios and geographic information from the CARE, Plan International, CRS, Oxfam and Aga Khan Foundation SG development programs. Information from an even broader range of FA programs can now be uploaded to the site so the number of agencies posting data will undoubtedly grow. The public may also view the site, which increases transparency and can raise awareness of SGs in the marketplace. Being able to make comparisons across an increasingly wide array of programs by agency, region, country, project, type of trainer and age of SG brings the savings-led MF movement to a higher level and can only become increasingly useful as the SG movement gains even more momentum.¹⁵ The table below is a summary of the key performance ratios that can be analyzed across countries, regions and FAs on the SAVIX.



¹⁴ Odell, M., & Rippey, P. (2010). *The permanence and value of savings groups in CARE Kenya’s COSAMO programme*. Aga Khan Foundation Savings Group Learning Initiative. Available through <http://www.akdn.org/akf>

¹⁵ Allen, H., & Panetta, D. (2010). *Savings groups: What are they?* pp. 32-35, 45-46. The SEEP Network: Washington, D.C.

Table 2: Savings Groups Performance Ratios Measured on SAVIX¹⁶

Ratios		Formula	Use of Ratio
Portfolio and Asset Management			
R1	Savings to loans	Total savings / shares + other fund contributions / Value of loans outstanding end of period	Indicates whether groups are net borrowers or net savers. This ratio can help to show the extent to which groups are savings-led. (New ratio)
R2	Savings balance per member as % GNI p.c.	(Total savings / shares + other fund contributions / Total number of members) /GNI per capita end of the period	Total savings/investment capacity of individual members. Gross National Income (GNI) needed for comparability across different countries and currency buying power. US\$. (New ratio)
R3	Outstanding loan size per member as % GNI p.c.	(Total value of loans outstanding / Number of loans outstanding) /GNI per capita end of the period	Depth of outreach. In combination with R1 may indicate inequitable loan access. GNI needed for comparability across different countries. US\$. (SEEP Ratio 7 plus GNI)
R4	% of members with loans outstanding	Number of borrowers / Number of members end of the period	May indicate equitability of loan distribution or domination. Would require further analysis. (SEEP Ratio 11).
R5	Loans outstanding as % of performing assets	Value of loans outstanding / (Total assets – cash in other funds) end of the period	Shows what has been used for lending relative to what has been dedicated to other investments. May indicate loan demand and/or preference for other investments or liquidity. (New ratio).
Portfolio Quality			
R6	Loan losses as % of average loans Outstanding	Value of loan write-offs / ((value of loans outstanding at start of period + value of loans outstanding end of period) /2))	Best portfolio quality indicator for time-bound groups given the inherent flexibility and negotiability of the methodology. Requires historical data that will be captured in database. (SEEP Ratio 9)
Profitability / Sustainability			
R7	Annualized return on assets	Imputed Net Income / Total assets end of period	Measures how well groups use assets (source of funds) to generate returns. Factors: interest rate; property vs. loans; size of earning assets relative to non-earning cash. Aggregate figure weighted at group level by age to account for varying time-frames for which assets have been earning. (New ratio).
Efficiency			
R8	Current costs per member supervised	(Total project costs to date end of period + total FA overhead costs for project to date end of period) – (Total project costs to date beginning of period +_ Total FA overhead costs for project beginning of period)) / total number of supervised members	Comparative measure of grantee cost efficiency for supervising groups and creating a base of village agents. FA overhead is weighted according to relative number of groups. It is important complementary data to R9 since it is current and can be crossed with other ratios. (New ratio).
R9	Total costs to date per member assisted	Total project costs to date end of period + total FA overhead costs to date end of period / total number of members assisted	Comparative measure of grantee cost efficiency at end of grant period. Assisted members include all monitored members - current, graduated and member-replicated. This ratio will become more meaningful over time. Assumption: Groups continue to operate after they have graduated.
Survival			
R10	Group survival rate	# Groups continuing to function as financial / Investment vehicles/ # Supervised groups	Tracking data for survival or dissolution of groups. May verify the assumption that graduation is followed by both survival and expansion. This data will only be collected on a sample of graduated groups over a longer term. New ratio.

¹⁶ Lee, N. (2010, April). *Background and Use of Metrics: Accompanying Guide for SAVIX Website*. Available at www.savingsgroups.com

The preceding description of SGs profiles grassroots organizations that can – and do – maintain themselves year after year. Their robust quality has been demonstrated in every country in which they have been launched. Contributing to this sustainability, of course, is the fact that the SG model has built into it a revenue stream. Interest on loans, anywhere in the world, flows to the banker, and in the case of SGs, the group is the banker. Thus, as explained above, in addition to providing access to financial services – and social benefits – SGs generate substantial profits for members from their lending activities. On the SAVIX, the annualized return on assets for data as of December 2010 is shown to range from 5.3 to 47 percent as detailed in the table below.¹⁷

Table 3: Savings Groups Annualized Return on Assets

Agency	Aga Khan Foundation	CARE	CRS	Oxfam	Plan International
R7 Annualized return on assets	5.3%	47%	39.9%	36.6%	25.3%

The FA, however, unlike MFIs, benefits from no such income stream. In the traditional business model for SG development, the FA must always seek new infusions of capital to expand its outreach to develop SGs. The costs of program adaptation and refinement, of broader research and development, of implementation, of monitoring and evaluation activities – all of these are part of any program and all must be paid for, although working with local partners and integrating SG development with other sectoral programming can reduce costs. As of December 2010, the cost per member assisted ranges from \$22.9, the lowest, to \$34.5 the highest as posted on the Bill & Melinda Gates Foundation supported SAVIX.

Table 4: Cost per Member Assisted¹⁸

Agency	Aga Khan Foundation	CARE	CRS	Oxfam	Plan International
R9 Cost to date per member assisted	\$34.50	\$26.20	\$25	\$24.60	\$22.90

Regarding replication the story is somewhat different. Experience has shown that there is tremendous potential for replication to happen without FAs. Once starter SGs are up and running in an area, it is not unusual for community-initiated replication efforts to materialize. This, of course, does not tap FA resources. In some cases new SGs are launched through group-to-group engagement; at other times, individuals, either paid by groups or on a volunteer basis, train new groups. Oxfam’s replication strategy in Mali and Pact’s programming is built squarely around volunteers.



¹⁷ The Savings-led Working Group of the Small Enterprise Education and Promotion (SEEP) Network, facilitating agencies together have developed a management information system (MIS) that allows tracking of key SG-appropriate performance ratios for the monitoring of group level financial and operating performance. In 2009, the Bill & Melinda Gates Foundation supported the development of a web-based relational database, the Savings Group Information Exchange (SAVIX), which currently houses SGs’ performance data, their core ratios and geographic information from the CARE, Plan International, CRS, Oxfam and AKF SG development programs. More information on the SAVIX is provided later in this report.

¹⁸ Figures represent data posted to the SAVIX as of December 2010 and not of complete program outreach history and costs represented in Table 1.

The group replication process is very important because the work of bringing SGs to all of the poor and extremely poor people who need access to the financial services and social insurance that SGs provide can never be done through donor support alone. It is essential for FAs and others to learn from what is happening in the field and to develop new business models that capitalize on the lessons they learn. The challenge is to develop business models for SG group replication that are cost effective, anchored in community self-sufficiency in expanding SG programming, and ensure that the core principles upon which SGs are based (participation, transparency, accountability, flexibility) remain intact. These new models are apt to be hybrid models that in some way combine donor support with market-driven approaches on the ground.

Currently FAs are experimenting with different ways for group replication to happen that do not heavily drain FA coffers but do build community-based replication capacity.¹⁹ Thinking creatively about social enterprise, CARE, CRS, Oxfam, and to some extent Plan International are all testing models, and some of these FAs are working to figure out how best to institutionalize these strategies. FAs are looking at building out models to include services beyond SG development in which community-based providers are equipped to offer SGs a host of services, from life skills or financial literacy training to facilitation of access to mobile technology. Several of the most prevalent of these models are presented below.

- CARE is building on its experience in Niger, beginning in 1999, using village agents (VAs), who are selected by the implementing local organization from SG members and trained in the core methodology of group development. Increasingly CARE is encouraging VAs to charge fixed fees when they support groups. CARE is working to establish informal community-based, trainer-support structures in its program areas that can generate on-going feedback about the VA model. Says one observer, “The result has been the establishment of a training and support capacity embedded in the local community, able to fund itself from fees, with no long-term technical support needed from a facilitating agency.”²⁰ The Bill & Melinda Gates Foundation has funded CARE to define the essential components of a cost-effective institutional model to develop, support, sustain, and scale up high-quality SGs through national strategies as part of a broader program the foundation is funding in Tanzania, Uganda and Malawi.²¹
- Plan International has adopted the VA model for replication for much, but not all, of its programming. Sometimes VAs work on a fee-for-service basis and sometimes, because of the resistance of groups, VAs are not paid, although they may receive small inducements (e.g., travel reimbursement) to visit a group.
- CRS is testing a private service provider (PSP) model for SILC in which paid staff have the opportunity to become community-based trainers of SGs after 9 to 12 months of on-the-job training of groups. PSPs operate on a fixed fee-for-service basis, with fees paid by groups, and must be certified to serve officially in this capacity. CRS wants PSPs to be able to deliver an expanded array of services such as business development training or financial literacy – services that groups would value and for which they would pay. Says a CRS staff member, “We first want PSPs to get SILC expertise, establish themselves as trusted SILC service providers who are paid to form and support groups, then look for additional services that add value to groups and diversify PSP incomes.”²² CRS is also helping to organize informal, loosely structured networks of PSPs that can support their members. The Bill & Melinda Gates Foundation has funded CRS to test the PSP model in Kenya, Tanzania and Uganda to see if PSPs can succeed in offering their services to SILC groups on a long-term, commercial basis, with no further project funding.²³
- Oxfam/FFH depends on individuals selected from groups to start new SGs. Although these group members usually do this on a volunteer basis, Oxfam acknowledges that it is appropriate for a volunteer, individually, to negotiate with a group to pay her for her services if she wants to do so.²⁴

Savings Group Development

Although FAs share a commitment to reach the poor and very poor, as will be shown below, they do differ in how they articulate their goals for engaging in savings-led MF. One CRS senior staff member observed that CRS might have as a primary objective “income generation, livelihood development or empowerment,” depending upon the sectoral program with which SGs might be aligned.

¹⁹ Given the latitude that country offices in an organization often have, not every country office always applies basic models in the same way.

²⁰ Allen, H., & Panetta, D. (2010). *Savings groups: What are they?*, p. 21. The SEEP Network: Washington, D.C.

²¹ CARE. (2008, January). *Access to financial services through savings associations and linkages*. p. 14.

²² Bavois, M. (Project Director). (2011, March 14). Personal communication to Marcia Odell.

²³ Catholic Relief Services. (2010, April). *SILC innovations, delivery channel research*, p. 1.

²⁴ Allen, H., & Panetta, D. (2010). *Savings groups: What are they?*, pp. 21-25, 42-43. The SEEP Network: Washington, D.C.

A seasoned Plan International development specialist reported that Plan might articulate its goal quite broadly “to provide access to financial services to enhance household economic security by helping households build wealth through savings, generate income through investment, meet unforeseen circumstances, make social investments in health and education, and generally improve household money management.”

A person close to Oxfam SFC programming believes that given growing pressures on villages around natural resources, land grabs and smaller plots to farm, the ultimate goal of SG programs is “to facilitate the development of more prosperous, sustainable communities.” Another Oxfam staffer summed up his view of his organization’s goal for SG programming, “keeping people alive is the end result of what this is about.”

CARE is clear that “[n]early 4 decades of global MF experience have proven ... that when poor people have access to financial services (secure savings, credit, insurance and other products), they can lift themselves out of poverty.” Thus CARE defines its goal in reaching the poor as facilitating “full financial inclusion” – a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. This goal will be described more fully later in the report.

Whatever an institution’s goal may be, however, each FA affirms that if it is to reach the poor and extremely poor (those who historically have been left out of the credit-led MF movement) with a particular focus on women in rural areas, then it is essential that SG programs serve that marginalized segment of society. To do this, different FAs follow slightly different strategies. For example:

- **CRS:** Each country program undertakes a strategic planning exercise every 3 years, gathering information from different stakeholders (e.g., local partners, experts, CRS staff) and drawing regional data typically gathered from such sources as national planning documents and international agency reports. From this information CRS identifies the parts of the country that are the neediest. It then consults with diocesan partner networks that have vast knowledge of poverty pockets and vulnerable populations within their geographic area. It is in those places that CRS works.
- **Plan International:** The country office develops strategic plans that are updated every 5 years, talking with key informants in the country and consulting national and regional data sources to do so. Usually its service areas are the poorest areas with the lowest socio-economic indicators. Plan then tries to reach every community within a district or cluster of districts from these areas, depending upon available resources.
- **CARE:** Every 5 years a country office does a scan of developmental issues. Using national poverty statistics and census data, CARE staff identify the poorest people and the issues that they are facing. The areas where those people live become a strategic priority. CARE then approaches donors to secure the resources needed to work in those areas. An excerpt from a proposal to donors for a program in Rwanda reflects CARE’s pervasive commitment to poverty outreach:

To be able to reach the poorest category of the population, the project will give priority to some of the 30 poorest sectors selected by the local government.... The project staff from both CARE and partners will facilitate community mapping to identify the various categories of poor people in the community to be able to target the destitute, the poorest and poorer. The participatory exercise will be done in collaboration with communities, CBOs and local authorities ... Deliberate efforts will be [made] to follow the destitute, the poorest and poorer categories to their households to invite them to meetings.

In addition it is common for FAs to target special vulnerable and marginalized populations (beyond poor women) for participation in SG programs. Sometimes it is possible for a project to take advantage of the groundwork that the government or another project with which it is linking has laid. Such is the case in Ethiopia, as will be seen later, where CARE is providing VSLA training to those in a food-security program whom the government, using an elaborate methodology, has already identified as eligible to receive food support.

In the arena of HIV/AIDS a project might serve widows, orphans and other young people, commercial sex workers, care providers, or those living with HIV and AIDS. Other special populations may include such vulnerable people as women and girls who need social protection; internally displaced persons; women soldiers; women in mining communities; pastoralists; and, of ever greater importance (especially to Plan International and CRS because of the demographics of a young population in sub-Saharan Africa), disadvantaged youth.

It should also be noted that one poverty outreach strategy used especially by Oxfam, CRS and Plan, alluded to above in Plan's commitment to try to reach every community in a targeted area, is to saturate with SG programming a geographic area that has been identified as extremely poor. Oxfam, for example, is certain that SfC in Mali has frequently reached more than 90 percent of all the women in a village; those left out have been the very old or very young who are expected to marry and leave the community.

Currently Oxfam in Mali and CARE in Ghana, Uganda and Malawi, in collaboration with Innovations for Poverty Action (IPA), are carrying out impact assessments of a substantial SG development program in each of these three countries funded by Wellspring in Ghana, the Stromme Foundation in Mali, and the Bill & Melinda Gates Foundation for a portion of the Oxfam and all the CARE studies. Based on randomized control trials (RCTs), these impact evaluations will provide evidence-based results about a number of aspects of SG programming, including an FA's success in reaching its professed client group, the poor and very poor. These studies will address questions such as:

- Who is most likely to join a group?
- What are the traits of participants and non-participants?
- In which setting has replication worked best and how can this process be optimized in order to maximize the program's outreach to the poor and very poor without compromising quality group formation?
- Has there been any effect of the program on health or education outcomes?

In addition, as part of these studies, IPA gathered baseline data in each country before any program implementation began. This information provides insights about villagers' household welfare, access to services and infrastructure, income and agricultural activities, and use of financial services. As an example the survey that IPA undertook for CARE's Save Up program in Malawi, which included communities that were to fall both within and outside the VSLA program, encompassed 4,540 households in 190 cluster villages (half control and half treatment) in four of the seven project districts. Over in Mali, Oxfam's baseline study involved²⁵ interviewing approximately 6,000 women and their families in villages within the Segou region that would receive the program. The study in Mali differs a bit from the CARE RCTs in that it went a step further to detail extremely preliminary data on which of these women have actually joined SGs and conducted a qualitative study of SfC groups in another region of Mali to provide some evidence as to whom within a typical Malian village joins the groups, and who does not become a member.²⁶ Although preliminary, key findings of these surveys detailed below convey much about CARE and Oxfam's targeting.²⁷

In Malawi, before the CARE VSL program began, more than half (57 percent) of the households lived below the \$1.25 poverty line, while Malawi's National Statistics Office household survey in 2005 reveals that 52.4 percent of Malawians live on less than \$1.25 per day. The value of daily food consumption for household members across the four districts was 14 cents, well below Malawi's daily food poverty line of 31 cents. Of the surveyed population 60 percent of adults had to reduce the portion or number of meals consumed in the last 12 months. Twenty percent of households had children with reduced number of meals for 1 or 2 months. The average household was overwhelmingly involved in subsistence agriculture. About half the residents were literate (57 percent for males and 47 percent for females). In about a third (37 percent) of the villages, access to electricity was rare where 30 percent of communities had some access but it was not in all the houses. Dirt roads were the principal means of reaching 95 percent of the communities, which were, on average, 14 kilometers from the nearest tarmac. About a third of the villages (37 percent) had a primary school and an average of 26 percent of the adult population was a primary school graduate. Seventy-nine percent of the population aged 4 to 14 are attending primary school, but this is probably due to some government education program as this number drops significantly to 10 percent currently attending secondary school.

²⁵ Bureau of Applied Research in Anthropology at the University of Arizona and Innovations for Poverty Action. (2010). *Baseline study of Saving for Change in Mali: Results from the Segou expansion zone and existing Sfc sites*. Oxfam.

²⁶ Bermudez, L., & Matuszeski, J. (2010, October). *Ensuring continued success: Saving for Change in older program areas of Mali*. Oxfam.

²⁷ Innovations for Poverty Action. (2010, May, updated October). *Assessment of the impact of village savings and loan associations implemented under Save Up in Malawi*.

Like so many households of the poor elsewhere,²⁸ those in the surveyed communities were financially active but largely unbanked. Most respondents did not have a savings account with a formal financial institution but 64 percent were saving somewhere. At 82 percent the most common place to keep savings was the home. Most household members did not borrow from any such institution either; data show that in total 34 percent of the households members surveyed had taken out a loan in the last 12 months and, about two-thirds (67 percent) of those who reported having received a loan, had secured it from a relative, neighbor or friend. Only about 3 percent of respondents reported having had experience in any sort of village savings group such as a ROSCA.

Data from the RCT baseline by IPA in the Segou region of Mali show a population that is extremely poor and vulnerable to economic shocks. Specifically, these households are vulnerable to shocks in the nature of flooding, drought, theft, animal sickness or family sickness. In the sample 60 percent of households had experienced one or more of these shocks at some point in the past year. Sickness was a particularly significant issue, with 22 percent of adults in these households having had a health incident in the previous month. In each of these instances, the adult lost an average of 4.5 days of work.

In addition to shocks, the households have low average food consumption, with 58 percent of households consuming less than \$1 per member per day and 92 percent with consumption under \$2 a day.

Villages in this area have limited infrastructure. Over half of the 500 villages in the sample were more than 15 kilometers from a paved road, and one-third of the villages had no health center within 10 kilometers. Access to clean water is also limited, with 58 percent of households obtaining their drinking water from unprotected wells that can be easily contaminated.²⁹ Education levels are extremely low overall with only 11 percent of women who have had any formal education at all. Currently only about half of the children are in school, with enrollment rates 10 percentage points lower for girls than for boys.

Access to formal finance in the villages of the Segou region is extremely limited. About a quarter of villages have a MFI in the village, meaning that an agent of the MFI works in the village on occasion. But only 7 percent of villages have an MFI located in the village. Less than 1.5 percent of women save in a bank, cooperative, credit union, NGO, savings and loan, or labor association, combined. Informal finance is somewhat more available, with 1 in 5 women having joined a traditional tontine (ROSCA).



²⁸ Collins, D., Murdoch, J., Rutherford, S., Ruthven, O. (2009)., *Portfolios of the poor: How the world's poor live on \$2 a day*. Princeton University Press. Also: Access Africa. (2008). Policy issues report, first draft, p. 3, citing the Financial Diaries project in South Africa, www.financialdiaries.com.

²⁹ Here the definition of an "unprotected well" was a well without a cover, so that dust, rainwater runoff and sometimes larger material can enter the well. Typically wells in this area are about 1 to 1.5 meters in diameter and 12 to 18 meters deep. (Personal experience by J. Matuszeski.)

At the same time that these households are poor and vulnerable to shocks, many women are already engaged in market activities that, in theory, could aid them in amassing savings for the SGs and in taking advantage of loan opportunities. In this sample, 50 percent of women ran at least one small business. This was true for the poorest women in the village as well as for women in the better-off families. Most women relied on family, friends and neighbors for any credit for their businesses.

Subsequently, as part of the randomized control trial, 210 of the 500 villages were randomly selected to receive the SFC program. One year later, a survey was taken of what percentage of the women in these villages had actually joined SGs. Preliminary data were obtained from only 90 of the 210 villages, so these results will be subject to substantial revisions in the future.³⁰ However, in the sample, 35 percent of women between the ages of 18 and 60 had in fact joined an SG. Interestingly, the percentage of women who joined the group after this first year was not significantly different for women in different consumption quintiles in the village. That is, the poorest women in the village appeared to be joining the SGs at approximately the same rate as women in the middle or top of the income distribution in the villages in this area.

Taken together these findings indicate that CARE and Oxfam's targeting of communities for implementation of Save Up in Malawi and Saving for Change in Mali has succeeded in reaching poor and very poor communities.

Who Are We Reaching?

CARE is using a VSL member survey to gather socio-economic data on VSL members and their households. The survey is based on a representative sample of VSL groups selected randomly over a year on a quarterly basis. The information gathered over the year is used as basis for the final evaluation of the project. Initially implemented in 2009 for three Countries (Tanzania, Lesotho and Rwanda), the approach has been scaled up in partnership with Plan International since 2010 to reach seven more countries across Africa.³¹

In this section, a summary of key characteristics of the VSL members is extracted from the survey data in order to present the broad picture of the households in which the VSL members live as well as an overview of the VSL members' economic and social characteristics.

The VSL members, as we can see from the following summary table, are essentially working in the agricultural sector, particularly in Rwanda (86 percent) and Zambia (72 percent). In Mozambique, Tanzania, Kenya and Ghana, agricultural labor consumes about half of the household population, with the other half encompassing small businesses and paid labor. Most VSL members are female as we can see from the percentages noted below. This is not surprising since CARE focuses its VSL program on women in order to contribute to the reduction of economic and social disparities between men and women. Additionally Access Africa's plan focuses on serving at least 70 percent women.

Most VSL members are married in a monogamous union. There are also some female members engaged in a polygamous union, particularly in Kenya (11 percent). There is a significant proportion of widows among the female members in Lesotho at 27 percent. In Lesotho, the national data³² shows that 9 percent of females 15 years and more are widows. The highest proportion of widows was found among females aged 45 to 49 representing 25 percent. In Lesotho as well, the average age of female VSLA members is 43 years of age.

Literacy and Education Enrollment

In general, literacy levels tend to be relatively good, with more than half of the members being able to read and write. We see the lowest proportion of literacy among female VSL members in Rwanda at 64 percent and in Mozambique at 54 percent.. Except in Rwanda and Lesotho, males tend to be more literate than females. In Lesotho this is aligned with the national data that show that 97 percent of females and 81 percent of males in the entire country are literate.³³

³⁰ The source of these preliminary findings is internal communications between IPA and Oxfam America and Freedom from Hunger staff.

³¹ Member survey being conducted in the following countries: Egypt, Ghana, Kenya, Lesotho, Madagascar, Mozambique, Rwanda, Tanzania, Uganda, Zambia.

³² National Bureau of Statistics. (2004). *Lesotho demographic and health survey*.

³³ National Bureau of Statistics. (2007). *Lesotho demographic and health survey*.

Table 5: Percent of Household and Adult-Level Data Across Member Survey Countries

	Lesotho	Mozambique	Tanzania	Zambia	Rwanda	Kenya
Agriculture occupation	26	49	57	72	86	49
Female VSL members	82	71	73	67	76	79
Literacy females	92	54	77	75	64	80
Literacy males	70	84	89	87	40	88
Primary school females	95	94	72	76	74	99
Primary school males	88	92	72	70	67	98
Secondary school females (12–17)	26	40	28	25	6	19
Secondary school males (12–17)	18	36	21	18	7	19

As compared to national data, VSL members exhibit quite good primary school enrollment with the best levels recorded in Lesotho, Mozambique and Kenya. Access to secondary education nevertheless tends to be challenging with less than half of the children enrolled. Mozambique has the best record at 40 percent of girls and 36 percent of boys aged between 12 and 17 years enrolled in secondary education.

Asset Ownership

In the following table we can have an idea about the asset ownership by VSL members' household. In general, the asset ownership tends to be relatively lower in Rwanda as compared with other countries. As mentioned earlier there is a deliberate effort made by the SAFI project in Rwanda to target the ultra poor in the communities.

Table 6: Percent of VSL Members' Households Who Owns Each Category of Assets

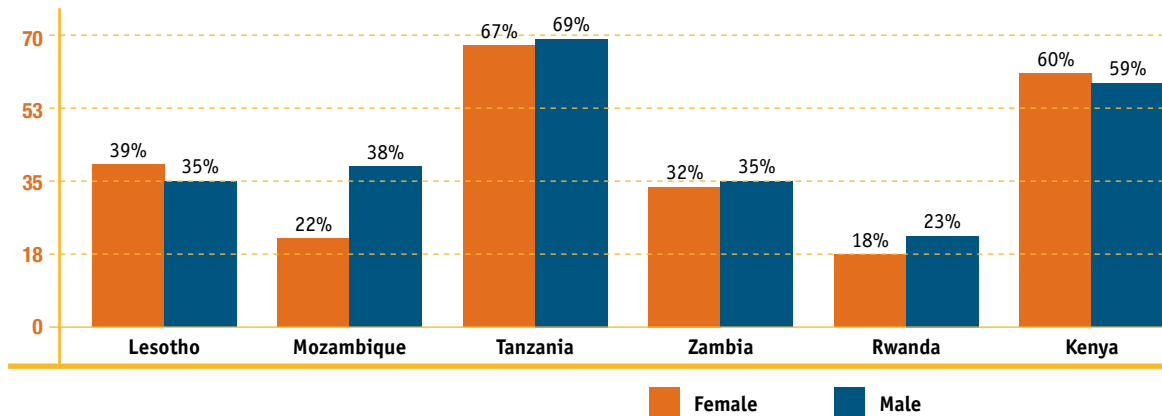
Type of Assets	Lesotho	Mozambique	Tanzania	Zambia	Rwanda	Kenya
Livestock						
Cattle	48	23	15	33	4	61.4
Sheep	32	1	3	2	5	13.4
Goat	29	40	23	45	17	50.1
Pig	14.5	62.3	2.8	11.3	3.9	1.6
Means of Transportation						
Car	2.3	4.3	3	2.4	0	2.1
Motorcycle	0	2.9	6.3	2.4	0	3.8
Bicycle	0.3	21.2	58.4	52.9	3.8	48
Agricultural Equipment						
Hoe	70.1	94.1	85.7	80.4	87.9	82.6
Plough	28.6	13.5	3.9	30.2	0.9	16.1
Irrigation Pump	1.8	0.2	2.2	3.5	0.1	1.9
Other Types of Assets						
Cell Phone	43.9	59.4	57	57.8	4.1	73.7
TV	9.1	35.9	19.8	30.3	0	27.1
Radio	61.6	54.4	69.1	61	28.2	81.2

Source: VSL Member survey from CARE and Plan countries

Access to Loans

On average, less than half of the VSL members have accessed loans within the year preceding the survey. Access to loans tends to be better in Tanzania (67 percent of female and 69 percent of male) and Kenya (60 percent of female and 59 percent of male) as compared with other countries.

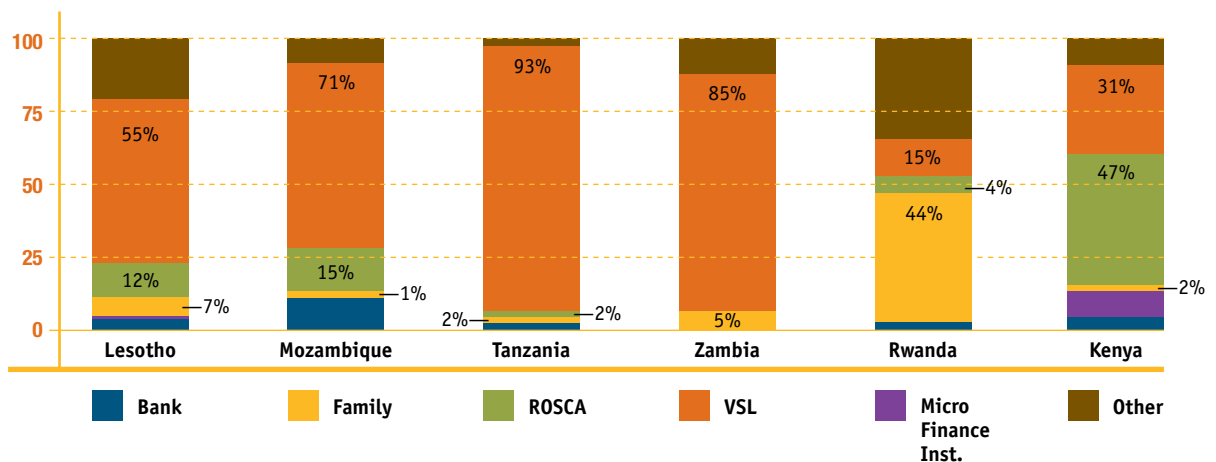
Figure 1: Percent of male and female VSL members who have accessed to a loan (from any source) within the year preceding the survey



Source: VSL Member survey from CARE and Plan countries

While this good access to loans in Tanzania is essentially attributed to VSLAs, given that almost all the loans taken are from VSLAs (93 percent), in Kenya it is not the case, with less than the one-third of the loans from VSLAs. Apparently most members in Kenya were already members of a ROSCA before joining the VSLA, which responds in some extent to their loan needs. The members in Rwanda have to depend on family and relatives to access loans. Figure 2 shows that about half of the loans (44 percent) were from relatives. It is important to mention that the relationship with formal MFIs or banks is relatively limited in each of the countries considered. But Kenya and Mozambique seem to be leading this with respectively 10 and 9 percent of loans coming from formal financial systems.

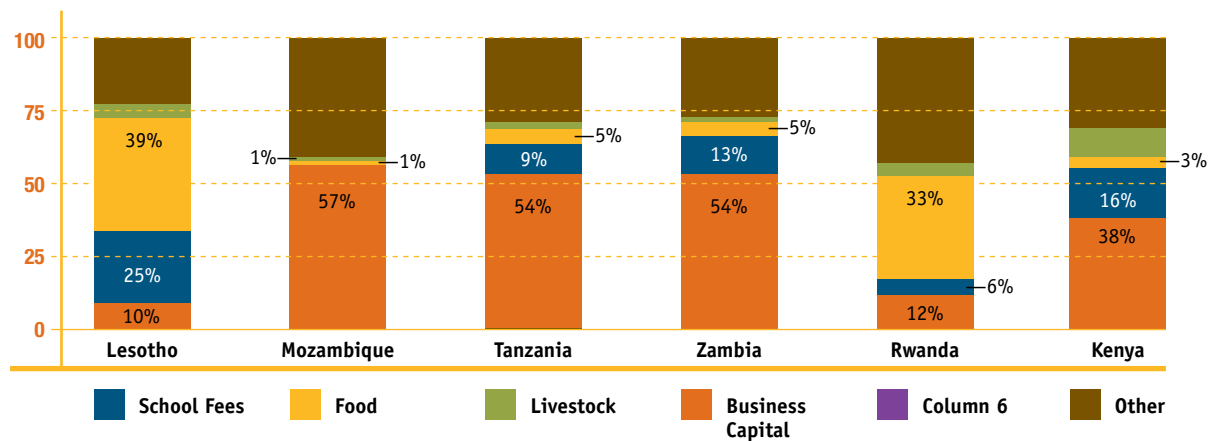
Figure 2: Distribution of loans taken by VSL members within the year of the survey according to the source of the loan



Source: VSL Member survey from CARE and Plan countries

How are VSL members using their loan? If a loan is invested in a business or IGA, it will help to generate more revenue for the member, which will help to pay back the loan with the service fees. Alternatively, taking a loan for basic needs can be a burden for a member when paying back the loan. In the following figure we have the main utilization of loans by the VSL members. In general, most loans are invested in business, apart from Rwanda and Mozambique, where about one-third of the loans were invested to serve the food needs of the members.

Figure 3: Utilization of loans by VSL members

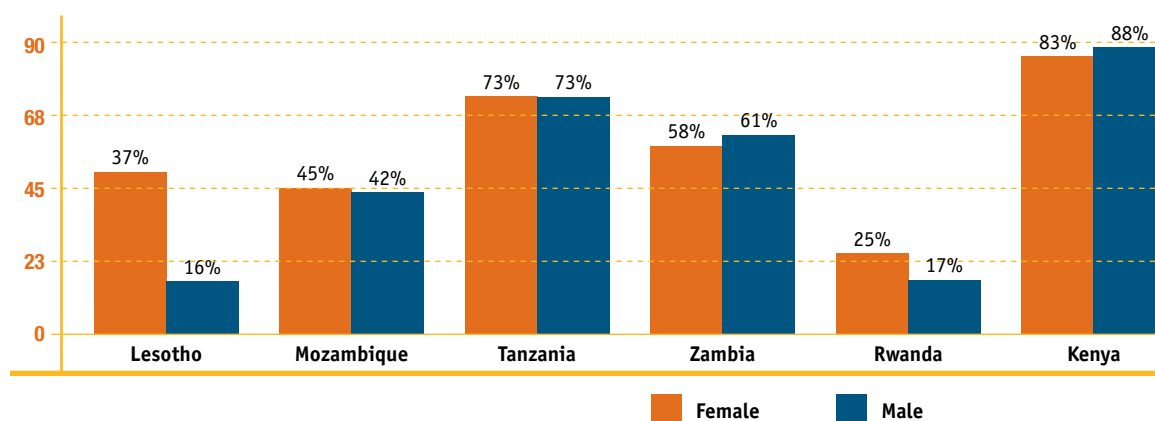


Source: VSL Member survey from CARE and Plan countries

Income-Generating Activities

The trend in IGA is aligned with the access to loan. In fact Kenya (with 83 percent of female and 88 percent of male) and Tanzania (with 73 percent of female and male) have the highest proportion of members involved in IGA.

Figure 4: Percentage of male and female VSL members conducting IGAs



Source: VSL Member survey from CARE and Plan countries

Household Decision Making by Women

In addition to economic empowerment, the survey assessed the extent of VSLA female member participation in decisions within their households. The women were asked to rate their level of contribution to their household decision-making process on a scale of 4: none, small, moderate or high. In the following table we present the percentages of women who declared their contribution was high.

Table 7: Percentage of Female VSL Members reporting a High Involvement in Household Decision Making Regarding Children’s Schooling, Health, Food, Housing and Equipment

Decision Making Domain	Lesotho	Mozambique	Tanzania	Zambia	Rwanda	Kenya
Children Schooling	70	55	36	45	28	40
Health	80	56	37	49	34	48
Food	54	57	46	53	37	78
Housing	49	42	30	37	12	34
Household Equipment	46	49	35	43	36	42

Source: VSL Member survey from CARE and Plan countries

The Future of Microfinance

Over the past few years MF that revolves around SGs has moved further into the mainstream. There is increasing awareness that what has always been true is still so: the credit-led form of MF that has attracted so many resources and so much acclaim does not and cannot meet the needs of the extremely poor. Important research underway in Mali, Uganda, Ghana and Malawi will surely affirm the capacity of SGs to help close the glaring gap that is populated by the poor and extremely poor, but, regardless of that, experience has shown that the demand for SGs only grows over time.

To continue to build their capacity to meet an unlimited demand for SGs, FAs will persist in refining ways to provide effective community-based SG delivery. Since it is common for other financial programs to offer services to SGs with their own programming (a topic that will be explored further in the next section of this report) and for SG developers to build on other programs as funding permits, FAs can continue to integrate SG development with other programs in wide-ranging fields. In this vein of program integration, within the pool of FAs with large programs, Oxfam is one FA that is contemplating focusing much of its future efforts on layering interventions so that members of existing groups will have increased knowledge and tools for improving their lives. Accordingly, Oxfam is testing the delivery of a program in Mali to build soil fertility to mitigate the impact of crop losses on a population that has tripled over recent years.

Whatever different forms program integration takes, CARE is committed to a vision of full financial inclusion of the poor and views SGs as the catalyst for making that inclusion possible. There is evidence that those of limited financial resources welcome access to savings accounts, money transfer services, and insurance products offered by the formal financial sector even if interest in credit products may lag among those who are extremely poor. For poor and very poor people who want to use different products and services offered by MF institutions, CARE wants to facilitate that linkage.

Because CARE is an FA that is now integrating SG development into so many of its country programs, this commitment is significant. In 2008 CARE established a transformative program, Access Africa that constitutes a 10-year investment to provide 30 million people, 70 percent of whom will be women, in 39 countries in sub-Saharan Africa access to basic financial services offered by the formal financial sector – through SGs. This does not mean that CARE’s commitment is to link 30 million people; rather CARE wants to make that linkage feasible for those SGs that decide they would benefit from using a product or service.

Full financial inclusion is a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor, rural, and other excluded populations.³⁴

³⁴ CARE. (2010). Personal communications. Access Africa staff.

Access Africa will leverage grant funding and commercial finance to develop independent, complementary, low-cost channels of financial service delivery that will help traditional banking and MF channels overcome their many constraints....

We believe, by reaching so many people, Access Africa will create a tipping point for developing a financial sector in which all citizens can participate.

This initiative is a long-term, programmatic approach to MF. Access Africa will be implemented on a large scale, providing an opportunity to deepen our work on the many factors that enable economic empowerment. To achieve this, CARE is establishing partnerships with governments, telecom providers and both MF and formal financial institutions.³⁵

A more comprehensive look at this signature program appears in the following section. The point to be made here is that any current assessment of the state of the savings-led MF sector in sub-Saharan Africa must take account of the goal, objectives, programming and potential impact of such an ambitious effort by such a consequential sector stakeholder.

Finally, if the sector is to witness the full potential of SGs to flourish, FAs in cooperation with a host of other national and international bodies need to launch policy research and advocacy efforts to bring about significant change in the economic environments, the regulatory frameworks and the gender policies that discriminate against the very poor. The socio-economic and political context within which poor people live and informal-sector economic groups operate needs to be assessed so that concerted, focused pro-poor advocacy efforts can be mounted. It is only when the milieu within which the very poor work, when discrimination and marginalization in spirit and in law, are addressed that the full potential of poor people, and of the SGs in which so many will participate, can be realized.



³⁵ CARE. (2008). *Access Africa strategy*. p. 1. CARE USA, Access Africa.



PART 2: SAVINGS GROUP PROGRAMMING: PLATFORMS AND LINKAGES

The Integration of Savings Groups and Other Programming

Developing community access to savings and credit services was the sole objective of the first SG development program 20 years ago. Its activities were limited to group formation, operations training, and appropriate monitoring of the project. Since that time the savings-led MF sector has changed extensively. Today SGs play an important role in a complex development mosaic that reflects a much more holistic approach to reaching the poor than ever before. It is an approach that aims to be synergistic and increase efficiencies. Although stand-alone SG development still takes place, it is no longer the norm. Instead SG development is linked to a wide array of other programming in myriad sectors – all aimed at increasing the well-being of orphans and other vulnerable children, or at improving small farmers’ market access, providing literacy for the disadvantaged or improving food security for the ultra poor.

This integration of development activities happens in many different ways. Sometimes melding SG development with other programs takes place when different projects use SGs as their entry point. At other times creating and training SGs is embedded into other programming in order to add an economic strengthening dimension to work on the ground. Often the different interventions are sequenced; at other times they are provided simultaneously. Sometimes a single implementing agency provides different interventions; frequently different providers coordinate their efforts. Whether multi-dimensional programming is intended to increase income, develop skills, transfer knowledge that will lead to behavior change or achieve some other objective, the notion that SGs linked to other development efforts can add value to each activity has become conventional wisdom.

“In this world of plenty, poverty continues to be with us as it always has. However, the ability to scale up micro credit to millions of poor people in a sustainable way is new, and known to be effective. Yet, there is not a serious global effort to scale up. It’s like smallpox, where the ability to prevent the disease was known two hundred years before its eradication.”

— Marshall Saunders

In today's MF sector, FAs (CARE, CRS, Plan International, Oxfam and Freedom from Hunger, Pact, AKF) uniformly acknowledge the many benefits of program integration. CRS, which historically has closely aligned its SG development work with development work carried out in a variety of sectors, has articulated some of the benefits that can accrue from linking SGs with other sectoral programming:³⁶

- In **HIV programs** SG members can protect their assets and achieve improved food security from being able to access the group's savings and credit facilities; members are able to access social fund resources that can support critical needs arising from HIV; they can participate in HIV education and awareness training; and they can benefit from increased social capital that has the potential to reduce stigma in the community.
- **Orphans and vulnerable children (OVC) and youth** more broadly have benefited both from their SG member caretakers being able to increase their income and from themselves being in groups and receiving a holistic service package that might include food and nutritional support, shelter and care, social protection, health care, psychosocial support, and educational and vocational training – all of which improves their overall well being.
- In **health programs** SG members have increased their capacity to pay for the use of health facilities or, in the case of Rwanda (and perhaps other countries in the future), to pay their national health-insurance premiums; and within their groups they can learn about health issues when providers perceive the advantage of delivering their messages to organized groups that meet regularly to improve their economic and social circumstances.
- In **water and sanitation** groups have the potential to transfer their skills in managing their SG to managing a water-user group and handling the sensitive issues with which it must deal; group members, as the financial benefits of SG membership accrue, can pay their water fees and help cover the recurrent costs that inevitably arise in any water-management effort.
- As for **peace building** SGs are known to enhance trust in a community and can even help in the repatriation of individuals returning to a community after conflict ends.
- **Child trafficking** often occurs because family incomes are low and knowledge about trafficking ways is limited; members of SGs are directly addressing the income issue and also can benefit from awareness-raising efforts mounted by others to reduce the number of at-risk children.
- In **agriculture** there is potential for agricultural finance activities to benefit from SG members being able to tap into their own financial resources; members can apply their group management skills to farmers' groups; if a group wants to join an external agriculture-related production or marketing entity, it is in a position to do so; and, of course, because of better cash flows, group members have the potential opportunity to maximize profit from their agricultural products by selling at an opportune time in the market.
- As for **food security** with the income smoothing (to say nothing of increased income) that group members commonly achieve, it is possible for members to save when they have any extra resources and then use those resources when they are needed.
- And in **education** in addition to an increased capacity of members to pay school fees, SG groups have supported members to learn about school-related issues that affect the community and made it possible for members to use their group to bring about reforms in their schools. Taking this one step further, CRS has concluded that holistic development involving SGs makes possible holistic community development.

In the following pages are several examples of integrated programming involving SGs that runs a wide gamut. These brief program profiles illustrate the value that can accrue from the convergence of different development efforts that are focused on reaching the poor.

³⁶ Vanmeenan, G. (2010). *Savings and internal lending communities (SILC) – Voices from Africa: The benefits of integrating SILC into development programming*. Catholic Relief Services, East Africa Regional Office.

Program Profile 1: Catholic Relief Services Zimbabwe: Support to Replicable Innovative Village Level Community Efforts (STRIVE)

SG development programs in sub-Saharan Africa take place against a challenging backdrop for youth who are commonly defined as those between the ages of 15 and 24.³⁷ Sub-Saharan Africa has the fastest growing and youngest population in the world; nine of the ten countries that have the highest proportion of young people below the age of 15 are found here.³⁸

Specifically, young people make up more than half of the region's total population of 865 million, but only half of this cohort is employed. Of the 50 percent who are not working, although many are in secondary or post-secondary schools, there are tens of millions of others who are not seeking employment because they feel unqualified, do not know how to look for a job or feel there is not suitable work available. Many development institutions see this large population as holding remarkable promise. According to the World Bank's 2008 Youth and Unemployment in Africa: The Potential, The Problem, The Promise, "The demographic transition makes youth the most abundant asset that the region can claim, thus making it a window of opportunity."³⁹

Zimbabwe today is legendary for its political economy and governance challenges. HIV/AIDS, at a prevalence rate that hovers around 15 percent for the country's core working population (those 15 to 49 years of age) has greatly exacerbated the tremendous trials on many fronts that confront virtually every household and community. There are estimates that the country has approximately 1.7 million OVC. Zimbabwe's circumstances have been so dire for so long that, in 2010, Zimbabwe ranked 169 out of 169 nations on the U. N. Development Program human development index.⁴⁰

But Zimbabwe can boast high literacy rates (98 to 99 percent) for its young population between the ages of 15 and 24,⁴¹ and it has a vibrant community of organizations engaged in helping OVC. It is against this backdrop of positive as well as negative factors that CRS and its local partners became part of a larger program, Support to Replicable Innovative Village Level Community Efforts (STRIVE), aimed at mitigating the impact of HIV on OVC. STRIVE was funded by the Nation Action Plan for Orphans and Vulnerable Children through UNICEF. The young people in the program were between the ages of 13 and 24; some were in primary and secondary school and others were out-of-school youth. In all, over 3,600 became members of SGs, which CRS calls "saving and internal lending communities" (SILCs), meeting regularly in school classrooms.

In STRIVE, young people formed SILC groups and received the standard group training that would help them develop skills and coping strategies that they need to meet their basic needs. They also received a combination of health, life skills and child-rights training. As they received this training the adolescent and youth SILC groups served as a platform for learning about problem solving, conflict resolution and leadership, all of which could be especially valuable for girls and young women.

In the spirit of participatory development, group members had the opportunity to request certain types of training based on their perceived needs. STRIVE often organized requested training sessions by bringing in speakers from government ministries or the extension service. At the end of STRIVE, when asked what they felt was most important in this holistic approach, participants often reported that they valued the education they had received in these disparate arenas because it "stayed with you," whereas money might not.

Because of the length of training that SILC requires, it was logical for groups to be the starting point in this integrated program for STRIVE participants. Basic group development and management training generated

³⁷ One of the most common definitions of youth is individuals between the ages of 15 and 24. This definition is used by both the United Nations and the World Bank. See <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTICY/0,,contentMDK:20261632~menuPK:565270~pagePK:148956~piPK:216618~theSitePK:396445,00.html>

³⁸ Population Reference Bureau. *2010 world population data sheet*. Available at http://www.prb.org/pdf10/10wpds_eng.pdf

³⁹ Population Reference Bureau. *2010 world population data sheet*. Available at <http://www.prb.org/Articles/2009/youthunemployment.aspx>

⁴⁰ United Nations Development Program. (2010). *Summary, UNDP report 2010: The real wealth of nations: pathways to human development*, p. 13. Available at http://hdr.undp.org/en/media/HDR10%20EN%20summary_without%20table.pdf

⁴¹ UNICEF, Zimbabwe Country Statistics. (2010). See http://www.unicef.org/infobycountry/zimbabwe_statistics.html Trading Economics, <http://www.tradingeconomics.com/zimbabwe/literacy-rate-youth-total-percent-of-people-ages-15-24-wb-data.html>



a passel of budding entrepreneurs. Many of the young people started microenterprises centered around selling goods and services at tea breaks and lunch hours at their different schools – a profitable arena, particularly in rural areas, because commodities such as exercise books, pens and pencils, and snacks are in high demand. Teachers would help young people stock their wares by providing (free) purchasing services when they periodically went into town to cash their paychecks.

To support those running small enterprises, CRS and its partners provided additional training to support income-generating activities. Community facilitators from CRS' partners that were working with the groups mounted a business development program called Selection, Planning and Management (SPM) that helped young people with their IGAs.

Taken together, this holistic approach to OVC support involved SILC group training within the context of meeting the broader needs and improving the overall well being of the young people in the program. CRS and its partners delivered STRIVE's multi-dimensional interventions using the SG as a platform for rights-based, life skills and health training that complemented the savings group and business development training that anchored the economic facets of the program.

Program Profile 2: CARE Ethiopia, Consortium Leader: Productive Safety Net Program Plus (PSNP Plus)

The Productive Safety Net Program Plus (PSNP Plus) in Ethiopia has taken on a big challenge. It is supporting the government of Ethiopia's provision of food security assistance in the Productive Safety Net Program (PSNP) by helping approximately 47,000 poor, rural households in PSNP improve their livelihoods to the point that about 33,000 of them will no longer be chronically food insecure and can graduate from the program.⁴² The project ensures that it serves the extremely poor because registration in PSNP is possible only after a household has passed through the government's elaborate screening protocol.

PSNP Plus works toward the goal of household graduation by making MF available to them, and linking them to markets through value-chain interventions in livestock, cereal, honey and white pea bean sub-sectors of farming. The project also offers various types of training, particularly in group organization and management, and business and financial literacy that group members can use in their IGAs.

⁴² The government uses productive and household assets of between about \$650 and \$1,000 as the requisite for graduating. PSNP+ has argued that income should also be an indicator for readiness to graduate; USAID recognizes income as an indicator in its most recent Request for Application regarding PSNP and suggests \$1 per day per household as the graduation threshold.



In its work PSNP Plus is actually testing practical approaches that, over time, will make it possible for 8 million other chronically food-insecure Ethiopians who also are receiving food aid to get out of extreme poverty. PSNP Plus's goal is to transfer strategies and technology to the government that will make it possible for 3 million of those 8 million receiving food assistance to graduate from PSNP by 2014. As PSNP Plus's project manager puts it, "These 3 million people are our indirect beneficiaries."⁴³

During its 3-year life, which began in 2008, PSNP Plus is integrating interventions offered by a number of different national and international groups that have come together in a consortium led by CARE Ethiopia. These organizations include CRS, which is establishing its SILCs; the Relief Society of Tigray; and Save the Children U.K. with technical support on value chains from the Netherlands Development Organization and impact evaluations from Tufts University. The government of Ethiopia is also involved as a key player providing capacity-building training to implementers on the ground.

The project's goal of linking food-security program participants to MF and markets⁴⁴ is a mission in which SGs play a significant role. The project's first objective lands squarely in the savings-led MF sphere: to improve households' access to MF through the promotion of SGs and through linking project beneficiaries to MFIs. Indeed, PSNP Plus wants all PSNP households to have the chance to become members of SGs.

Experience on the ground indicates that launching SGs is more easily done than is linking them, as groups, to MFIs. A recent project quarterly report⁴⁵ states that, during the period, the implementing partners had established a total of nearly 300 new groups, exceeding their target, and that other SGs were continuing their training or had graduated.

⁴³ Banjade, J. (2011, March 18). Telephone communication to Marcia Odell.

⁴⁴ Following the launch of PSNP Plus a supplemental component for improving the health, sanitation and productivity of targeted households was added to the project.

⁴⁵ CARE Ethiopia. (2010, October-December), Linking poor rural households to microfinance and markets (quarterly report). PSNP Plus.

As for MFI linkage, however, although nearly 4,300 households had been linked to MFIs, this had come about because individuals became clients, not the groups to which they belonged. Because SGs are not legal entities, MFIs have been reluctant to lend to them. Nonetheless PSNP Plus has been able to negotiate an arrangement in which, on administrative matters, the financial institution will deal with the group to which individual borrowers belong. In fact, as the number of groups and group members grows, MFIs are becoming increasingly interested in group linkage because of its potential to facilitate their reaching more people efficiently and to securing group help in collecting loans. PSNP Plus is optimistic that a pilot group linkage program will roll out in 2011 and that this will make it possible for many groups subsequently to link with MFIs.

The second objective of PSNP Plus is focused on helping PSNP households engage in functioning markets. This is achieved by developing key value chains in selected agricultural sub-sectors that will improve project participants' business productivity and product quality so that individuals can access more profitable markets on a sustainable basis. The role of SGs in this is clear. As SG members are able to save and to access internal group loans, they become increasingly ready to borrow from an MFI or from PSNP Plus to secure productive assets, and this increases their capacity to improve and build their businesses. In this way SGs, which benefit poor people long before they might want to borrow from an MFI, are an anchor in PSNP Plus and become an increasingly valuable stepping stone to a family being able to graduate from the food-security program.

The value of SGs is reported in a baseline and mid-term assessment of PSNP Plus.⁴⁶

The establishment of VSLA groups has gone smoothly and the results indicate that these groups have helped people cope with the crop and income losses associated with rain failure. For example members are using their savings and loans to purchase food, invest in petty trade, education and to cover medical expenses. As such this component of the project has probably helped protect assets by preventing some stress sales.

The report notes that SGs alone are unlikely to have a significant impact on financial asset accumulation for most members because people need access to larger sums to invest in their businesses (hence the promotion of linkage in PSNP Plus) than a group can provide. Still the report concludes:

These groups provide people with a valuable savings and borrowing instrument, particularly in the absence of formal MF services.

In sum, as a cornerstone of PSNP Plus, SGs provide a strong foundation upon which other core interventions related to business development can foster. The PSNP Plus project manager has observed that not only do SGs help group members develop a savings culture and access small loans, but they help instill discipline among members that is important to the success of other interventions in the program, particularly those focused on development of the businesses that are core to a household's graduation from the food-security program.

Program Profile 3: Oxfam/Freedom from Hunger, Mali: Saving for Change (SfC)

More than U.S. \$12 billion a year is lost in GDP, an amount that is the estimated cost of malaria in Africa, where most deaths from this disease occur south of the Sahara. Of the more than 300 million acute cases of malaria each year, globally approximately a million people (mostly children), die in Africa. Malaria constitutes 10 percent of the continent's overall disease burden and accounts for 40 percent of public-health expenditure. It is responsible for 30 to 50 percent of inpatient admissions and up to half of outpatient visits in areas with high transmission rates. It is well understood that in sub-Saharan Africa, as elsewhere, malaria is both a disease of poverty and a cause of poverty.⁴⁷

⁴⁶ Burns, J., Solomon, B., & Gezu, B. (2010). Linking poor rural households to microfinance and markets in Ethiopia: Baseline and mid-term assessment of the PSNP Plus Project in Doba, p. 8. Feinstein International Center, Tufts University.

⁴⁷ World Health Organization. (undated). Roll back malaria, p. 1. Available at http://www.rollbackmalaria.org/cmc_upload/0/000/015/370/RBMInfosheet_3.htm

In Mali and Senegal, Oxfam's SfC is an integrated program that not only develops SGs, but also introduces groups to a malaria-prevention and -treatment curriculum developed by Freedom from Hunger (FFH). As a partner with Oxfam since the program began in Mali, FFH has:

- Assisted Oxfam in program research, including a study of a Peace Corps program in Ecuador and feasibility studies in Mexico and Peru
- Helped develop the training manuals, trainer modules and protocols that SfC uses with the groups, adding FFH's learning conversation model that promotes group member participation
- Assisted with initial program training
- Developed and introduced the malaria training curricula

Of Mali SfC members 74 percent are probably below the national poverty line⁴⁸ and 41 percent are likely to be under USAID's extreme poverty line. Oxfam reasons that incorporating malaria education in SfC's offering to group members, all of whom are women, can have a particularly important impact on food security and broader household income.⁴⁹ Because productivity of a sick worker declines, an episode of severe malaria can cost more than \$20 per episode. Because SfC reaches remote areas, it can bring life-saving information to places that health providers find difficult and expensive to access.⁵⁰

When SfC is launched in a new area, initial training provides field workers with both group-development training and malaria education using materials that FFH has adapted to the local context. No health specialist is needed. Field workers visit groups regularly, and once they have completed the economic group organization and management training, they begin the malaria education. This takes place when groups are already meeting for their banking business and requires about 30 minutes at each of six meetings. The malaria training is participatory, with participants sharing personal experiences and making commitments to share the malaria information with others. Each SG member receives a malaria reminder card that re-enforces learning and makes it easy for her to take core messages to other people.

Oxfam calculates that the cost to deliver this health component of its program is marginal since training takes place when the group-development field worker is already visiting the group. Up-front costs, however, are required for the requisite market research, preparing the malaria-training package and training field workers and their supervisors in a three-day session, including program content and effective training techniques.

In 2010 focus group researchers found that group members who had received the malaria training offered in SfC had good knowledge about both the transmission and the prevention of the disease. Women often mentioned the use of insecticide-treated mosquito nets as a means of protecting themselves and their families.

Using SGs as a platform for health education that has been carefully designed for delivery at SfC group meetings has proved an effective means of educating very poor people in rural and remote areas that is appropriate to the delivery channel and does not place an onerous burden on groups. The program also yields synergy in SfC's outreach.

In sum, given the nexus of income and health and SfC's remote area presence, Oxfam views malaria education as a logical corollary intervention of SG development that increases the program's impact.

Program Profile 4: Pact Ethiopia: WORTH Women's Empowerment Program

Against a backdrop in rural Ethiopia of severely marginalized women, in a place where traditional practices of female genital cutting, early and forced marriages, large families, gender-based abuse, and wife inheritance prevail, Pact brought its women's empowerment program, WORTH, in 2006. WORTH uses SGs as its starting point. In a country known for its environmental degradation and chronic food shortages, where more than

⁴⁸ Progress out of Poverty Index. Available at: <http://www.progressoutofpoverty.org/mali>.

⁴⁹ Miller, J., & Gash, M. (undated). Saving for Change impact stories research. Oxfam SfC. Also Skype discussion with Vinod Parmeshwar, February 25, 2011.

⁵⁰ Aga Khan Development Network. (2010, October). Saving for Change: Savings groups as platforms for malaria education in Mali, pp. 1-2. Freedom from Hunger, Oxfam America.



three-quarters live on less than \$2 a day, WORTH provided the opportunity for women to form SGs and enjoy the smoothing of subsistence cash flows, and even increased incomes.⁵¹

But Pact's goal in introducing its SG development program was more than SG development: It believed that participation in WORTH would make it possible for women to discover how powerful they are, and that this would lead to their having a greater role than ever before in family decision-making, especially around issues that materially affected their lives. Pact believed this would happen because WORTH SGs are not built only around savings. They are also founded on literacy, on members having a chance to experience the achievement – and the changed status in their family and community – of learning to read and write and to master numbers. In Ethiopia, where the adult literacy rate of women falls at about 35 percent, Pact felt the literacy intervention was greatly needed and appropriate. In the final analysis, the WORTH program for SG development was not only savings-led, but it was also a literacy-led effort, one that Pact believed could lead to the transformation of the role of girls and women in their society.⁵²

This larger framework attracted other support. Pact Ethiopia was able to leverage additional resources for the WORTH program in the form of a women's empowerment program funded by the Swedish International Development Cooperation Agency.

WORTH embodies, then, the ultimate in the integration of different development interventions. From the first day of the program, women use materials in which they learn the sounds and letters of their language. Words, sentences, paragraphs and then stories are all built around themes of the strength of women and also the steps that women need to take to establish vibrant SGs. Self-help books used by every member of the group are supplemented by regular bi-weekly visits from an "empowerment worker," who, as a facilitator, supports and guides women as they work through the group development – and the literacy – process. Women then have a chance to practice their literacy skills as together they read stories about the issues mature SGs are apt to face, and they read other stories teeming with microenterprise development messages: how to identify a good business idea, how to avoid the most common pitfalls facing a new entrepreneur, how to grow a tiny business into a viable IGA.

Working through local partners for over 2 years, the Women's Empowerment Program in Ethiopia reached 9,000 women in nearly 400 groups in Oromiya, Amhara and the State of Southern Nations, Nationalities, and Peoples' regional states. Interestingly, neither of the two articulated primary objectives of the program encompassed literacy. The first objective was for women in the program to increase their income; the second was for them to increase their social interaction and decision-making role in the family.

⁵¹ Pathfinder International/Ethiopia. (2007). *Women's empowerment in Ethiopia, New solutions to ancient problems*. Pathfinder, International/Ethiopia. Available at http://www.phishare.org/files/5267_PI_WE_paper_final.pdf

⁵² Golden Gate Community Health. (Multi-year references). Facts and figures. Available at http://www.ethiopia.ggch.org/site/c.krKPIYPDImE/b.2192351/k.90C2/Facts_and_Figures.htm#Womens_Status

An impact evaluation undertaken in 2008 after the program ended concluded that:

[The] WORTH Program has achieved significant levels of literacy, saving and empowerment as the women learned to actively manage many of their groups' activities themselves instead of depending on outside agencies.

In addition to strengthening its groups [in] savings and credit, [the] WORTH Program achieved significant levels of literacy, group solidarity, decision making and in providing information on reproductive health.⁵³

Specifically the research found that more than half of the project participants could read a paragraph "easily" or with "some difficulty." Sight problems accounted for many group members not being able to read well. The researchers reported that results might have been even better had many participants not been from an area where the official language and script had changed so that the alphabet was totally new to them and they could not benefit from any previous, even transitory, exposure to the written word.⁵⁴ The report concluded:

Considering the short time the program has been in existence, it has made significant contributions in the area of literacy. To conclude, the literacy component of the WORTH program was effective at output level.⁵⁵

As for the project objective of women to increase their income, two-thirds (66 percent) of group members reported that their incomes had increased over the previous year, of which 20 percent reported a large increase and 47 percent only a small increase. Those who reported increased income attributed that to diversifying their businesses and increasing certain investments in IGAs, both of which had been embedded in the microenterprise component.⁵⁶

What about the issue of women increasing their social interaction and decision-making role in the family? The program evaluators reported that women in the program had made considerable progress in the decision-making sphere. They summarized their findings in the following table:

Table 8: Member's Decision Making Status after WORTH⁵⁷

Areas of Decision Making		Frequency	Percent
Decision in Family Planning	Yes	772	83.4%
	No	154	16.6%
Decision on Children's Marriage	Yes	635	68.6%
	No	291	31.4%
Decision Making in Buying and Selling Properties	Yes	727	78.5%
	No	199	21.5%
Sending Children to School	Yes	749	80.9%
	No	176	19%
Attending WORTH Meetings	Yes	818	88.3%
	No	108	11.7%
Joint decision making in the above areas and other areas (Idir, school committee, local administration, etc.)	Yes	750	81%
	No	176	19%

Taken together it appears that the melding of very different interventions (SG development complemented by literacy complemented by microenterprise development) was intrinsically synergistic, with each of the three WORTH program components supporting and benefitting from the other two. Although it is impossible to untangle the different developmental threads of SG development, literacy and microenterprise development, implementers from WORTH programs in a number of sub-Saharan African countries often observe that the SG component provides the glue for the group's work. That said, for many group members, becoming literate is both motivating and rewarding, and frequently, members of WORTH groups report that literacy is their favorite part of the WORTH package.

⁵³ Abebe, S., & Bahre, H/selassie. (2009, January). *Report on impact evaluation of WORTH literacy-led saving and credit program*, p. 36. Pact/Ethiopia.

⁵⁴ Ibid, p. 41.

⁵⁵ Ibid, p. 42.

⁵⁶ Ibid, p. 50-51.

⁵⁷ Ibid, p. 45.

It is instructive to note that in one study of WORTH undertaken in 2000, when asked what they valued most about being in WORTH, women reported that literacy was the second most important program element for them. Literacy did not follow access to savings or credit services however. What women valued most was the increased stature members perceived they had in the community and the increased self-confidence that they felt, which had come from learning to read and creating wealth through their group.⁵⁸ Surely that was the result of all of WORTH's interventions, intertwined as they are in the program's design and delivery.

Program Profile 5: Plan Senegal, Sierra Leone and Niger: Making Financial Services and Business Skills Development Available to African Children and Youth

For a number of years Plan International has had a strong interest in developing models and financial products that specifically serve youth as participants in MF programs, not just as indirect beneficiaries of MF activities. Plan's West Africa Regional Office (WARO) believes that linking MF – typically in the form of SG methodology – to other initiatives that develop the entrepreneurial, technical and business skills of young people, can effectively address the serious problem of youth unemployment and youth empowerment.⁵⁹

In addition Plan WARO asserted in its 2008-2011 strategic plan that “instead of viewing MF programming as an end in itself, WARO program countries will seek and work to develop program models that integrate MF with other programs and activities in an effort to achieve the maximum development impact. This supposes that program design be an integrated exercise among specialists in MF, household economic security, education, water/sanitation, health and children's rights.”⁶⁰

Youth Financial Services (YFS)

Moving in this direction, in 2007, Plan launched a pilot project, Making Financial Services and Business Skills Development Available to African Children and Youth, known as Youth Financial Services (YFS), to be implemented by Plan country offices in Senegal, Sierra Leone and Niger. YFS was to provide 3,000 out-of-school children and youth, aged 15 to 24, with access to 1) financial services through membership in new VSL groups, 2) business development technical support, and 3) life skills development. Besides being in SGs, by the end of the project, project participants were to have participated in tailor-made business entrepreneurial and life-skills training programs⁶¹ and be putting that training to good use in managing viable small economic activities.

Instead of running for the full 3.5 years that was originally intended, however, YFS ended after only 17 months. Even in this truncated timeframe, an evaluation of the program undertaken in 2009 by a consultant to WARO found that YFS had actually exceeded its target for VSLA formation, known as “youth savings and loan associations” (YSLAs), and had supported the development of groups in Senegal, Sierra Leone and Niger that together had about 4,000 members. Performance on the non-financial services front was less clear, however. Although YSLAs provided training in business skills to about a third of group members (1,077 or 36 percent), there had not been sufficient time to identify life-skills training, other than that which was part and parcel of the business-skills training, for delivery in specific training programs.

Experience in YSL underscores the fact that when working with youth, it is essential to think about the issue of sustainability in a different way from how it is usually considered in the world of SG operations. Young people grow up and often will move out of the communities where they have been in groups. They do not have the same community roots that, for example, rural women do.

⁵⁸ Ashe, J., & Parrott, L. (2001). *Pact's Women's Empowerment Program in Nepal: A savings and literacy led alternative to financial institution building*.

⁵⁹ Plan International, Region of West Africa. (2007, September). *Strategic framework for microfinance (FY 2008 – FY 2011)*, p. 3, 6. Plan International.

⁶⁰ *Ibid*, p. 10.

⁶¹ Boyle, P. (2009, November). *Making financial services and business skills development available to African children and youth: A pilot, Assessment of Phase 1: August 2007 to October 2009*, p. 4. Plan International, West Africa Regional Office.

Given this, it is unrealistic to expect youth groups to continue for extended periods of time. It must be enough for SG funders and practitioners that young group members learn from their experience and then carry that learning into their adult years, hopefully applying acquired skills in successive chapters of their lives. From that point of view an integrated SG program for young people can offer a wide spectrum of opportunities for lessons that members can apply broadly in the years ahead.

Youth Economic Empowerment (YEE)

Building on the work it undertook in YFS, Plan has completed the first year of implementation of a 4-year project known as Youth Economic Empowerment: An Integrated Approach Addressing Youth Poverty in Niger, Senegal & Sierra Leone, or its shorter title, Youth Economic Empowerment Project (YEE). Like the YFS endeavor, YEE brings together a variety of interventions that uses the SG as an anchor for the project's other programming. In the words of the proposal:

The Youth Economic Empowerment Project has embraced a holistic approach that combines a variety of financial services and youth education components. These include market research, management and business skills training, financial literacy and life skills education. The main emphasis of the financial services for youth will be on savings-led community finance with a scope of upward linkage with banks and MFIs.⁶²

The life-skills training provided to every one of the 70,000 economically active young people who live in rural, urban or peri-urban areas revolves around SGs as both an organizing entity for training delivery and an arena where skills can be practiced. Group members receive training in such areas as basic numeracy and literacy, financial literacy, information and communications technology and reproductive health, all of which are expected both to enhance a young person's chances of being successful in business and to help with the transition from youth to adulthood.⁶³ It would be almost impossible to attribute the contribution of the different trainings in this holistic approach to development, all of which are tied to the work of young people in their SGs.

YEE is also committed to an objective pertaining to financial inclusion. Not only will the project promote financial literacy and asset building through young people participating in their SG, but YEE will test linking both SGs and individual members (an anticipated 10 percent of participants) to formal financial institutions. In facilitating this, the project will always adhere to the principle of demand-driven linkage. For groups, key linkage guidelines will include encouraging groups to have completed two banking cycles before considering links; starting with savings, not credit; never allowing its savings to guarantee or serve as collateral for a loan; and maintaining a conservative group equity to debt (sometimes called savings to credit) ratio.⁶⁴ These mirror the principles set forth by CARE's Access Africa program in its commitment to bringing about financial inclusion.



⁶² Plan International. (2009, December). *Youth economic empowerment: An integrated approach addressing youth poverty in Niger, Senegal & Sierra Leone*, p. 16. Plan International: West Africa Regional Office.

⁶³ Ibid, p. 17.

⁶⁴ Ibid, pp. 36-37.

Linking to the Formal Financial Sector

CARE's commitment to put in place the conditions that are necessary for SGs in sub-Saharan Africa to access the products and services offered by formal financial institutions should they choose to do so has appeared much more recently in the MF landscape than the holistic programming involving SGs. This commitment is a response, in part, to the exclusion of so many of the poor and very poor (which has already been outlined in this report) and their drive to link themselves but without the benefit of proper guidance and support.

To summarize, the formal sector has not been able effectively to reach those at the bottom of the pyramid (the people the movement was initially intended to serve) partially because the cost of delivering very small loans to very poor people, most of whom live in hard-to-reach places, thwarts the financial sustainability of an institution attempting to reach down. MFIs, whose primary business has traditionally been to lend, do not understand the needs of this market segment. They emphasize borrowing over saving, for example, even for very poor people, so they do not design products that meet those needs. Even in their lending, loan terms too frequently are inappropriate for the less-well-off poor person's intended use of the loan: the principal is too big, the term too short, the installment payment system does not fit the cash flow of the investment, or some combination of these problems. Furthermore, many poor people need to borrow just to survive, and in the credit-led MF world, that borrower is a very poor credit risk.

Although the limited capacity of MFIs, as they presently operate, to reach the very poor is now widely acknowledged, the SG increasingly is perceived as a powerful mechanism that can help the poor find a safe place to save, access credit on flexible terms, and benefit from modest support in an emergency. There is even evidence that SGs may not suffer from the "upward creep" that characterizes the client base of MFIs. In Pact's WORTH program the economic status of group members, on average, may have decreased over time. According to one study, "About half of the groups accepted members who are poorer than existing members."⁶⁵ In any case, linkage of these groups to the formal financial sector (if the products and services offered have been tailored for SG members and can be delivered in a manner appropriate to SGs) has the potential to expand significantly the benefits of belonging to an SG.

Since the 1990s efforts to link SGs to MFIs have had mixed results, with linkage sometimes leading to the demise of groups. Although there are many examples of individuals becoming successful clients of formal sector institutions, individual linkage is very different from linking groups and is not the focus of the discussion here. There are a number of reasons why past efforts at group linkage has been so challenging – among them are that products have been inappropriate to meet the needs of group members, linkage has not taken into account the structure or operating principles of SGs, unanimous agreement among group members to link has been lacking; groups have become over-extended with their borrowing and linkage has diverted SG members' attention away from the work of developing a strong savings group.

Behind all this is the fact that, all too often, groups have linked with the formal financial sector independently, without assistance. Members commonly have not fully understood the product or the implications of the contractual commitment that their group was making. No training or education has prepared them to make a decision about linkage that is informed by an understanding of their own rights and responsibilities. It is no wonder that past efforts on the part of SGs to access capital have so often ended in failure.

It is not surprising, then, that the prospect of SGs, as groups, successfully becoming clients of formal financial institutions seems daunting. Instead many view SGs as comprising the core of a movement that runs parallel to that of the credit-led MF industry, able to do what MFIs and banks have not – reach the extremely poor, at scale, with products and services appropriate for the marginalized and disadvantaged, using SGs as the primary vehicle for doing so.

⁶⁵ Ashe, J., & Parrott, L. (2000). *Women's empowerment program (WEP): A literacy and savings-led option for village banking*, p. 1. Pact International.

Access Africa: Making Financial Inclusion a Reality

In its Access Africa program, CARE's commitment of time, money and expertise to achieving, at considerable scale, the full financial inclusion of the poor across sub-Saharan Africa has five strategic objectives:⁶⁶

1. **Scale up VSLAs.** Access Africa will scale up implementation of CARE's successful VSLA program from 17 to 39 countries.
2. **Provide sustainable opportunities for VSLA clients to link with formal financial service providers.** Based on our experience, 20 to 30 percent of VSLA participants will want to access more sophisticated financial services. CARE will partner with MFIs and local banks to develop products and services for VSLA clients.
3. **Establish a predictable finance chain for MFIs.** The program will establish financing mechanisms to ensure that MFI partners can grow their businesses without financial constraints.
4. **Develop appropriate technology solutions to improve access to financial services.** An essential component of the program will be the development of technology solutions, including standardized front-end, back-end and other financial systems.
5. **Develop and implement an advocacy strategy to reduce barriers to financial access.** Access Africa's advocacy strategy will be implemented primarily at the national level but will also help identify global issues that could be addressed by, for example, the African Union, New Partnership for Africa's Development or the G8. This strategy will identify constraints in financial systems as well as specific barriers to the participation of women and other marginalized groups.

This multi-pronged approach is based on the fact that evidence from Latin America and Asia has shown a strong correlation between inclusion in the financial sector and the reduction of extreme poverty.⁶⁷ By encompassing VSLA scale-up, facilitation of MFI linkages to groups,⁶⁸ technology development, MFI strengthening, and advocacy that aims especially at reducing barriers to women's and marginalized groups' access to financial services, Africa Access has created a holistic agenda that focuses on the entire MF sector, MF institutional development included, and appreciates the seminal role of advocacy in achieving full financial inclusion of the poor.

In committing itself to this mission, CARE has taken note of lessons from past linkage efforts. Today it and its partners are testing the waters in different SG development programs to learn more about linkage through group savings accounts with group loan products and insurance offerings that involve all group members. It is testing the use of mobile telephones (mobile "wallets") for storing a group's excess cash and for making payments to vendors. In all of this, CARE recognizes that very poor people particularly value being able to save, but as they are able to improve their well being and increase their assets, they want access to insurance products and to credit, to loans that are for larger sums, for longer terms and often at lower interest rates than those available from their SG.

Partner capacity as well as willingness of the financial institution partner to work with the VSLAs is critical in developing linkages. Even if capacity exists within a financial institution, it takes time to build willingness of the financial institution, because of several factors. These may include:

- Lack of understanding about how VSLAs work
- The Financial institution is not looking strategically at the target market segment represented by the VSLAs
- It perceives the VSLAs to be high-risk
- There is lack of clarity about legal aspects and regulatory compliance in case of linkage
 - > The financial institution perceives VSLAs as a competition
 - > The financial institution has a preference for using other MF methodologies and is not flexible on changing those in order to work with the VSLAs.

⁶⁶ Access Africa. (2008). Access Africa Strategy, pp. 1-2. CARE Access Africa.

⁶⁷ Goldberg, N. (2005). Measuring the impact of microfinance: Taking stock of what we know. Innovations for Poverty Action.

⁶⁸ Experience to date in sub-Saharan Africa has encompassed the development of savings group-appropriate products and delivery channels with banks and corporations as well as with MFIs. Such institutions include Barclays Bank, Opportunity International Bank of Malawi, MicroEnsure in Uganda, Vision Finance and Vodacom.

For a well-thought-out approach, CARE has confidence in pursuing the following steps at the very beginning of cultivating a relationship with a financial institution in order to build understanding of the SG and MF community, ownership in the partnership and clarity of the upfront investments:

6. **To start, understanding the regulatory environment** with regard to provision of financial services prevailing in a country is an important first step to determine what potential products and services could be offered and by what kind of institutions.
7. **Build in-country partnerships:** Developing knowledge of the bank's branch and ATM network will be helpful as that could help identify banks or MFIs for linkage efforts and deepen prospective partners' understanding of VSLAs and how they operate.
8. **A market survey is conducted** to assess the client needs and demand for linkages to ensure that the products ultimately offered through the linkage arrangement address the client needs and preferences.
9. **Needs assessment:** Based on the results of the market survey, this stage allows for the identification of products, features and channels that may be appropriate for linkage design.
10. Based on the needs analysis and identification of product, key product attributes and channels, **the linkage solution or product** is designed, pilot tested, risks analyzed, tweaked or redesigned, then integrated into systems and confirmed.
11. **Channels are then built for delivery of the product.** This is the most important role in determining the success as it influences access and transaction costs.
12. The last step before putting the product out on the market is the **preparation of the groups for linkage:** according to CARE's linkage principles detailed in the following section. Groups must be mature; leverage not too much money; limit collateral deposits when required for the product; but, most importantly, engage the consumer protection policies. At the institutional level, ensuring that the financial service provider has these in place (since the VSLAs are their clients) but also, on the CARE side, ensuring that the members know their rights and know how the client-protection policies can protect them. An important part of that is financial literacy, which is currently being piloted in Burundi, Malawi, Rwanda and Kenya. Last CARE has developed a tool to assess individual VSLAs for linkages.



Preparing Groups to Consider the Linkage Option

In light of the lessons from experience in the entire MF sector, CARE has outlined seven principles for linkage of VSLAs to the formal sector, all of which practitioners in CARE programs are to use in working with financial institutions in order to safeguard the interests of any SG that may want to link. These principles have been articulated to support the unique structure of SGs; underlying these principles is the tenet that linkage be demand-driven and that the core principles that infuse SG operations (group decision-making and transaction transparency, for example) be maintained throughout the assessment and linkage process. Because these principles are so important to the framework within which CARE sees financial linkage taking place, they appear in their entirety below:⁶⁹

Groups are linked, not individuals: When VSLAs are linked to financial institutions it should follow a group linkage model. A linkage relationship should benefit the members of the group and the linkage process should strengthen group solidarity rather than undermine a group's cohesion. Individual linkage based on a group guarantee model is not recommended in the context of VSLAs. If a group is not ready for linkage, but there are some individuals within the group who desire to link, then they should pursue the linkage independent of the VSLA and the group should not provide any guarantee for such individual linkages.

Linkage must be demand driven: The linkage relationship should be based on the needs and demands of the groups rather than being thrust upon the groups. Because a linkage can create additional liabilities for the group, it is important that the groups are ready to assume such responsibilities. CARE as the facilitator of the linkage relationship, or the financial institution as the provider of the linkage products, should provide all the necessary information to the groups in order to help them understand the linkage product and processes proposed.

Core principles of the VSLA methodology are upheld: The fundamental operating principles of the VSLA should be upheld at all times during a linkage relationship. This means that even after the group is linked; it should continue to have member ownership and control over decision-making for transparent, equitable and democratic governance. Linkage decisions should be made by consensus to the extent possible instead of being majority-led.

Emphasis on member savings is maintained: VSLA is a savings-led approach to providing financial services to the poor. The linkage relationship of VSLAs to financial institutions should not attempt to shift this focus away from savings. To the extent possible; savings-linkage should precede



⁶⁹ CARE Access Africa. (2009). Principles of linkage. CARE Access Africa and Hugh Allen for Access Africa.

credit-linkage. The amount lent through credit-linkage should depend on the amount saved by the members, so that the more they save, the more they can borrow. Access to external credit should not reduce the importance of savings by the members.

Member savings are not held as collateral: The flexibility and accessibility of group savings whenever needed is considered as an important attribute by VSLA members. Whenever members need more money, first, they should be able to tap into their group savings and loan fund and only when this becomes inadequate should they tap into external borrowing. Due to this reason, it is important that member savings are held with the group and not as collateral for accessing external loans. It is recognized that from the perspective of the financial institutions, they would like to have the comfort of any form of collateral in order to secure their potential liabilities in VSLAs. So, this principle has to be applied in a way that balances the priorities of VSLA members and financial institutions. This principle does not mean that no collateral should be provided to the financial institution, but what this principle means is that such collaterals should be kept at a minimum. Another aspect behind this principle is that mere access to collateral will not make the loans to VSLAs safer and that objective is better served by good appraisal, monitoring and follow up rather than depending on collateral.

Only mature groups are linked: This is a non negotiable and a very important linkage principle. No group should be linked before they complete at least one cycle and have shared out. In some exceptional cases, when warranted by the situation, it may be necessary to go for a savings linkage even during the first cycle. However, no credit linkage should be done during the first cycle. All groups who have completed at least one cycle of savings, have shared out and are desirous of linking, should be rated using the VSLA linkage readiness assessment tool to determine their group quality and only if the group obtains satisfactory rating should they be linked.

Conservative savings to credit ratio is maintained: It is important that a conservative savings to credit ratio is maintained when linking the groups in order to prevent instances of groups becoming over-indebted. For the first round of credit linkage, the maximum savings to credit ratio of 1:1 or 1:2 should be maintained. For subsequent rounds of credit linkage, it can be increased, but never exceeding a ratio of 1:3. In addition, the amount shared out in the previous cycle is to be used to determine the borrowing eligibility of the group. This is recommended instead of the current savings, since the VSLAs save and share out each year and hence current savings amount does not provide a fair estimate of the savings ability of the group. By linking the credit amount to the savings, it also gives a message about the importance of savings, that if they want to have larger loans, they must save more. The internal savings to credit ratio followed by most groups for VSLA lending is 1:3. After linkage, as the availability of money in the group increases, the groups may, if they so desire, increase that ratio a little, to say 1:5, but always making sure that the benefits of linkage are shared equitably by all the members, rather than just a few members taking advantage of linkage to borrow more and more money.⁷⁰

The Scorecard: VSLA Readiness for Financial Linkage

In an effort to exercise due diligence in every instance in which a group wants to link to a financial institution, Access Africa has developed a tool for assessing the readiness of the VSLA to forge that link. The scorecard reflects an assessment of nine quantitative elements ranging from savings information to the value of the funds that have been lent. Six qualitative factors capture such group characteristics as member discipline, meeting procedures and quality of record keeping. On the basis of the total score obtained by a group (75 percent from quantitative factors and 25 percent from qualitative elements), CARE recommends to the group and the financial institution whether or not the linkage should take place. The scorecard template is set forth in the table below.⁷¹

⁷⁰ Savings to credit ratios for loans to individuals may be higher than the recommendation for group loans.

⁷¹ CARE Access Africa. (2010). *VSLAs linkage selection criteria*. Prabhat Labh. (Dollar figures have been converted from Rwandan francs.)

Table 9: Linkage Readiness Assessment Tool

No.	Criteria	Measure of Variable	Scoring Criteria	Score
Quantitative Measure – Total Marks 75%				
1	Maturity of group	Date of first savings cycle	Measure	Score
			< 1 year	0
			1-2 years	6
2	Savings volume on previous cycle		> 2 years	10
			< US \$678	0
			\$678 – 1,017	7
3	Saving volume of this cycle	Net value of saving at this cycle	\$1,017 - 1,695	10
			> \$1,695	12
			< \$254	0
4	Attendance rates	Number of members attending meetings	254 - 339	3
			> 339	5
			< 80%	0
5	Loan fund utilization	Value of loans outstanding / Total assets of the group (i.e., value of fixed assets and other funds)	80% - 90%	3
			> 90%	5
			50% - 75%	6
6	Portfolio at risk	Portfolio at risk	> 75%	10
			PAR > 10%	0
			PAR > 5% & < 10%	3
			PAR > 3% & < 5%	5
7	Amount written off as a % of last share-out amount	Amount written off at share-out	PAR > 1% & < 3%	8
			PAR = 0%	10
			5% or more	0
			2% - 5%	3
8	% of members with active loans	% of members with active loans	1% - 2%	6
			0%	10
			< 40%	0
			40% - 60%	3
9	Value of investment	Amount of money which has been used; average of loan per member	60% - 80%	6
			> 80%	8
			< \$8.47	0
			\$16.95 – 33.90	3
Qualitative Measure - Total Marks 25%				
1	Member discipline during the meeting	Did all the members come in 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 carry out transactions in that order?	Fully as per procedure	4
			Generally as per procedure	2
			Significant deviation from procedures	0
3	Member awareness about group norms	Did all members appear to have good awareness about 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 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, VSLA transaction	No discipline or participation	0
			Good discipline and participation	3

The scoring categories and point allocation system that Access Africa applies are as follows:⁷²

Table 10. Linkage Readiness Scoring 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

CARE's Access Africa Program is also experimenting with VAs delivering the initial training on the financial product to the VSLAs as well as facilitating the product enrollment for the VSLAs with the formal financial institutions. The deployment of VAs, as part of the provision of these financial products, would lead to additional opportunity for further sources of revenue for VAs, post-graduation.

Village agents might also get involved by:

- Becoming mobile money agents⁷³
- Acting as intermediaries between mobile money agents and VSLAs for a small fee

Financial Linkage and Literacy

CARE has learned that effective and appropriate linkage for groups, especially for group loans and insurance products, will require that SG members be financially literate, that they fully understand the products and services being offered, and that they can assess the appropriateness and implications of engagement. Every FA developing SGs today endorses financial education as an important element of life-skills training.

Since 2009 CARE has worked with Microfinance Opportunities (MFO), an organization that specializes in the development of financial literacy packages, to create materials that are customized to meet the needs of VSLA members at various development levels. Materials are modularized around topics that include saving, budgeting, bank services, financial negotiations, debt management, consumer protection, risk management and insurance, and remittances.

To prepare materials, typically MFO goes into the field to talk with potential consumers as part of a comprehensive needs assessment that consists of focus group discussions, key informant interviews, individual interviews, and an analysis of the financial landscape. MFO then works with in-country staff to adapt MFO's core financial literacy package to use in a pilot of the financial education materials.

Once MFO has adapted its materials, trained VSLA trainers, and those trainers have tested the pilot version of the program, a workshop is held in which the materials are revised according to the experience in the pilot. If the financial literacy program is to be rolled out in multiple countries, master trainers from different countries attend this workshop to learn about the content, delivery and adaptation of materials to meet the needs of their respective countries. These trainers then return home to conduct the market research needed to adapt the modules to their own contexts. They are then in a position to train their community-based VAs to deliver a program that is aligned with standard VSLA learning sessions.⁷⁴

To date CARE and MFO have developed materials and training for Rwanda, Malawi and Burundi. In Burundi, modules are designed to be used by adolescent girls in VSLAs through Ishaka, an economic and social empowerment program. In Malawi and Rwanda financial literacy has been developed for more typical members of VSLAs. This development of context-appropriate, comprehensive financial literacy materials is a substantial effort that underscores the importance that CARE places on providing financial education to VSLA members.

⁷² Ibid.

⁷³ In Kenya the reverse is happening. CARE Kenya is using M-Pesa agents as franchisees who supervise village agents to train VSLAs for a fee paid by CARE.

⁷⁴ Microfinance Opportunities. (2010, June). *Preliminary sketch of proposed CARE-MFO partnership to support the inclusion of financial literacy in the Access Africa Program.*

The development of financial literacy for SGs across the continent is particularly timely because the mobile phone industry in sub-Saharan Africa is exploding. It is likely that many SGs will want to use this technology as it becomes available, through group accounts, to carry out an array of money transfer and even banking transactions.

The demand of groups to use cell phones for SG business could become pressing since wireless technology has become the fastest growing industry on the continent.⁷⁵ As of mid-2010, taking the overall population as the potential market, 60 percent of the population had mobile phone coverage.⁷⁶ The penetration rate of mobile telephones in Uganda was 35 percent. In Kenya half of the market had been reached, and the industry had tapped more than a quarter of the Rwanda market.⁷⁷ There are significant disparities in geographic reach, of course, but even so, observers of this huge upsurge in mobile phone reach and use anticipate that, by 2012, most villages in Africa will have coverage, and only a handful of countries (Guinea Bissau, Ethiopia, Mali⁷⁸ and Somalia) will remain relatively unconnected.⁷⁹ Since mobile phone prices are dropping, and in some places phones are available for about \$10, observers do not anticipate that the cost of hardware will be a major constraint to the growth of the industry.

Already SGs are using their cell phones to transfer money for the group. Program Profile 6 of a savings group linkage pilot program in Tanzania involving a group savings account shows that, before linkage could happen, the telecom company involved needed to design a savings product and protocol for its use that were appropriate for SGs. The product needed to be compatible with the operational principles and norms of SGs, as outlined in the principles for good linkage. In short, the company could not assume that SGs' needs mirror those of the individual.

In addition the company, along with the FA, had to deliver training to group members about how to establish and use the new group account. Excellent financial education will need to be organic so that it can help this burgeoning client group take full advantage of whatever new technology materialize.

The following program profiles provide more insight into the work on the ground in building linkages with formal financial institutions.



⁷⁵ suite101.com. (2011). *Mobile phones changing the face of sub-Saharan Africa*. Available at <http://www.suite101.com/content/mobile-phones-changing-the-face-of-sub-saharan-africa-a355687>

⁷⁶ Aker, J. C., & Mbiti, M. (2010, June). *Mobile Phones and Economic Development in Africa*. Center for Global Development, Working Paper 211, Washington, D.C. Available at <http://www.cgdev.org/content/publications/detail/1424175>

⁷⁷ OneWorld Africa. Are mobile phone penetration rates in Sub-Saharan Africa really as low as they seem? Available at <http://africa.oneworld.net/campaign/are-mobile-phone-penetration-rates-in-sub-saharan-africa-really-as-low-as-they-seem>

⁷⁸ Bureau of Applied Research in Anthropology, University of Arizona and Innovations for Poverty Action, *Baseline Study of Savings for Change in Mali: Results from the Segou Expansion Zone and Existing SFC Sites*. (2010, March). (Oxfam's research regarding its SFC program in Mali confirms that most group members – virtually all women – either have no access to a mobile phone, or if there is access, the phone belongs to a woman's husband and is not readily available for her use.)

⁷⁹ Aker, J. C., & Mbiti, M. (2010, June). *Mobile Phones and Economic Development in Africa*. Center for Global Development, Working Paper 211, Washington, D.C. Available at <http://www.cgdev.org/content/publications/detail/1424175>

Savings Groups and Financial Linkage: Savings, Loan and Insurance Products

Program Profile 6: CARE Rwanda: CLASSE-B and SAFI Projects

CARE Rwanda's experience with linking SGs to the formal financial sector is long, reaching back to the early part of the last decade. The history of this linkage has been organic and the experience has informed the development of CARE's guiding principles for linkage that is applicable throughout the CARE VSLA world. Because of this, it is worth a somewhat detailed review.^{80,81}

Between 1999 and 2004 a series of CARE projects in Rwanda, a land-locked country with very high population density,⁸² focused on the development of VSLAs. Three-quarters of the members of those groups were at or just above the poverty line; the rest fell below it. Most were subsistence farmers living in rural areas. By 2004 CARE Rwanda had decided that helping the 1,300 VSLAs link to external credit would benefit members. Infusion of external capital had the potential to revitalize small-scale farming and open new economic opportunities within and beyond the farming sector.

The CLASSE-B project

Out of CARE Rwanda's experience with VSLAs and as the irregular business training that some groups received, emerged the Community Learning and Action for Savings Stimulation and Enhancement and Business project, CLASSE-Intambwe or CLASSE-B. This project had linkage as a primary goal, but this was linkage with a difference.

During the 1980s, as part of its agriculture development program, the government encouraged the creation of associations across the country whose members typically were involved in a common productive activity (e.g., crops, animals, handicrafts). VSLAs usually were mixed-gender associations that had opted to receive the VSLA training.

Building on this, in CLASSE-B, 25 to 35 VSLAs coalesced to form an apex organization, called an "Intergroupment" (IG) that could serve as the intermediary between VSLAs that wanted to access credit and the Banque Populaire (People's Bank [BP]). BP is a network of credit unions with widespread presence throughout Rwanda that agreed to serve as the lending agent for the CLASSE-B program. CARE capitalized the loan fund for the project for up to \$20,000 per IG.⁸³

In CLASSE-B a VSLA could apply for a loan up to four times the amount of its accumulated savings 1 year after it had begun to save weekly. Loan terms were the same as for regular BP members, with a term of 4 to 12 months at an annual loan interest rate of 14 percent on a declining balance, plus a 1 percent commission, all of which the VSLA would pay in monthly or quarterly installments. Every VSLA client group had to have a savings account with the local BP branch, into which it kept on deposit 25 percent of its loan as a partial guarantee.

VSLAs often borrowed to invest in group IGAs; sometimes a group would on-lend its loan to one or several of its individual members for IGAs. When a VSLA did on-lend, it did so at a spread, charging its established internal interest rate of between 5 and 10 percent per month. However the loan was used, all members were responsible for repayment through a group solidarity approach.

A VSLA would submit its application and a business plan to its IG, which would review the application, make recommendations (repeatedly if necessary) for its improvement, and then, when the IG felt BP would approve the application, forward it to BP. For this service and for helping BP follow up on VSLA clients who were not repaying their loans on a timely basis, BP paid the IG a commission of 30 percent of the loan interest generated from lending the CARE funds.

⁸⁰ Akue, V. (2004, September). Strategic review and realignment of economic security program in Rwanda. CARE Rwanda.

⁸¹ Black, L. (2005, January). *Technical assistance report for CARE Rwanda's economic security strategy*. CARE Rwanda. (CARE Rwanda funded an in-depth assessment of CLASSE-B that appears in Maes, Jan, Linkages between CARE's VS&LAs with financial institutions in Rwanda," August 2007. The profile of CLASSE-B that appears in this report draws deeply from that assessment.)

⁸² Rwanda has approximately 330 inhabitants per square kilometer.

⁸³ Altogether 42 IGs participated in CLASSE-B; they worked with 18 separate Banque Populaire offices.

CLASSE-B's linkage effort had several strong points. First of all, loans were given to groups.⁸⁴ In addition, the program provided VSLAs access to larger loans than they could generate on their own, which opened up new income-generating opportunities.⁸⁵ Though not every VSLA was interested or ready to submit a strong loan application, more VSLAs lined up for loans than there were funds in CARE's capital accounts.⁸⁶ Just as important, if not more so, the proximity of BP branches to groups made it possible for them to have a convenient and safe place to deposit their excess liquidity. Groups also benefitted from product education, if not financial literacy, since it was common for IG representatives to travel to VSLAs to teach them about the loan product, the savings account and the process for engaging with BP.

There were also very real challenges built into the design of the scheme. The first of these raises the potential specter of artificial demand: Although demand for loans was high and, even though IGs did not push member groups to borrow if they were going to on-lend the funds, they did encourage an external account if the group wanted to invest in a collective IGA – something many groups wanted to do.

Second, there is an issue of fairness where a group bears responsibility for a loan when only some of the members are going to benefit from borrowing those funds from the group (i.e., everyone taking on risk for the benefit of a few).

Third, CLASSE-B had the potential to reduce the incentive of members to save, and it is saving that lies at the core of SGs. Saving is what poor people have shown they most want and from which they can most benefit in the world of financial services.

Fourth, CLASSE-B potentially reduced the amount of a group's own savings that it could circulate among member borrowers. In meeting the requirement to deposit 25 percent of the loan amount in a group savings account at BP, groups either used a portion of the loan to make that deposit or they used part of their own group fund, reducing their own savings that they could circulate among member borrowers and that generated interest on loans for the group to share out. No matter how the group handled this requirement, the group solidarity guarantee and the mandatory savings deposit were significant negative factors that the group could not avoid.

Fifth, the product training that groups received on an ad hoc basis from their IG was not the same as proper financial education. It is one thing to understand what is being offered as the result of consumer protection efforts; it is quite another to assess that offering and negotiate for something different, something more beneficial to the structure and operation of the group. This was entirely lacking, to the detriment of the borrowing clientele. Without financial education it is generally recommended that groups do not take on an external account until they have completed at least two banking cycles, not the one cycle of the groups in CLASSE-B. Not only does this give SGs invaluable group management and experience related to fiscal matters, but it provides a bigger window in which they might receive financial literacy training. Although the groups in CLASSE-B often did receive business training from which they benefited, that is no substitute for the financial education that should underpin any engagement with lending institutions.

Finally, the very structure in which linkage of groups to the formal sector took place was propped up by unsustainable support from CARE. Providing loan funds in the short run made it possible for the program to get off the ground since no commercial financial sector institution was willing to provide those funds, but a subsidy of that sort and the ownership of risk that it imparts cannot last forever, even in one geographic area, and certainly it cannot be scaled up. It was that subsidy that made it possible for BP to pay IGs a 30 percent commission for their (essential) loan application screening and repayment enforcement services. This is evidenced by the fact that BP was unwilling to support this arrangement using its own resources. In the future, only if IGs are able to deliver services to groups on a fee-based basis, at a level that generates full cost recovery, would this linkage structure be viable.

⁸⁴ A number of individual group members were able to open their own personal savings account and a few obtained individual loans, though CARE did not track the frequency of that.

⁸⁵ The group loan repayment rate broke 93 percent, not stellar, but not a dismal figure in the credit-led MF world. This might have improved over time, with additional experience on both sides, working with this model.

⁸⁶ The total amount of CARE's loan funds exceeded \$250,000.



The SAFI project

In 2008 CARE Rwanda, having learned important lessons from CLASSE-B, launched a new effort, the Sustainable Access to Financial Services for Investment (SAFI) project, whose overall goal is to increase VSLA member access to financial services through linkages between formal financial institutions and the groups.⁸⁷ SAFI recognizes, as did CLASSE-B before it, that in order to realize their full potential, VSLAs need to be able to access larger loans than their group funds can provide. To oversee the development of strong linkage models, SAFI staff includes a full-time professional who is responsible for this. Access Africa has also brought on board a full-time specialist in linkage to support work in Rwanda and elsewhere across CARE's network of country offices.

As part of SAFI, CARE Rwanda launched its second pilot financial linkage project in November 2010. Although there has not been time to gain much experience on the ground (at the time of this writing only 14 loans had been given out of 45 groups that had applied) an examination of the structure of this linkage is useful. It shows how CARE Rwanda has shifted substantially from the approach to linkage it took in its CLASSE-B project several years ago.

CARE Rwanda is working with the Vision Finance Company (VFC), a wholly owned subsidiary of World Vision International,⁸⁸ to offer group savings accounts, group loans and insurance to VSLAs.

Promotional literature for VSLA-VFC linkage points out its advantages for both the lender and the borrower. Through linking with groups VFC can access a large client base, entering a new market segment as it does so. It can realize economies in working with a group rather than with individuals. This is particularly important since VFC's presence in the pilot area is non-existent; it is 40 km to the nearest VFC facility.⁸⁹ VFC accesses low-cost funds from group savings deposits. The interdependence among the different offered products opens the potential for multi-product selling opportunities. And of course, VFC can build brand awareness and a positive social image in the marketplace.

⁸⁷ CARE Rwanda. (2008). *Sustainable access to financial services for investment (SAFI)* (project proposal). CARE Rwanda. (Also CARE Rwanda, *Financial Linkages Strategy*, undated.)

⁸⁸ VFC's mission is "to provide financial and non-financial services to the economically productive Rwandan poor, especially women, through the development of sustainable and small micro-enterprises."

⁸⁹ VFC is hoping to establish mobile banking that serves the area in the near future.

As for the VSLAs, following are the key elements that frame a group's linkage to VFC:

- **Eligibility:** Any VSLA in the pilot area that wants to take a loan is eligible to apply, but the VSLA must have completed at least one banking cycle of 1 year's duration and undergone the readiness linkage assessment. This demonstrates the current maturity level of the applicant groups. In preparation for being able to assess the VFC option, these groups receive a five-module financial-linkage training, delivered through SAFI, at four of each group's weekly banking meetings. In this training VSLAs explore such issues as what linkage is and why a group would want to link, what the products are that VFC is offering and the process for accessing them, formulating group norms for linkage, managing VSLA records, and the impact of linkage on members and on the group.
- **Savings:** Borrowing groups benefit from being able to open savings accounts in which they can keep their funds safe. VFC has waived monthly fees on the savings product, which pays interest at the rate of 2 percent per annum if a minimum balance of \$3.40 is maintained; the fee to open an account is a nominal \$2, which covers the cost of a passbook and ledger for the group. There are no transactions fees if the sums involved are at least \$3.40. There are no restrictions on savings withdrawals as long as the group does not withdraw more than once a week; more frequent withdrawals incur a 5 percent penalty.⁹⁰ A group also must open a second savings account into which it has to deposit 10 percent of the value of the loan it is to receive. VFC will not disburse without that collateral in place.
- **Loans:** Groups may access loans at a flat rate of 2.5 percent per month (currently between a 4 to 12 month period according to loan size) with principal and interest to be paid monthly. There is a one-time loan service fee of 3 percent of the face value of the loan. The size of an initial loan is determined by VFC's assessment of the VSLA's capacity to manage the loan, but usually is set to approximate the size of a group's share-out in its preceding cycle. (The VFC credit officer [CO] might also calculate a rough loan size for the first cycle, based on averaging the highest and lowest loans that the group gave out in its first cycle and then multiplying that by the number of members in the group.) The group is to pay its installment before disbursing new loans to members during the cycle and it must discharge the entire loan outstanding before sharing out.
- **Insurance:** The group must take out loan insurance that costs 1.5 percent of the loan received. This insurance pays off an individual's loan in case of death.

Altogether, then, VFC is offering three different products to VSLAs: a group savings account, a group loan and a group insurance product.

The marketing material affirms that VFC's terms for engagement respect VSLA methodology. The savings account has three signatories (usually executive members of the group, though this may vary from group to group) reflecting traditional practice of a group having three locks on its cashbox for the security of cash assets. Any two of these three individuals, together, may access the account.

Furthermore, a group may on-lend to individual members its group loan as part of the group fund. Typically groups do this with a spread of 2.5 to 7.5 percent, following their own internal policies in lending. If borrowers honor their commitments, this will generate significant interest income for the group.

As for the loan insurance product, VFC respects the integrity of the group's accounts as demonstrated by its willingness to accept the ledger and passbook system along with the death certificate as the basis for insurance payouts for VFC loans held by individual members who die.

VFC states that it bases its loan appraisal on "capacity, character and social collateral." In the case of VSLAs, as described above, in addition to accepting the group solidarity mechanism for loan repayment, any borrower group must deposit 10 percent of the face value of its loan in a savings account that is separate from the regular savings account. There are no fees on this account, but the 10-percent-of-loan deposit is a flat charge and over the life of the loan will not reflect a declining loan balance. For non-VSLA clients VFC requires a 20 percent deposit, but because VSLAs will each have a regular savings account (in which groups

⁹⁰ There is also a 5 percent penalty if a group closes its saving account before it is 6 months old.

are expected to deposit social fund and other liquid assets and then withdraw from that the funds needed to meet the 10 percent rule), VFC has cut by half its requisite level of collateral. VFC markets this as “up-front savings,” which, in one sense, it is.

This mandatory deposit has a potential down side however (similar to that in the CLASSE-B program) that unless every member of the group plans to take a loan, all members are assuming risk for those members who do borrow individually. To mitigate this aspect only the group members who are interested in obtaining the loan sign their name on the list of members on the loan application. Furthermore, prior to receiving the loan, only those members on the loan application are responsible for mobilizing the mandatory deposit, which they do through a separate contribution. This mitigates any potential erosion of profits gained from lending to members that were earmarked to be shared out among all at the end of the cycle.

The linkage process involves VFC COs and branch managers as well as CARE project managers, a senior manager of CARE Rwanda’s technical support unit (TSU) and partner implementing staff. As described by CARE:

- VFC COs train implementing staff (CARE’s TSU senior manager co-facilitating)
- The TSU staff person and VFC’s COs sensitize three committee members from the groups
- These VSLA members sensitize all group members on how linkage will be done (field officers co-facilitating)
- COs train on the saving account and help the group to open the account (branch manager co-facilitating)
- The COs train the VSLAs on the credit product, assess the applications, and give the loan to VSLAs (branch manager co-facilitating)

As described above, this product and linkage education is provided as part of a broader five-module financial-linkage training that each group receives. As for full financial literacy for group members, CARE Rwanda hopes that in the future it will be possible to deliver the entire package that it has developed and is about to roll out in collaboration with MFO, well before a financial institutional linkage opportunity is imminent.⁹¹

An assessment of the CARE Rwanda’s VFC model in light of CARE’s six linkage principles suggests that the project design honors some, but not all, of these principles.

- **Group is linked, not individuals:** A group does, indeed, receive a lump sum loan to add to its own group fund. Because a group may on-lend to individual members, the concept of joint and several liability is maintained.
- **Maximum savings to credit ratio:** Access Africa’s recommended maximum ratio of 1 to 2 for the first loan is honoured in the Rwanda model since VFC is using the size of share-out in a group’s previous cycle as the basis for a first loan. The group and VFC will negotiate the size of subsequent loans to a group.
- **Balloon repayments:** The provision that a group must make a monthly installment payment for both the loan principal and interest does not conform to Access Africa’s recommendation of a balloon payment at the end of the loan term. That said, Access Africa, in its testing of its linkage principles, recognizes that repayment of principal needs to take into account the cash flow within the group. It does not make sense for the group to continue to pay interest on an outstanding loan if the group has surplus liquidity in its fund; with a bullet repayment option, that might be the case much of the time. The repayment of principal in installments, then, is under scrutiny. The recommendation that external debt be repaid before funds are distributed when the group liquidates is honored.
- **Limit collateral deposits:** Although VFC does require the 10 percent collateral deposit, this is limited so may be considered in compliance with this principle.
- **Minimum age of groups for linkage is 1 year – preferably 2 to 3 years:** The groups meet the minimum 1-year standard. Given their five-module financial linkage education, groups may be more conversant with issues than completion of a 1-year cycle implies.
- **Linkage is not automatic but is demand driven and performance based:** Loans are demand driven. VFC’s application review is ensuring that loan approval (and terms, once approved) reflects a group’s previous performance.

⁹¹ Ideally, groups would receive the financial literacy training well in advance of linkage, but specific product/process education would not be given to a group until a real opportunity to link is at hand. Financial literacy experience in Latin America shows that people internalize this sort of information best when they have a real opportunity around which to test their questions and ideas.



The linkage of SGs to VFC in SAFI is much better designed than was linkage of groups to BP in the CLASSE-B project. The linkage principles provide latitude in actual terms, and the terms of agreement between VFC and a group fall within the parameters of those principles. It must be recognized that Access Africa is testing its linkage principles to determine their appropriateness and feasibility and that from the experience in Rwanda there will be much to learn. One area to monitor closely is the 10 percent collateral rule; this has the potential to erode the group's revolving account. A second is the requirement that groups pay principal as well as interest in installment payments. On the one hand this can reduce the group fund just when it is needed for loans if all borrowers do not always pay what they owe in full and on time; on the other hand, principal installment payments mean that a group can avoid paying interest on loan capital it is not investing productively, and they support discipline within the group.

As for groups having benefited from a full financial literacy program before considering accessing external credit, there is also a lapse. Although CARE Rwanda, its partners and VFC are providing groups with information about the products within a broader framework of financial linkage, it would be even better if groups were to receive comprehensive financial education before having to deal with decisions regarding financial products in general and loan products in particular.

Program Profile 7: CARE Uganda and Micro Insurance

SGs often capitalize and self-manage an informal insurance mechanism that is known as the "social fund." It is common for every SG member regularly to contribute to this fund, which the group uses to help those within the group (and sometimes others in the community), in times of need. The group usually establishes clear policies about how the fund is to be used (when a grant is to be given or when a no-interest loan should be made, for example), but, almost universally, death in a SG member's family triggers a donation from the social fund.

In CARE's Save Up program in Uganda, an experiment involving funeral insurance is underway. This program has its origins in 2009, when MicroEnsure, a multi-national insurance intermediary wholly owned by Opportunity International,⁹² identified an underwriter and then accompanied CARE to the field to ask VSLA members what insurance needs they had. Funeral insurance surfaced as paramount since these expenses are high in Uganda, and, even though at the time of a death a contribution from a savings group's social fund might be forthcoming to lighten the burden, this contribution was never large.

⁹² *MicroEnsure Product Specifications Update* (2009, June). Opportunity International provides a range of insurance products to poor households, often in rural areas.

Based on this finding, MicroEnsure created a competitively priced, simple funeral benefit product to sell to SGs in a pilot project in two districts in eastern Uganda. The funeral insurance allows the VSLA member to write into the policy his or her spouse or partner and up to four children that are biologically the VSLA members' or under their legal guardianship. Pricing of the insurance premium was set to the equivalent of \$3.15 per 12 months and provided death coverage benefits of \$200 for a member or spouse and \$50 per child. This was a product for a group to purchase, so if at least 70 percent of the group members agreed to pay the premium as an individual member, then the group could buy into the insurance. A local partner, Community Vision, took responsibility for overseeing the marketing of this insurance to VSLA groups in two districts, using the community-based trainers (CBTs) as outreach agents since they were already engaged in VSLA promotion and support. The insurance product covered the member, a spouse and up to four biological or legal dependents under the age of 21, for a year. Administrative procedures for collecting premiums and for processing claims were clearly specified as was the commission to be paid to the CBT for each group policy sold.

Once the CBTs had been trained by MicroEnsure, and the CBTs had trained VSLA members on the basics of micro-insurance, the actual product, and its processes related to purchasing premiums and payout procedures, some groups immediately bought policies. The CBTs facilitated this acquisition of the policies by helping the members fill out and collect the forms for submission. For CBTs that supported the groups in opening the accounts, they received a commission from MicroEnsure equaling to 20 cents per premium purchased.

It was not long after the rollout before a serious problem developed. About 3 months into the marketing of this insurance, MicroEnsure precipitously decided it had to wind up its Uganda operations and would not be able to service the policies already sold. Convinced of the importance of not allowing the groups to suffer from this third-party decision, CARE decided to work directly with APA Uganda Limited, the underwriter for MicroEnsure, for the policies that had been bought.



A new chapter of this insurance story opened when Community Vision took on the role of marketing this funeral insurance to VSL groups. By August 2010 CARE Uganda could report that 498 policies had been sold. To assess the performance of this insurance endeavor as part of Save Up's portfolio, CARE Uganda commissioned a study to capture the lessons that could be learned from the field. Even though the randomly selected group sample was only 10 VSLAs, five that opted for insurance and five that did not, with 330 members in all, these lessons are instructive, particularly since they emerge from a relatively new type of venture involving SGs. A few key points:^{93,94}

- Members were asked to make one off-premium payments for the annual policy, rather than having the option to pay installments to the insurance company as they were used to doing with savings, loan and social fund payments in their SGs; this met resistance. The groups raised this issue then decided to make adjustments that fit their dynamics and allowed for installment payments at the VSLA level. One off payments was provided to MicroEnsure.
- Many VSLA members did not understand the value of insurance or how it works despite the training that CBTs provided to groups. Being that insurance is a new concept to most members, CARE learned that this calls for continuous sensitization at all levels.
- Some groups count married couples among their members. To enable the group to opt into the insurance policy and avoid dual premiums taken by spouses, the 70 percent rule came into effect allowing for a group to opt into the insurance even though not all members were purchasing.
- Dual membership was also a challenge in groups' capacity to participate, but, once again, with the 70 percent rule in effect, it did not stop VSLAs from enrolling.
- Members who were single and had no children sometimes did not see the value of buying an insurance product designed to cover children, so policies were priced accordingly.
- Group members who were in polygamous marriages sometimes could not decide which wife and children to register and thus they did not pay any premium at all, making it impossible for the rest of the members to join.
- Some groups could not purchase the insurance because a member was older than the upper age limit of 65. (The recommended increase was to 85 years.)
- Finally, SGs welcomed the fact that the policy was gender inclusive and had no medical restrictions that would exclude deaths arising from AIDS or other chronic conditions.

In spite of the hurdles encountered in the pilot program, assessment of the initiative ended on a positive note as some issues were mitigated and solutions implemented. After interviews with members and non-members, there are clearly some areas of improvement in terms of operations and lessons gained:

- Increasing the age limit from 65 to 85 years since there are VSLA members (on average 5.5 percent) who fall in this category and have failed to purchase premiums because of this problem
- Increasing the number of beneficiaries from 6 to 10 since most members have many children (on average 13) or relatives in their care
- Increase amount for child compensation by 7.4 percent because costs are almost the same as an adult
- Mitigate other methods for certification of death, as, in one case, a woman was not compensated because of malice by a key local leader who was needed to approve the death acknowledgement letter
- Ensure that there are no delays in processing compensations (mobile-money options with a mobile network provider could be sought to ensure timely premium payouts direct to the beneficiaries)
- Ensure that uninsured members are not feeling isolated and not seen as a burden by the other members

Overall, there have been tremendous positive effects on group dynamics and community cooperation as a result of the availability of appropriate funeral insurance linkage. Security and confidence has been built among the members; they have expressed a reduced fear in the risk of losing property in the event of a death of a VSLA or family member. If the lessons from the field are taken seriously and subsequent appropriate changes in the re-design of this and other products are taken into account for training and education, it will be an attractive financial product that meets the myriad demands of Save Up members thus increasing demand across Uganda.

⁹³ CARE Uganda. (2010, August). Innovations in VSLA implementation: A study report on micro insurance linkage in Tororo and Butaleja districts, Eastern Uganda. CARE Uganda VSL Technical Unit.

⁹⁴ Save Up Uganda. (2010, September). *Save Up: Annual Country Office Report: October 2009 – August 31 2010*. CARE Uganda.

Program Profile 8: CARE Tanzania: Wekeza/Save Up Project

In 2008 the leading cellular network company in Tanzania, Vodacom Tanzania Ltd., introduced the market to an innovative money transfer system that enables its customers to send money to any other mobile customer in the country with only a simple phone transaction. To date the system has proved safe, efficient and reliable.

From its inception M-Pesa has been wildly popular. It is estimated that, in late 2010, five million of the over 18 million mobile phone users in Tanzania were using this mobile phone payment service. Vodacom believes that M-Pesa can fill a gaping hole in the landscape of fund storage and transfer for the more than 16 million unbanked mobile-phone users in the country, and Vodacom will extend M-Pesa to reach this wider community.⁹⁵ It believes that the use of hand-held technology to access M-Pesa has the potential to revolutionize poor people's access to a much needed service. To encourage deep reach, Vodacom has made registering an account easy if there is an M-Pesa retailer or agent nearby.

CARE Tanzania's Wekeza/Save Up Project, which currently is establishing approximately 4,600 VSLA groups in the northern part of the country as part of a Bill & Melinda Gates Foundation-funded initiative, launched a pilot program in early 2010 to test the feasibility of VSLA groups, as groups, using M-Pesa to store excess liquidity temporarily or to pay bills or transfer money to others.⁹⁶ Storage of cash is especially welcome since groups usually have considerable liquid funds before they do their periodic share-out and there may be other times during the banking cycle when the amount of cash in the group's cashbox is greater than what members feel they can safely store there.

The terms and fees for the M-Pesa account are widely considered reasonable. Money may be deposited in a group's account, or "mobile wallet," free of cost. Vodacom has created two levels of M-Pesa accounts appropriate for differing client money storage and transactional needs. For tier 1 account holders, the maximum amount that can be stored onto the M-Pesa account is 1,700,000 TShs or \$1,115. Tier 1 allows for the account holder to make withdrawals up to the amount of 500,000 TShs or \$334 per day for a transaction fee of TShs 1450, or about 96 cents. Withdrawal fees depend on the amount withdrawn:

Table 11. M-Pesa Withdrawal Fees (in U.S. Dollars as of April 2011)

Withdrawal Amount	Fees
\$3.33 to \$6.66	\$.26
\$6.67 to \$12.99	\$.26
\$13 to \$32.99	\$.36
\$33 to \$66.99	\$.46
\$67 to \$133.99	\$.60
\$134 to \$199.99	\$.80
\$200 to \$334	\$.96
\$335 and Above	\$.96

Through customer request to Vodacom, M-Pesa tier 1 account holders can be upgraded to the tier 2 account, allowing the maximum storage amount to increase to 5 million TShs or \$3,280. For the tier 2 clients, transaction limits are Tshs 500,000 (about \$325) and M-Pesa allows up to 10 transactions in any one day (Tshs 5 million [\$3,250] in total).

Before it could launch the pilot for groups, CARE Tanzania worked with Vodacom to adapt its interface with users so that it could accommodate group, rather than individual, accounts. To maximize security they discussed the idea of two private identification numbers (PINs) for one group account that would emulate the security of a VSLA cashbox. After discussions with Vodacom, it was not technologically possible to change to a dual PIN authorization to access the account through the USSD interface. So Vodacom decided to enable the groups to utilize the Vodacom STK SIMS, which enables more functionality on the SIM as compared to USSD. With this technology, CARE trained the groups to elect two pass code holders in each group. Each pass code holder knows two digits of the pass code. As each person inputs the code on the screen, the STK SIM allows for the numbers to get covered with an asterisk; concealing the actual PINs.

⁹⁵ allAfrica.com. (2010, November 16). *M-Pesa service gets U.S.\$ 4.8 million boost*. Available at <http://allafrica.com/stories/201011170244.html>

⁹⁶ For a full account of the pilot effort, including the process followed for designing the product, mobilizing the stakeholders and delivering the training, please see CARE Tanzania. (undated). *Financial service linkages: Storage of groups excess liquidity via M-Pesa*.

Wekeza staff had to identify VSLAs to participate in the pilot, along with the VAs, known in Tanzania as CBTs, who would be training and assisting them in the first phase of M-Pesa usage. Vodacom had to identify the M-Pesa agents whose retail outlets were in the vicinity of the pilot groups. All of this was done, and, in February 2010, CARE Tanzania and Vodacom rolled out a 1-day training primarily for the VAs who would be working with the 76 VSLAs that were in the pilot⁹⁷ and the M-Pesa agents who were within the groups' geographic reach.⁹⁸

Training for groups participating in the pilot was mandatory and consisted of an eight-module course, with one module a week for eight weeks delivered during the regular weekly meetings of each group. Emphasis in every phase of the training was on the security and transparency of every transaction involving the M-Pesa account.

The rules by which a VSLA group makes use of its account reflect the basic principles that guide a group's other financial transactions.

- **Democracy and informed consent:** All members of a group must sign a "resolution paper" that affirms that each member agrees to the opening of the group account. Usually members sign this at the end of all training, after they have had a chance to discuss any questions. The original resolution paper is kept by the M-Pesa agent and a copy kept in the group's box.
- **Due process:** The group's chairperson or secretary must open the account on behalf of the group, showing proper photo identification to the M-Pesa agent. The CBT accompanies the person for this visit to the agent's kiosk. The completed application form is kept by the agent who provides a copy to be stored in the group's box.
- **Security checks and balances:** A 4-digit PIN is assigned to the account when it is opened, but the group can change it at its next meeting. No member of the group knows a PIN in its entirety. A pair of members knows two of the digits, another pair knows the other two. None of the four members should be either a box keeper or a key keeper for the group's cashbox.
- **Transparency:** All transactions are recorded in the M-Pesa book. Entries are made at the time the group agrees to a transaction. The ledger shows the purpose of the transaction, the account's opening balance, the sum added to the account, any money withdrawn from the account, any fees paid, and the ending balance. The group must approve every transaction and these approvals may be given only during a regular weekly meeting. Instructions for how to deposit money, withdraw funds, and pay suppliers are all included in group training. Entries are recorded as illustrated:

Table 12: M-Pesa Book Entries

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
11/2/10	Cash Deposited	0	200,000		0	200,000	Signature
25/2/10	Cash Deposited	200,000	100,000		0	300,000	Signature
11/3/10	Cash Deposited	300,000	350,000		0	650,000	Signature
25/3/10	Withdrawn for Share Out	650,000		420,000	7,000	223,000	Signature
6/5/10	Cash Deposited	223,000	230,000		0	453,000	Signature
3/6/10	Cash Deposited	453,000	230,000		0	683,000	Signature
5/8/10	Cash Deposited	683,000	230,000		0	913,000	Signature
1/10/10	Payment for Fertilizer	913,000		800,000	400	112,600	Signature

As of December 2010, 39 groups had received the requisite training and had registered for M-Pesa group accounts. Besides having a safe place to store their excess loan fund, there were indications that some VSLAs would also choose to use their M-Pesa account to store their social fund or to pay for the bulk purchase of agricultural inputs.⁹⁹

⁹⁷ The pilot initially identified 27 groups for pilot participation. Subsequently, 49 VSLA groups were added to this pool. As of February 2011, 76 groups had received training in the use of M-Pesa and 39 groups had opened accounts; more groups were in the registration process. Source: Personal communication. (2011, April 5). Winston Nsemwa to Marcia Odell.

⁹⁸ In addition to the training of 9 CBTs and 3 M-Pesa agents, training also included 3 VSLA mobilizers and 2 VSLA technical officers. Additional training of 3-days' duration followed this initial workshop.

⁹⁹ CARE Tanzania – WEKEZA Project. (2011, April). *Financial service linkages: Storage of groups excess liquidity via M-Pesa*, p. 12. CARE Tanzania.

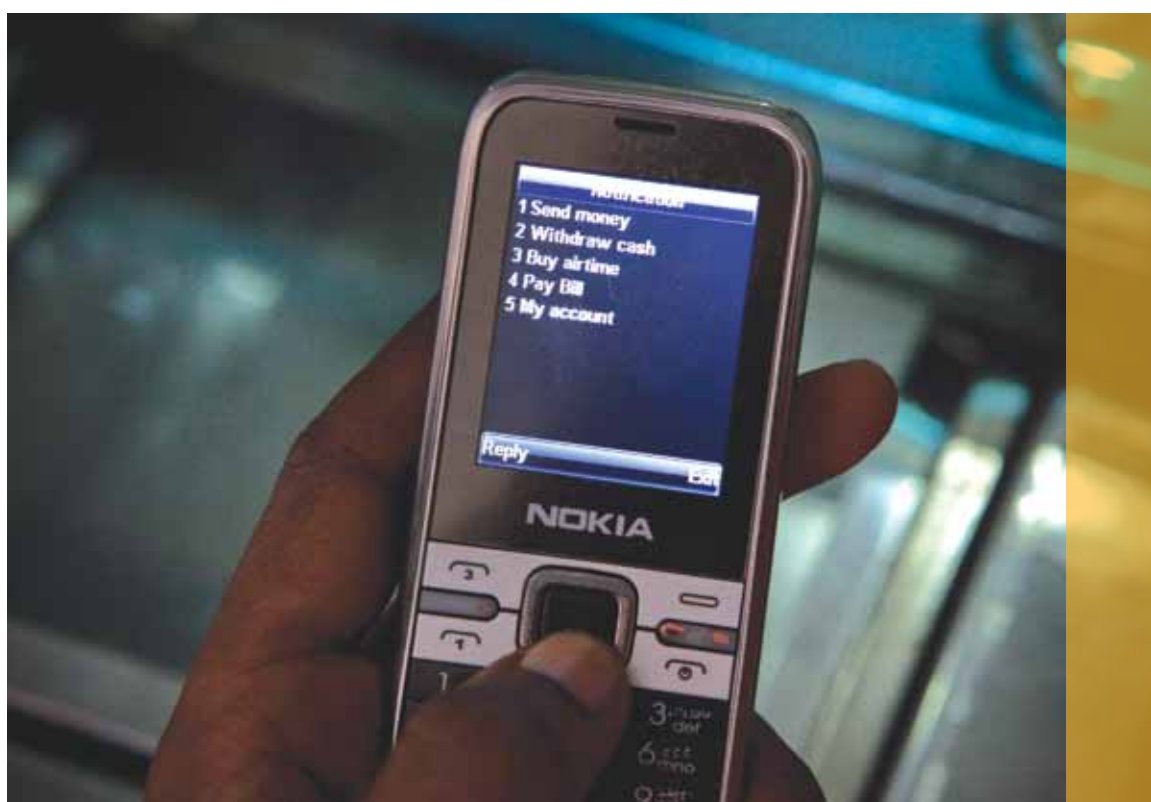
CARE Tanzania’s monitoring of the pilot program in April 2011 confirmed that groups were depositing and withdrawing their excess liquid assets, but that the service provided by M-Pesa agents had sometimes been slow, and there had been instances when an agent had not had the cash that a group wanted to withdraw from its account – an amount often larger than the typical withdrawal of an individual. In such cases, the group had been forced to look for a different agent who could meet its cash withdrawal needs. To remedy this, Vodacom will partner with several banks so that M-Pesa could quickly meet the larger cash demands coming from groups.

As the following table shows, M-Pesa transactions are reaching substantial levels. The 22 Longido groups had 19 deposits in the month reported totaling \$2,941 and 16 withdrawals totaling \$1,899 (averaging \$118 for each withdrawal).

Table 13: M-Pesa VSLA Transactions as of December 2010

	Longido	Hai	Meru
Total number of groups under the pilot	22	28	26
Number of pilot groups which have opened group M-Pesa accounts (Group A)	6	19	14
Number of pilot groups which have not opened group M-Pesa accounts (Group B)	16	9	12
*Number of deposit transactions this month in all group M-Pesa accounts	19	12	21
*Total value of deposit transactions this month in all group M-Pesa accounts	\$2,941	\$848	\$1,731
*Number of withdrawal transactions this month in all group M-Pesa accounts	16	4	16
*Total value of withdrawal transactions this month in all group M-Pesa accounts	\$1,899	\$397	\$1,444

Whatever the challenges during this trial period, it is almost certain that the number and volume of the group mobile money accounts will increase as VSLAs gain experience – and hear of the experiences of others – in using them. In adapting M-Pesa’s core product so that it can be transparently used by groups, Vodacom Tanzania has been among the first to customize a product specifically to help meet the needs of the SG. Currently there are talks with a bank in the area about making it possible for a group’s funds to be linked to a savings account in a regulated financial institution.





PART 3: THE NEXT MILE: ADVOCACY AND THE PROMOTION OF FINANCIAL INCLUSION

Making the Case for Advocacy

The SG movement that has evolved over the past 20 years has the potential to change the face of the MF sector. For the first time, a model is at hand that makes it possible for very poor people (those living on less than \$2 a day) who all too often have been unable to benefit from the financial services offered by providers of credit-led MF, to enjoy the benefits of a secure place to save, a community-based source of credit and a social safety net that provides informal insurance against unexpected shocks. SGs are key to reaching the MF market segment that the prevailing MF system has not known how to reach, a segment filled with small-land-holding farmers and vulnerable women.

As powerful as the SG model is, however, policy, regulatory and legislative frameworks shape what can and cannot happen in the MF sector, and, all too often, these frameworks regulations do not serve the very poor well. They erect and affirm barriers that can have a negative effect on the poor and marginalized in general, with a disproportionate effect on women. One observer notes, “‘Modernization’ has shifted the balance of advantage against women. The legal framework and the modern social sector and producer services developed by the independent African countries have not served women well.”¹⁰⁰ Thus even though the SG model is the most promising vehicle that exists for reaching the very poor with a full array of MF services, there are local and national obstacles that inhibit the savings-led sector from maximizing the opportunities its constituents need.

It therefore behooves all of those in both the public and private sectors who are committed to the long-term, consequential impact of savings groups, to address the challenges these barriers pose by advocating for policies and laws that support poor people being able to achieve full financial inclusion. Gender issues, which are so relevant to savings-led MF, demand special attention. Advocacy is a means of changing prevailing systems affecting all of microfinancing so that all those who should be served fully by the sector, can be. It is an essential corollary to SG development on the ground. Furthermore, through advocacy that is pro-poor and that promotes gender equity in the microfinance MF arena, gains can be realized that not only have an impact in that space, but also can be leveraged to benefit entire national environments.¹⁰¹

¹⁰⁰ UNDP. *Overall status of women in Africa*. Available at <http://unu.edu/unupress/unupbooks/uu37we/uu37we0t.htm>

¹⁰¹ CARE. (2008). *Advocacy pilot concept note*. CARE USA, Policy and Advocacy Unit.

Advocacy Strategy: The Example of Access Africa

One approach to the hard work of advocacy around MF issues in sub-Saharan Africa comes from Access Africa. Its advocacy starts with the identification of constraints to full access. As it moves its agenda forward Access Africa wants specifically to:

- Deepen understanding of financial exclusion and its policy causes in the African region, including those that uniquely impact affect women’s access to financial services
- Assess the “ideal or conducive” policy environment for different MFI interventions and innovations
- Assess gaps between the ideal or conducive environment and the reality
- Define a long-term policy research and advocacy agenda
- Assess field capacities to undertake policy research, analysis and advocacy as well as provide the support the field needs to do so
- Focus initial research on issues that include VSLA scale-up, investing in MFIs and facilitating linkages between MFIs and VSLA clients.¹⁰²

In mid-2008 Access Africa undertook desk research on policy barriers to full financial inclusion in 14 countries in sub-Saharan Africa where VSLAs are known and understood. The research focused on MF policy and gender since these two arenas seem to have the greatest impact on VSLA groups. Citing the United Nations Capital Development Fund’s Building Inclusive Financial Sectors for Development program, the desk research reported a number of issues inhibiting financial inclusion that are affected by government policies.¹⁰³ Two stand out:

- In **gender**, women have fewer assets than men, so they lack collateral for loans, which means women have smaller businesses with smaller revenue streams; property titles may be in a man’s name, even if property is jointly owned; women may not control their own earnings or their income-earning assets because these must be handed over to male family members; women’s mobility is restricted either because of cultural norms or household responsibilities, or both; women are less literate than men; they are the victims of domestic violence, which affects their ability to repay loans; and they are more likely than men to be HIV-infected, which affects their ability both to save and to meet loan obligations.
- A person’s **level of education**, especially not being financially literate, can negatively affect accessing the formal financial sector. It helps to be able to read and understand promotional literature to know what options are available and to understand that a contract reduces the risk of being taken advantage of. Forms and other financial documents can be intimidating for those with low or no literacy skills.

If such realities provide a rationale for working to remedy constraints that impede the poor’s options, advocacy can provide the link between the issues that confront VSLAs that want to access increased formal products and services and resolve those issues. Very specifically for savings-led microfinance, typical barriers that national regulatory frameworks pose for VSLAs, and possible ways to overcome them, are described below in an article drafted by two Access Africa senior staff members.

CARE has encountered regulatory difficulties in many countries as it tries to link VSLA groups to banks. Some governments try to encourage VSLAs to transform into cooperatives. However, this is a level or organization that most VSLA members are not prepared for or willing to undertake. Most want to keep their groups going, and just want a safe place to park some excess liquidity, and a little more loan fund at certain times for the option to offer loans. Other countries require VSLAs to go through a lengthy and expensive registration process as a small enterprise in order to link to a financial institution. Not only is this expensive, but it requires [VSLAs] to change their management structure, and this can decrease transparency. CARE would advocate for a simple, local registration process that allows the group to maintain its structure and governance models. Countries such as Kenya already allow for this, and it significantly facilitates the process of linkage between VSLAs and banks. This simple registration process allows banks to meet their A[nti-]

¹⁰² CARE. (2008). *Access Africa draft strategy*, pp. 13-14. CARE USA.

¹⁰³ United Nations Capital Development Fund. (2006). *Building inclusive financial sectors for development*.

M[oney] L[aundering]/C[ombating the] Financing of] T[errorism] obligations without putting too much expense and burden on the groups.¹⁰⁴

Access Africa views the national policies in a country as the primary springboard for change and increased scalability. Accordingly, assessments of programs and domestic policy analysis country by country are essential first steps. Access Africa has recently launched a pilot program for institutionalizing this process within the operational framework of three of its country offices across the three regions of sub-Saharan Africa. In Rwanda, Mali and Malawi the goal of this pilot is “to identify financial sector policies that meaningfully increase women’s access to financial services, addressing gender exclusion, social protection and food security.” Country-specific policy analysis of the underlying causes of poverty and gender exclusion that are holding back marginalized and vulnerable women from accessing financial services and economic opportunity will anchor the pilot program in each country. Analysis involves examining effective approaches to lifting people out of poverty and under what circumstances these work.¹⁰⁵ The initiative is designed to walk selected countries through the process of analyzing policy analysis with a lens on narrowing the focus of the policy issues that may be chosen for advocacy initiatives as a compliment to existing programmatic work.

In each country Access Africa wants to identify areas of priority and advocate for gender mainstreaming in financial policies and provide guidance on how to incorporate gender dimensions in an advocacy platform. To facilitate this, Access Africa is committed to developing a gender-mainstreaming tool that any development program that engages the financial sector can use to identify gaps that contribute to gender exclusion in the legal and policy frameworks of that sector. This pilot to explore how best its country offices can develop an advocacy agenda will include working on complex long-standing policies as well as on shorter-term objectives such as engaging with government around annual plans and budgets in key sectors.

Questions that Access Africa is asking in the pilot in each country include:

- **Product development:** What new or adapted financial products may be needed so that the varied and growing needs of VSLA members (as well as of those socially excluded) are met? To what extent can VSLAs themselves carry out financial needs assessment and development? Does this require a more deliberate centralized effort?
- **Exclusion:** What approaches or products can succeed in reaching the ultra poor, including those who are socially excluded such as members of HIV/AIDS-affected households? How can national governments integrate savings-led approaches into social protection policies?
- **Linking and transforming:** What are the special considerations for marginalized and vulnerable women when linking to the formal sector? What are the benefits and risks to SGs of linking with other financial institutions? How much financial literacy training is needed to prepare for the rigors of formal finance?
- **Financial sector policy and regulation:** What is the appropriate regulatory space for savings-led methodologies? How can CARE best leverage its voice to advocate for gender mainstreaming in policy formulation? What tools are needed to monitor and prevent the evaporation of gender considerations in policy implementation?
- **Measuring success:** Given the debate around whether MF as a whole has measurable impact on the livelihoods and incomes of either clients or SG members, or whether it benefits them mainly by smoothing fluctuation in incomes and expenditures, and in light of the question of whether MF empowers or tends to over-indebt people, what indicators should be used to measure client satisfaction and success? How can gender-disaggregated data be prioritized as a means of understanding better the needs of marginalized and vulnerable women so that new products appropriate for them can be designed? Concomitantly how best can gender-disaggregated data be used to measure the impact on such women?¹⁰⁶

Certainly there is a paucity of gender-disaggregated data regarding access to financial services despite the fact that women’s contributions should be reflected in national statistics used for planning, guiding policy and budgeting. The need for such statistics in agriculture and rural development more generally also exists so the capacity to gather such information should be mainstreamed into data collection. In response to this need for gender-disaggregated data,

¹⁰⁴ Chidiac, S. and Hendricks, L. (2011, June). Village Savings and Loans as a Pathway to Financial Inclusion for Africa, p. 7. *Enterprise Development and Microfinance Journal*.

¹⁰⁵ Laugtug, A. CARE. (2008). *Advocacy pilot concept note*, p. 2. CARE USA Policy and Advocacy Unit.

¹⁰⁶ *Ibid.*, pp. 3-4. Also see: Policy Issues Report 2008, p. 3.

the Economic Commission for Africa has developed and piloted a tool, the African Gender and Development Index, for monitoring access to productive assets, with a component on women's access to credit.¹⁰⁷

The Malawi Pilot Program

A brief review of the Malawi pilot program illustrates how CARE is going about forging its advocacy strategy in testing the initial concept on the ground. The program focuses on helping country office staff formulate what specific actions they will take over the next year as they start down the road of defining and implementing their own strategy. Guidelines for this are the following:

- Efforts will focus on two categories of women:
 - > Women in vulnerable, chronically food insecure, rural, small-land-holding households; these women are economically productive and earn less than \$2 a day; they have access to minimal land and labor assets.
 - > Women in very poor, chronically food insecure, highly labor-constrained, female-headed households; these women have no productive or material assets, low literacy and lack confidence; this group includes single women, elderly women, female-headed households and orphans.
- Key issues to consider:
 - > How can barriers be removed related to formal financial-sector requirements such as identification or documentation regulations, or account-related issues such as minimum balance, minimum deposit, loan sizes, fees, etc.?
 - > What is the lack of legal clarity that keeps some institutions from establishing partnerships with informal groups, and how does CARE deal with disincentives to link to informal groups such as asset classification or capital adequacy requirements for unsecured exposure to informal groups?
 - > What are the minimum Central Bank requirements for banks to establish branches in rural areas, and what are the constraints to expansion of the system for mobile bank payments?
 - > Where is financial literacy mentioned in existing legislation and regulations, if at all? Should CARE broaden financial literacy to include consumer protection since financial education is an essential pre-requisite for consumer protection but is not sufficient to ensure consumer protection in the absence of regulatory measures and MFI performance standards and benchmarks?
 - > Are there appropriate applications of models from India, Kenya and Brazil that link SGs to formal financial institutions by branchless banking in rural areas?
 - > From a gender perspective what are the gaps in existing laws related to MF, financial inclusion, social protection, and in the National Poverty Reduction Strategy?¹⁰⁸



¹⁰⁷ Kisamba-Mugerwa, W. (2001). Sustainable food security for all by 2020. Available at http://conferences.ifpri.org/2020conference/PDF/summary_kisambamugerwa.pdf. ECA, The African Gender and Development Index. Available at http://www.uneca.org/acgd/Publications/AGDI_book_final.pdf

¹⁰⁸ CARE Policy and Advocacy Unit. (2011, January). *Focus areas for deepening analysis, Malawi – AA pilot advocacy*. CARE USA.

The Malawi country office team has now taken a step in this process. Recently in a five-day workshop for developing its advocacy agenda, participants brought to the table their own assessment of policy barriers, which was the fruit of a months-long policy analysis process. They identified barriers in different sectors thwarting groups from being able to access the formal financial sector. They reviewed the CARE programmatic work, including previous advocacy and policy work, and discussed how these efforts could be linked to the country office's current priority programmatic areas. They identified barriers and issues by category and developed criteria for assessing the impact of each. The team concluded that financial literacy, with relevance and impact across groups and sectors, is a prime issue and should be put at the core of their advocacy strategy.

The team then brainstormed its next steps to advance financial literacy. This required defining the policy goal and identifying opportunities, audiences, allies and opponents. Recognizing that gender is a cross-sectoral issue, but not necessarily a priority in any sector, the team reviewed the government's gender policy and concluded that gender and financial literacy are closely tied. During this review of gender policy, workshop participants became acutely aware that a key challenge is to figure out how to ensure that policies are actually implemented on the ground. The country office is now focused on learning about the advocacy work that others are doing as it pertains to financial literacy and gender so that it can forge partnerships for advancing its advocacy agenda.¹⁰⁹ It is expected that CARE Rwanda and Mali will each go through a similar process of policy issue selection in the pilot, and the pilot will also work with the country offices to build advocacy strategies around the issues selected.

With the advocacy research agenda in place and a pilot program unfolding in sub-Saharan Africa, CARE is currently working with others, such as the Microenterprise Coalition, whose representatives from both savings-led and credit-led institutions include Opportunity International, the Grameen Foundation, World Vision and the Foundation for International Community Assistance, to sharpen the focus on MF of the U.S. government's global development outreach. The coalition is currently advocating for the development of a policy on financial inclusion for all poor people and the integration of lessons of sustainability and financing into every development sector (health, water and sanitation, housing, education, nutrition, agriculture, natural resource management and climate change). Not surprisingly the coalition wants to promote the expansion and use of MF and micro-enterprise as a vehicle for supporting women's rights and women's empowerment and build a business case for investing in women – what the World Bank calls “smart economics.”¹¹⁰

CARE intends to frame policy issues so that they can be addressed by such groups as the African Union, the New Partnership for Africa's Development, the G20 or the G8. This fits well with an advocacy agenda that is premised on the conviction that public-sector funding belongs in the informal savings-led space and that policy frameworks need to be established to allow the smooth transition of informal SGs to formal financial services. Given this strategy's broad focus on achieving financial inclusion through macro policy and regulatory framework change, and because it is grounded in CARE's work with savings groups SGs in so many countries, it has the potential to influence development even more broadly than just in the fast-changing sphere of the MF sector in sub-Saharan Africa.

¹⁰⁹ CARE Policy and Advocacy Unit. (2011, March). *The Access Africa pilot advocacy project wrap up, Malawi*. PowerPoint presentation, CARE Malawi, Lilongwe.

¹¹⁰ Microenterprise Coalition. (2009, November). *Summary of recommendations*. This information is from notes of a micro-enterprise coalition meeting on November 19, 2009, that Abbie Laugtug provided. There is no authorship cited in the notes. Also see: World Bank. (2006, September). *Gender equality as smart economics: A World Bank group gender action plan (Fiscal years 2007-10)*. Available at <http://siteresources.worldbank.org/INTGENDER/Resources/GAPNov2.pdf>



CLOSING THE GAP IN MICROFINANCE

Over the past quarter century institutions operating in the credit-led segment of the microfinance sector have proved that they have a model that serves many people who have few resources, and serves them well. Those who are poor – but often not extremely poor – have needs that the products and services of traditional microfinance organizations can meet. The business model for the agencies in this segment has attracted massive capital that has enabled them and their outreach to grow. The delivery channels they use are effective at tapping markets in densely populated areas, which can help minimize their transaction costs. Having created a multi-billion dollar industry that serves tens of millions of clients who are poor – but too often not the most poor – credit-led institutions have successfully stepped into a space where previously, traditional financial bodies could not and would not go.

Today the organizations operating in the savings-led segment of the microfinance sector have proved that they, too, have a model that serves many people who have few resources, and serves them well. Those who are poor – even those who are extremely poor – have needs that the products and services of savings groups can meet, including the informal insurance of the group’s social fund. The successful deliberate targeting of very poor people in all of the programs offered by facilitating agencies, as reflected in the data from IPA’s baseline study of targeted communities in Malawi, attests to the depth of poverty outreach in SG development programs.

The business model for savings groups themselves is remarkable for its capacity to keep SG operating costs low while generating substantial profit and benefits for members. The delivery channels for helping people establish SGs that they own and manage, even if those people are in very remote areas, are moving toward financial self-sufficiency. Plan, CARE and AKF are all testing the Village Agent delivery model for low-cost group replication and on-going group support. CRS is working with private service providers. Oxfam is testing a volunteer-based system. Whatever those models may be, in having helped people create tens of thousands of savings groups that serve several million people who frequently are not only poor, but extremely poor, organizations in the savings-led market segment have successfully stepped into a space to meet the needs of those at the bottom of the pyramid where previously, credit-led institutions could not successfully go.

Thus the world of MF has a model and tools at hand for closing the gap that has characterized the microfinance sector. A path has now been charted for reaching not just the poor, but also the very poor, no matter where they live. Sustainable, replicable, community-based savings groups that are founded on savings from which members can receive small loans, provide a strong first rung on a ladder that can lead to a more secure household economy for poor and very poor SG members.

A move away from stand-alone SG development programs to their integration with myriad other programs has become prevalent in the field, enhancing the capacity of the poor and very poor to climb that ladder. Whether savings groups are built around other kinds of development efforts or whether other sectoral programs build on savings groups, the end result is a synergy that increases the capacity of group members to stay healthy, access markets, learn to read or graduate from social protection programs.

For some if not all savings groups the time comes when the assets of the group cannot meet the needs of its members; the income-generating activities that people are building require a larger investment than can be supported by the group fund. At such a point, many groups want to be able to access insurance – health insurance, life insurance, livestock insurance, weather insurance – the list goes on. In the very near future, as technology changes the way things get done, particularly by using mobile phones, many groups will want to capitalize on these innovations.

It is at such points as these that the savings-led and the credit-led segments of the microfinance sector must meet. Credit-led and savings-led programming no longer should be viewed as parallel, quite separate movements. Linking to the formal financial sector provides an opportunity for savings-led groups to increase the benefits of SG membership and for credit-led institutions to expand their outreach to embrace a market segment that is growing. Linkage that is successful will not just happen, however. On the one hand, the products that microfinance institutions and the private sector offer are designed for individuals, not groups. On the other, saving outside the group, borrowing from an institution, understanding an insurance policy – all of these are unfamiliar to most poor people and to become informed the learning curve will be steep.

Recognizing that not all groups will want to access the formal financial sector, Access Africa is facilitating change on both sides of the equation for those that do. In a number of CARE's country offices, staff are working with financial institutions and others – MFIs, banks, telecom providers, insurance companies – to help them design products that are geared to and appropriate for savings groups. Examples of progress in this arena can be found in the work in Tanzania with M-Pesa, in Uganda with funeral insurance and in Rwanda with savings, credit and insurance products. On the SG side, in collaboration with Microfinance Opportunities, staff members are beginning to mount financial literacy training, including issues around linkage, and training about specific products when the timing for that is right.

Change in which an increasing number of groups move toward having access to a full array of formal financial sector products and services must take place in an environment in which the rules no longer marginalize those with few material assets, particularly those who are female. Since that arena will not change unprompted, organizations that are committed to advancing saving-led microfinance because they have seen over and over again that it works for the poor and very poor, must do whatever they can to take on the arduous job of ensuring that national governments change their policies and regulatory frameworks so that poor people have a fair shot at moving out of their ranks. The advocacy work that is just beginning in Malawi and Rwanda is an instructive first step toward reaching this long-term goal.

Advocacy is a tremendous challenge, but one worth assiduously addressing because the stakes are so high. Policy research and promotion of new laws and rules are commitments that need to be made to completely close the gap in the microfinance sector. When efforts begin to succeed, the results will spill over into larger spheres because alterations in regulatory frameworks that affect microfinance have the potential to influence heavily other sectors, too – agriculture, rural development, natural resource utilization, health, nutrition, education and HIV/AIDS. For the poor and very poor in general, and women and girls in particular, changes will provide a new environment that more than previously will make it possible for them to change their lives. Savings groups will help them do that.









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Fighting poverty.

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