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Financial Linkages: Bridging the Formal and Informal Sectors

The linkage models developed by CARE and Access Africa are unique. They allow VSLAs to enjoy both the benefits of their group funds as well as formal financial services offered by commercial suppliers. CARE is the **ONLY** international non-government organization (INGO) systematically pioneering the linkage effort in Africa.

INTRODUCTION

In 2008 CARE launched Access Africa, a 10-year program to provide access to financial services to people excluded from quality financial products. A core strategy is to organize village savings and lending associations (VSLAs) where members save, borrow and receive annual distributions based on savings and interest earned on loans.

VSLA resources are critical in helping members smooth their cash flow and build lump sums for household and business use. As members gain skills, self-respect and confidence (benefits of financial citizenship), they need more resources than are available through their VSLAs.

By linking VSLAs to banks, insurance providers and mobile money services, CARE **enriches and extends the financial ecosystems of groups and their members.** A healthy ecosystem ensures that VSLAs have:

- Places to store large sums of money for long-term purposes
- Liquid savings for emergency and household use
- Sources for borrowing in amounts sufficient to meet the demands of members' growing businesses or farm enterprises
- Insurance to cover varied risks such as death, medical emergencies and crop failure
- Ability to transact with merchants and suppliers without incurring additional fees related to transportation or the cost of borrowing



Improved Financial Skills Drive Demand for More Services

As VSLAs mature, members master important financial management skills and begin to demand financial options that complement group services.

Members wish to borrow more than their VSLA funds can offer (especially for business purposes), save more or for longer terms than their groups can accommodate, and insure themselves and their families against loss of livelihoods, funeral expenses and large medical costs. Members would also like to transfer and receive cash for business and household purposes.

Moreover, the money that VSLAs hold is often at risk. Surplus cash accumulating within group boxes is vulnerable to theft and can endanger box custodians. VSLAs demand a secure, preferably profitable, place to store group funds that are not in circulation.

Today CARE works with three commercial banks (Mwanga Community Bank, Barclays and Equity Bank), three microfinance banks (Vision Finance, Urwego and OIBMalawi), two mobile service operators (Orange and Vodacom) and one insurance company (Jubilee) in multiple pilot programs that connect VSLAs to additional financial products and services. Additionally savings and credit cooperative organizations are crucial linkage partners for Access Africa.

BENEFITS

As VSLAs increase their capacity to manage internal funds, members begin to recognize and demand additional resources. To address this need Access Africa links VSLAs to mobile money services, banks and insurance companies. More than 2,300 VSLAs in Kenya, Tanzania, Rwanda, Malawi and Uganda are connected to formal savings, borrowing and insurance services.

Beyond the financial service of the linkage, tying VSLAs to formal providers has produced other positive effects. Linked VSLAs are showing higher per-member rates of return on savings (partially from marking up commercial loans to members) and higher average savings balances than VSLA members who are not linked. Also lower delinquency rates, improved bookkeeping practices, better credit appraisal, enhanced internal controls are more evident in linked versus non-linked groups.

Financial service providers have demonstrated their interest by adapting products to suit VSLA needs. For example, they have created special PIN verification procedures, developed group-based credit products and designed savings sufficiently flexible to take into account the demands of annual share-outs. They offer lower deposit minimums as well as the minimum balances needed to maintain favorable account status.

Strong linkages are not automatic however. For VSLAs to fully maximize the benefit of new financial resources, members must master additional skills, which requires that Access Africa provide basic literacy training as well as more sophisticated financial education.





SUMMARY AND ILLUSTRATIVE EXAMPLES

Access Africa has connected many VSLAs to a range of financial resources. The table below notes eight current initiatives of which five are described in summary form. All linkages require training. CARE has developed a special linkage readiness tool that allows field partners to assess whether a VSLA is prepared to manage the additional financial services associated with a new linkage. A VSLA rating tool helps partners determine if a particular VSLA is ready. Indicators such as meeting attendance, portfolio at risk, loan write-off rates, savings volumes and loan utilization rates are some of the criteria used.

	Mobile Wallet	Savings	Credit	Insurance
Tanzania	Vodacom M-Pesa (39 VSLAs) Mwanga C'nity Bank- Vodacom (43 VSLAs)			
Kenya	Equity Bank and Orange (95 VSLAs)			
Rwanda		Barclays (145 VSLAs)		
Malawi		Vision Finance (1180 VSLAs)		
		Opportunity Bank (484 VSLAs)		
Uganda		Barclays (197 VSLAs)		Jubilee (90 VSLAs) (Burial Insurance)

Mobile Money Linkage

Tanzania: Mobile Money Pilot. In 2009 in northern Tanzania, CARE launched a “mobile wallet” pilot for safe money storage of surplus VSLA cash as well as instant money transfers for VSLAs and their members.

VSLAs can send surplus savings (via an M-Pesa agent) to their mobile account, transfer money and access stored funds for member loans or for annual share-outs. Currently CARE staff train VSLAs and their members on how to use the M-Pesa system and set up a group account over the course for an hour or two. The VSLA also receives short modules on financial literacy before becoming fully ready for linkage.

Lessons: Some VSLAs would like more services, especially credit, to supplement mobile money storage capabilities accessible on the phone. To fully benefit from services, VSLAs require additional capacity building, and more financial institutions will need to utilize mobile banking. M-Pesa staff require training as well.

Mobile Operator Plus Commercial Bank Linkage

Kenya: CARE-Equity-Orange. CARE has tied VSLAs to Equity Bank using the mobile service operator, Orange, as a key delivery channel. Equity’s vast branch network and new mobile banking platform called Eazzy 24 combine with Orange’s own network of agents to create an extensive distribution system. VSLAs can access Equity’s products through bank branches, Orange agents, Equity agents or through ATMs.

With the partnership secured in March 2012, twenty thousand VSLAs will be able to link their group boxes to Equity Bank for safe storage of surplus cash. Additionally they will receive training in financial education and entrepreneurship and will have access to group loans.

Lesson. Technology-enabled linkage has greatly enhanced VSLA access to services. Responding to demand is critical to success. VSLAs in Kenya claimed that they wanted the option to link directly to banks. CARE has been able to streamline systems so that banks can easily link through a standardized approach via a mobile operator. Its linkage with M-Pesa and Mwanga Community Bank is the first example.

Commercial Bank Linkage

Uganda¹: Barclays Bank. With 51 branches and 75 ATMs, Barclays offers VSLAs a safe place to store savings and earn a return. VSLAs may also access credit to supplement internal loans.

Lessons. Barclays’ extreme enthusiasm and flexibility has been essential to the design and delivery of customized savings and loan products. Linkages succeed only with mature VSLAs that have mastered internal savings and lending procedures, and VSLA readiness ratings are key to determining mastery. Mobile-enabled transactions would enhance client access.

¹ Barclays is involved in four linkage pilots: the one mentioned here as well as pilots in Ghana, Tanzania and Kenya. Barclays Bank Kenya has the largest outreach of the pilot countries with 117 branches and 230 ATMs.



CARE's Core Linkage Principles

1. Link VLSAs not individuals
2. Ensure demand-driven linkages
3. Uphold core VSLA principles
4. Maintain emphasis on member savings
5. Savings should not be used as collateral
6. Link only mature groups
7. Prepare groups for linkage
8. Maintain conservative savings to credit ratio

Microfinance Bank Linkage

Malawi: Opportunity International Bank. With 37 banking outlets, a strong commitment to microfinance and a pre-existing group product (Kusape or “fountain account”), Opportunity International Bank of Malawi has been an engaged partner. Their savings product now services both VSLAs and individual members. Group-based agricultural loans (topping up VSLA internal loans) are also available as are savings accounts to individual members. Average loan values are \$670 per VSLA. The group deposits 10 percent with the bank as collateral and pays 2.97 percent monthly interest.

Lessons. More access points would boost service use. VSLAs require training on bank services to use them effectively.

Insurance Linkage

Uganda: Jubilee Insurance. CARE and Jubilee Insurance have partnered in Uganda to offer VSLA members funeral insurance. Funeral expenses, including the purchase of a coffin and payment for food and burial services, can run as high as \$300.

Under the current scheme each interested VSLA receives one group policy. VSLAs collect and pay premiums to Jubilee and report deaths and claim requests to a designated council. The insurance company trains community-based trainers who help groups register and collect premiums. The policies are attractive to members. An annual premium of \$14.65 gives benefits of \$245. Not only is the spouse a beneficiary, but the policy includes up to six biological children of the deceased (\$147 per child). Village agents receive 59 cents per policy sold.

Lessons. Burial insurance is a crucial service for all VSLA members. However, members require training to better understand the offering and to keep payments on time and up to date. Community trainers are key to success. Other products like medical insurance are in demand.

RISKS AND CHALLENGES

Any venture navigating uncharted waters is bound to be challenged. CARE's linkage work is no different. During the past three years CARE has dealt with the double task of educating financial partners on the VSLA market and educating VLSAs on management of new financial resources. Following are a few strategic challenges that Access Africa continues to face in securing financial linkages between formal institutions and VSLAs.

- **Partial product suites.** Although nearly 60,000 members have benefited from formal services connected to their VSLAs, a full suite of services is not yet available. Groups often have only one formal service (e.g., insurance, loans, mobile money) but not all.

Connecting groups to a variety of services is the next step and will be full of challenges. First, field staff must learn the benefits of a range of external products from multiple service providers, which requires capacity-building and time. Second, VSLAs themselves must master the intricacies of each product and identify those most suited to routine or even special needs, which, again, requires capacity building and time. Third, financial partners must ensure that access points for services are convenient and that client-facing staff is friendly and well versed on VSLA issues.

- **Education on complex products.** CARE has learned that financial education on products is essential to a successful launch and usage. Insurance products especially demand good training. Without it members can fall behind in their payments and place the entire VSLA membership at risk of losing the right to make claims. In some instances providers like Equity Bank take on the role and the costs of education. But in other cases CARE is responsible. Beyond education specific to a particular VSLA linkage, members need general skill-building in financial management.
- **Gaps in last-mile infrastructure.** Mobile technology platforms with agents located near VLSAs is critical to forging strong linkages. In many instances group representatives must travel far to bring good VSLA services to the group.
- **Sustainability not ascertained.** Profitability at the commercial level is being tested. The costs of forming and preparing groups for formal linkages are still borne by CARE and its partners, often through grant-funded projects. Dependency on grants slows expansion and does not guarantee that services will continue in perpetuity. Ideally the costs of transforming pilot efforts into fully fledged service offerings is fully borne by commercial partners or by clients.

WHAT'S POSSIBLE

- **Linking to individual members.** Group services build important financial skills that prepare members for more sophisticated products. CARE is exploring connecting individual VLSA members to mobile money accounts, interest bearing savings accounts, insurance products and even individual credit for small business use.
- **Developing new linkage products.** VLSA clients demand long-term schooling as well as pension schemes. CARE might explore working with governments and providers interested in extending these services to VSLAs.



- **Developing a linkage rule book.** CARE's lessons are many and ready to be shared industry-wide in a linkage rule book. Many international and local NGOs would like to explore specific connections between their savings groups and additional financial resources. Although CARE has developed substantial expertise on this subject, working with other agencies in other areas would benefit Access Africa in the development of such a document.

CRITICAL QUESTIONS

1. **How can last-mile and customer acquisition costs be financially sustained?** To collapse the distance between VSLAs and financial access points, CARE has introduced business facilitators, agents who work for local partners and help facilitate the linkage, though they do not perform financial transactions. These agents have been paid by local implementing organizations, but now financial service providers are beginning to compensate them. How can financial service providers systematically pick up account opening costs? Should CARE strategically advocate for the regulatory and policy changes necessary to allow agent banking?
2. **What would it take for the commercial financial service sector to take on the tasks of VSLA formation and linkage readiness?** Currently, CARE and its local partners are forming VSLAs and preparing them for linkages to financial service providers. With being a future client of a financial service provider as a goal, can some of those tasks be absorbed by the commercial sector and is that advisable?
3. **Are individual members in VSLAs seen by financial service providers as viable customers?** To date most linkage activity has focused on VSLAs as a group, not on individuals within the group. However, members do become exposed naturally to the features and benefits of certain products. Do clusters of ready-made individual customers constitute a commercially viable market for providers? If so, how can these preparations be fostered in low-cost ways? What are the links that have the greatest market potential for commercial suppliers?



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