



OPPORTUNITY
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OPPORTUNITY SAVINGS SOLUTIONS: EXPANDING FORMAL FINANCIAL SERVICES TO RURAL SAVINGS AND LOAN GROUPS IN UGANDA: CASE STUDY

OPPORTUNITY BANK OF UGANDA LIMITED

Project: Expanding Formal Financial Services to
Rural Savings and Loan Groups in Uganda

Funder: Visa





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On the Cover: Passbooks, cash, buckets and a lock – typical elements of a VSLA in Uganda.



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ACRONYMS

AVSI	Association Of Volunteers In International Service
CARE	CARE International (in Uganda)
NUDIPU	National Union Of Disabled Persons In Uganda
OBUL	Opportunity International Bank of Uganda, Ltd.
Opportunity	Opportunity International
RO	Relationship Officer of OBUL
SAVIX	Savings Groups Information Exchange
SEPSPEL	South Eastern Private Sector Promotions Enterprise Limited.
UGX	Uganda Shillings
VSLA	Village Savings and Loan Association



EXECUTIVE SUMMARY

In 2015, Opportunity Bank of Uganda, Ltd. (OBUL), with support from Visa, piloted financial services to rural people offering those informal savings and loan groups. Rather than replacing these valuable informal groups (often referred to as Village Savings and Loan Association, or VSLAs), OBUL offered group savings and loan services that strengthen the groups by providing enhanced safety for their savings and increased liquidity for their lending services.

OBUL and other banks targeting the base of the pyramid recognize VSLAs as a good potential market as well as a vehicle for fulfilling financial inclusion goals. VSLAs provide a potentially strong vehicle for reaching the rural poor, thanks to CARE International and the many other organizations that have formalized and replicated what was a traditional African savings mechanism. CARE International in Uganda (CARE) was an essential partner in OBUL's rapid development of appropriate services and outreach for VSLAs in Uganda. This case study describes OBUL's experience to date with VSLA-Bank linkages, and offers some insights on issues currently facing banks and VSLA support organizations seeking to enhance financial inclusion through VSLA-Bank linkages.

OBUL'S VSLA PRODUCTS AND SERVICES

Based on guidance provided by CARE, OBUL adapted its existing group savings product and devised a group credit facility specifically for VSLAs. Both products follow principles in VSLA-Bank linkages developed by CARE to promote bank services that support and serve – rather than undermine – VSLAs. To summarize, through a group account, group leaders are able to transact with the bank on behalf of the group, based on resolutions signed by the entire group. At the moment, group leaders can transact at a

branch or through an Opportunity Bank Mobile Van that circulates in rural areas to serve more remote communities. OBUL will introduce electronic transfer services once they are ready for roll-out (some are in a pilot phase as at publication) and once groups are more comfortable with

“Other banks are far and transport is left to the groups, but with OBUL they collect our money. When we want to withdraw the group leader calls the OBUL officer and they bring the money for the groups by the mobile van.”

- *Leader of Nkobazambogo Savings and Credit Association (VSLA); banking at Nansana Branch.*

Principles of VSLA-Bank Linkages

- Groups are linked, not individuals
- Linkage is demand driven not supply driven
- Core principles of VSLA methodology are upheld
- Emphasis on member savings is maintained
- Member savings are not held as collateral
- Only mature groups are linked
- Conservative savings to credit ratio is maintained
- Prepare the groups before linkage

(CARE International, 2012; OBUL Training, 2015)

the Bank. So far, OBUL's financial education has focused narrowly on the features and benefits of OBUL's bank services along with how to open and use a savings account. OBUL had also started loan orientation training for a set of more advanced VSLA groups. OBUL is introducing services and training gradually, as advised by experts in VSLA-Bank



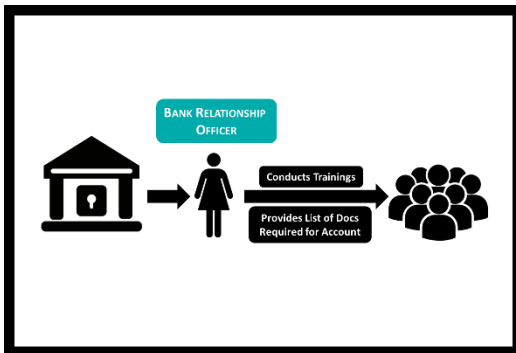
linkages. In six months, OBUL has worked with 10 VSLA support partners and 14 of its 19 branches to open savings accounts for 164 groups, and linking an estimated 3,280 rural Ugandans to formal financial services.

How do the VSLA products compare to other OBUL group products?

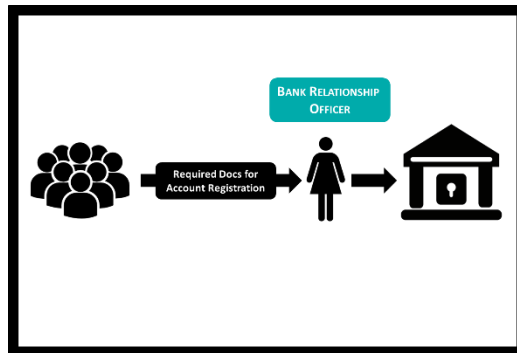
The **savings product** is a better product financially. There are no monthly fees, and there is interest of between 3% and 5% (per year) depending on the balance above UGX 100,000.

The **credit product** – as compared to solidarity group loans – is simpler for both parties to manage, and slightly lower cost. For the VSLA loan, only the leaders are required to provide identification and photographs – not all the members – and the loan is disbursed in one bulk payment to the group account. The interest rate is (currently) 2.25% per month (flat rate), as compared to 2.5%-2.75%, and the application fees are also lower.

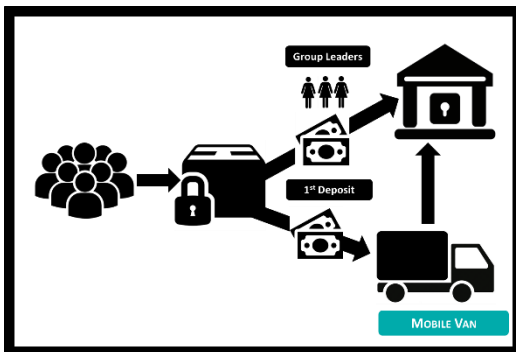
VSLA Savings Account Opening, Deposit Making, and Withdrawal



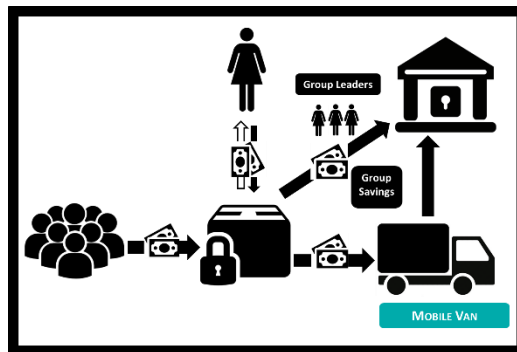
Opportunity assigns a Relationship Officer (RO) to the VSLA to conduct trainings and also provide the VSLA with the list of required documents to open a Group Savings Account



Interested VSLAs contact the RO and arrange a meeting at the VSLA meeting at the Mobile Van or Branch to open the Group Savings Account



The VSLA takes collected savings from the group lock box, and gives it to their leaders to make the minimum first deposit into the account. The deposit can be made at the bank or through an Opportunity Mobile Van.



The VSLA then continues business as usual, collecting savings and giving loans to members. The group can make additional deposits or make withdrawals from the Group Savings Account – through the group leaders.



In the first six months, the main demand has been for savings – especially towards the end of the year when the VSLA funds are typically shared-out among members. Demand for loans was anticipated to rise in the first half 2016, when VSLA group funds are low. As of July 2016, a total of 13 VSLAs have received community group loans. The eligibility for receiving one of these loans is based on a VSLA’s historic performance, as assessed using a scorecard provided by CARE. The loan amount is based on the amount the group last shared. Groups with high scores can borrow up to two times the amount of their last share-out, but groups with lower scores may

2016 Progress Update

As of January 2016, OBUL’s VSLA project has engaged a total of 425 VSLAs (an estimated 8,500 rural Ugandans) through over ten partners, providing them with financial literacy training and sensitization to the bank’s unique VSLA savings and loans products, along with other financial services.

only be able to borrow 50% of the amount of their last share-out. Contrary to practice recommended by CARE, OBUL is not able to take the risk at this point of uncollateralized lending and does require groups to put 20% of the loan value as a security deposit in the form of compulsory savings. This is one of only a few areas where OBUL is challenging current practices and recommendations.

MARKETING AND OUTREACH - PARTNERSHIPS

The best and only avenue for banks to reach VSLAs is through partnerships with VSLA support organizations. Effective partnerships require mutual orientation and on-the-ground operations coordination because different VSLA support organizations work with different populations and

“You have to visit these people from time to time; you have to actually show up. Messages and phone calls will not do for this rural population. They want to see you.”

- VSLA partner staff member

have different objectives and rules. Based on the needs and readiness of their target population, an organization may focus on helping groups borrow, practically forbid borrowing, or focus equally on both savings and loans. Working through 10 partners has been a challenge, but it has also opened OBUL to a diverse population of VSLAs.

WHICH TYPES OF VSLAS ARE BEING SERVED?

The VSLAs and the demographics of their membership vary significantly and fall into three main groups to date—

1. **Entrepreneurial:** Very mature VSLAs whose members have established businesses and are driven to grow these businesses. These members are relatively financially savvy. For example, some entrepreneurial VSLAs have requested that interest rates be charged on a declining balance rather than as a flat rate. They are driven to do business with banks for the safety of their relatively large savings fund and to access loans for business growth.
2. **Economically Stable:** Mature VSLAs whose members are economically stable but would like to establish more lucrative enterprises or farm activities. Most members have little experience with formal banking or mobile money and are skeptical about the potential of a bank to help them. They are primarily driven by a concern for the safety of their growing savings funds and are interested in – but also fearful of – borrowing.
3. **Vulnerable:** Established VSLAs whose members are economically and socially vulnerable. Their financial focus is in establishing a viable livelihood and meeting their family’s basic needs like housing, health and education. Some of these VSLAs are



seeking a safe place for their savings, and others are receiving matching grants to encourage savings and speed up the economic stabilization process. The bank offers a helpful mechanism through which the support organization can track savings deposited and deposit the matching grants.



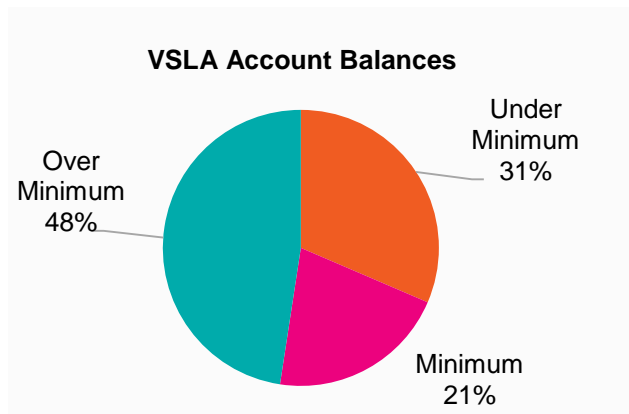
“Formerly, groups knew that banks exploit people, but after explaining to them the benefits on the group loan like the low interest and also the interest earning on the savings from the bank, the groups are now gaining confidence to collaborate with OBUL.”

- Badru, VSLA leader in Kakoge; banking at Nakagongola Branch

OBUL reaches these distinct populations through a number of unique partners. These populations have very different needs for financial education and are taking advantage of the banks’ services in a variety of ways. So far, all are valued customers for OBUL.

WHAT TRANSACTIONS HAVE TAKEN PLACE?

During the first six months of offering the new group account designed for VSLAs, OBUL registered 164 accounts with an estimated 3,280 members.¹ At the time of this report, the majority (83%) of the VSLAs had already placed savings into their accounts, while 17% were still in the process. The highest savings balance as of October was \$5,304, and the average amount was \$307. With a minimum opening balance of \$14, 21% of the accounts held exactly the minimum opening balance, indicating that they had yet to transact. Of the active accounts, 79% had made transactions, with 48% ending the period with balances over the minimum, and 31% under the minimum. Just under one third (31%) had balances over 100,000 Uganda Shillings (UGX) or \$28 (USD), and were therefore able to earn interest on their savings.



Number of Accounts	Estimated # of VSLA Members	% Active	High Balance		Average Balance	
			UGX	US\$	UGX	US\$
164	3,280	83%	18,563,419	5,304	1,075,051	307

¹ Some 25 accounts belong to groups that are not “new” to OBUL, but who were eligible for and opted to use the new account-type.



ISSUES AND INSIGHTS

This case study, resulting from operations research and participatory dialogue with OBUL and its VSLA support partners, highlights five issues and contributes some insights for other banks and VSLA support organizations embarking on VSLA-Bank linkage initiatives—

1. **Retention of VSLAs beyond the pay-out period.** Annually, VSLAs will withdraw their savings to share it out among members. OBUL is concerned about whether or not these VSLA accounts will remain active. OBUL anticipates that an annual marketing campaign may be necessary to retain the accounts and keep them active.
2. **The Profitability of VSLAs for Banks.** Based on limited transactions to date and limited cost information from such a short pilot, OBUL is not able to calculate the profitability of VSLA financial services. Over time, the bank may determine which types of VSLAs and which services generate more revenue for the bank, and which represent more long-term prospects.
3. **Focus, expectations and sustainability of Financial Education by banks.** Financial Education means different things to different people. Some view the narrowly-focused training provided by banks as self-serving because they merely train clients on how to use the bank's services and how to manage money to be able to save, borrow and repay a loan. Yet, best practice reflects that training focused on immediately applicable skills is more likely to be used. Some Opportunity staff suggest that these more narrowly-focused trainings are more likely to be provided by banks on a sustainable basis over time; whereas banks tend to provide broader training only when there is grant financing to do so. One potential response to the criticism of this approach might be to retitle the financial education provided by banks to better manage expectations (e.g., "Taking Full Advantage of Bank Services" or "How to Benefit the Most from Your Bank").
4. **Client Protection and Social Performance with VSLA and Other Groups Loans.** This project experienced a challenge in implementing client protection tracking and social performance measurement – a challenge common to group-bank linkage initiatives in Opportunity and globally. The challenge breaks into two components, as follows:
 - **Client Identification:** Only the leaders provide proper identification and validated residential locations. As a result, banks do not enter all clients into their database and are unable to collect and report data on all clients in a group.
 - **Coordination with Partners:** In addition, VSLA partner organizations are the primary organization gathering data from clients. As a result, banks generally do not have direct access to client for the purpose of data collection. In addition, if/when banks gain access to clients, there is a danger of duplicating data collection. This situation is a current risk for Opportunity.

OBUL experienced this challenge in the VSLA project. Opportunity International follows the standards of the SMART campaign for client protection, and uses a Social Performance Management system to monitor client protection implementation as well as to assess other aspects of social performance, including outreach to the poor and women's empowerment. Without direct access to clients, specifically without clients either completing an individual application form or being listed in OBUL's client database, client protection and social performance information cannot be gathered using OBUL's social performance protocols. Attempting to meet global standards would require a significant level of effort for multiple staff at OBUL and in partner organizations.



Opportunity is in a position to address this issue on several levels. Opportunity is embarking on global research on its Social Performance Measurement System (“Measuring Organizational and Client Change through SPM”). Opportunity is part of a global alliance on social performance (Social Performance Task Force). Because this issue is common among group-bank linkage initiatives, Opportunity should incorporate this challenge into its other research, and raise this issue with the global client protection and social performance measurement community.

5. **Long-term sustainability of VSLAs as a mechanism for reaching rural, unbanked populations.** Without VSLA support partners, OBUL would not be able to reach VSLA members, who represent a significant population of financially excluded people, primarily women. Leaders in VSLA organizing and strengthening have been devising sustainable models for VSLA replication, including training and empowering community mobilizers who earn commission from VSLA members to organize VSLAs. While VSLA support partners are appropriate and critical during this learning phase for OBUL, both the partners and OBUL would benefit in the medium-long term from testing sustainable models for VSLA formation and training, including the community mobilizer model.

For mission-driven banks like Opportunity, the business and social prospects of leveraging VSLAs for financial inclusion are strong. As the Iganga branch manager stated, “VSLAs, if well marketed, can improve the bank's savings volume.”



“We were very worried of our money in the box, but when we opened an account with Opportunity Bank, we were told when our money is with the bank it cannot be stolen and if it got stolen the bank will compensate us.”

- Bugaga, VSLA member;
Nakasongola District.



1 BACKGROUND - INTRODUCTION

1.1 PURPOSE

OBUL began the VSLA-Bank linkage pilot project in October 2014, with the pilot period concluding in October 2015. This project aimed to provide 260 VSLAs comprised of an estimated 5,200 members, convenient and secure access to formal banking services, including interest-bearing savings accounts, enabling them to experience the benefits of banking without taking significant time from their income-generating activities. The core strategy was for OBUL to partner with organizations promoting VSLAs to mobilize and train the groups for formal financial linkage. Opportunity worked with ten partner organizations – most significantly CARE, Stromme Foundation, and Mbugo Cooperative (which receives support from Lutheran World Relief) – to facilitate the formation of new VSLAs and link to existing groups. For VSLA Group lending, the objective is to link mature groups that have been in existence for at least 2 years. Opportunity International commissioned this study with the aim of documenting strategies used and lessons learned in the pilot initiative of offering banking services to VSLAs.

Case Study Methodology

This case research was conducted retrospectively with the dual purpose of sharing experience with global practitioners and learning lessons to improve Opportunity's implementation of VSLA-Bank linkages. The research team was comprised of the Opportunity International – US Knowledge Management Team and a DEMIS Consults, a Ugandan consulting firm with expertise in microfinance and VSLAs. The methodology and sources of information included the following:

- Literature review, bringing to bear global and Ugandan good practice
- Project document and data review, including proposals and reports
- Interviews with OBUL staff at central and branch levels
- Interviews with partners staff at central and field levels
- Focus group discussions with VSLA leaders and members
- A participatory workshop with OBUL and VSLA staff members at central and branch/field levels
- OBUL senior management engagement through a draft presentation of findings and subsequent discussion
- Engagement of Opportunity International project managers

The research was driven by several key questions, as follows:

1. What bank services are in high demand by VSLAs?
2. What kinds of VSLAs are interested in bank services, and how do they make use of these services?
3. From the bank point of view, which VSLA services are most viable?
4. What kinds of training, policy or system changes were needed to serve VSLAs?
5. What other lessons were learned? What is recommended for banks such as OBUL and other proponents of financial inclusion?

Because of the short duration of the project, these questions are not addressed in great depth, but are addressed as appropriate for the stage of the project.

1.2 ABOUT OPPORTUNITY AND OBUL

In its significant 42-year history, Opportunity International (Opportunity) has distributed more than 21 million loans valued at an estimated \$6 billion. Opportunity's vision is a world in which all people have the opportunity to achieve a life free from poverty with dignity and purpose. By



providing financial solutions and training, Opportunity empowers people living in poverty to transform their lives, their children's futures, and their communities. Opportunity supports local microfinance organizations that provide innovative financial solutions to empower people, create jobs, and build vibrant communities. Opportunity engages in innovative partnerships and works to strengthen and influence value chains to benefit clients—connecting them to viable markets and driving economic progress. Operationally, Opportunity is a non-profit 501(c) (3) organization that provides financial services and training to nearly 12 million people through a network of financial institutions in 27 low-income countries.

Opportunity Bank of Uganda, Limited (OBUL) is a leading financial services institution with over 15 years of experience in targeting low income, economically active Ugandans. OBUL's corporate mission is to provide financial solutions and training, to empower and sustain underserved and financially excluded people throughout Uganda (especially in rural areas), and to transform their lives, their children's future, and their communities. Licensed by Central Bank of Uganda in 2008 as a savings and loans organization, OBUL offers individual and group loans for business, agriculture, and education as well as multiple savings products that provide incentives for customers to meet their goals. For example, when customers make regularly scheduled payments and meet their savings targets – for school fee payments, a housing investment, etc. – they receive higher interest rates than if they do not make regular payments and/or withdraw ahead of time. OBUL also offers a range of micro-insurance products, often linked to specific savings and loan services along with cell phone banking, salary processing, school fees collection, and other money transfer services. The bank operates 19 bank branches, 3 mobile vans, 4 bank-owned ATMs, 97 shared ATMs, and mobile money services linked to MTN and Airtel through the mobile aggregator “Yo! Uganda.” As of December 2014 – when the bank began initiating its own linkages with VSLAs – OBUL had served 30,869 loan clients through a portfolio of \$13.7 million and 75,530 voluntary savings clients with deposits totaling \$6.1 million.

1.3 ABOUT VSLA-BANK LINKAGES

1.3.1 VSLAS

Village Savings and Loan Associations (VSLAs) are community based groups of 15-30 self-selected members – mostly women – who join together to provide basic financial services to one another. The groups help people to manage their household finances and make investments in farms or businesses. Members save with the group on a weekly basis, and may borrow from the group fund for household, social or business requirements. The interest from member loans bolsters the VSLA fund. At the end of the year, all loans are repaid and the VSLA fund is shared out among members who receive a return on their savings. An important part of keeping the group's savings safe is the democratic election of 3 leaders who maintain a lockbox with 3 padlocks and 3 keys. Transactions take place only during group meetings, and transactions are recorded in the group and individual account books by the secretary. Transactions are easy for illiterate group members to follow because there are several buckets or bowls used during the meeting for savings, loan repayments and fees (for coming late to meetings, missing meetings or paying loan payments late.) Well-trained groups follow these strict procedures to ensure the safety and sustainability of the VSLA fund.²

² Allen 2007; Ayamga and Gyang 2012; BFA 2014; CARE 2011; Gash and Odell 2013; Odell, Chidiac and Hendricks 2011



Brief History

The term “VSLA” was coined by CARE International, the leading organization developing VSLAs, but the groups are indigenous to many parts of the world (including West Africa) and different support organizations call them by a variety of names.¹ In 2008, CARE launched ACCESS AFRICA, a 10-year program that provides access to financial services to people excluded from financial products. The strategy was to organize village savings and lending associations (VSLAs) where members save, borrow, and receive annual distributions based on savings, interest, and loans. VSLAs promote cash flow and accumulate a lump sum of savings while also giving their members confidence, skills, and self-respect.¹ Support organizations have developed industry institutions to support the movement, such as the SEEP Network’s Savings-Led Financial Services Working Group.¹ The SAVIX provides transparent and standard data on community-managed microfinance.¹ Key funders in rural development in Africa supporting the VSLA movement include the Bill and Melinda Gates Foundation and The MasterCard Foundation. As of 2014, there were an estimated 9.2 million VSLA members in Africa. The majority of VSLAs are supported by CARE (44%), Catholic Relief Services (14%), and Plan International (12%) – all of whom work through NGO partners and do not have their name publicly associated with the VSLAs themselves. The remaining VSLAs are supported by a variety of other NGOs (30%).¹

VSLAs are typically organized and strengthened by non-governmental organizations (NGOs) in order to help vulnerable people and communities to mobilize resources, stabilize their livelihoods, provide peer support, and become leaders in their community’s transformation over time. VSLA support organizations reach out to financially excluded populations who microfinance institutions (MFIs) do not reach because of their remote location, low literacy levels, poverty level, and (in some situations) social exclusion.³ Thanks to the work of CARE International and other global organizations that have spread VSLA-type methodologies, VSLAs are now an important component of women’s empowerment and poverty eradication work for many NGOs targeting rural communities.

1.3.2 THE DRIVE FOR VSLA-BANK LINKAGES

VSLAs provide members with important and significant financial services as well as pride, social support, and leadership opportunities. The financial services that members’ access includes the following:

- Savings
- Investment, through returns on savings loaned out to group members
- Credit
- Financial Education, through training by VSLA support organizations

Although generally excluded from formal financial institutions, the VSLA model provides members access to essential financial services.⁴

Why do VSLAs need banks? There are two key drivers for VSLAs and their support organizations to seek linkages with formal financial institutions – safety and credit. Toward the end of the calendar year, in preparation for sharing out of the VSLA fund, all loans are repaid, savings accumulate, and VSLAs savings funds can become significant. In geographic locations

³ Gash and Odell 2013; BFA 2014

⁴ Allen 2007; Ayamga and Gyang 2012; BFA 2014; CARE 2011; Gash and Odell 2013; Odell, Chidiac and Hendricks 2011



where there is a high density of VSLAs, theft has become a significant risk. VSLAs seek banks to keep their funds secure. In contrast, at the beginning of the year – and in general as VSLAs grow and members start to want to invest in more significant enterprise undertakings – the VSLA funds sometimes do not have enough capital to satisfy loan demand from group members. VSLAs seek out banks for credit to add to their loan fund. In addition, some VSLA members are aware of and/or use mobile money as a convenient and safe way to transfer funds and they would like to use mobile money to transfer their “pay-out” funds. In this way, they can more easily pay school fees or make purchases for their growing farms or businesses.⁵

Why are banks interested in VSLAs? As the supply of formal financial services grows, banks are competing for customers ever further down-market. Because of mobile money and other electronic banking applications, banks see potential for serving rural areas that seemed too expensive to serve in the past. As the VSLA movement grows, banks see significant potential in reaching new customers, as groups and as individuals. VSLAs are an efficient way to reach many customers through VSLA support organizations and VSLAs themselves. The services banks are interested in offering are exactly what VSLAs are seeking: savings mobilization, credit and money transfer. Banks seek to offer these services to groups and group members, and they see linkages to VSLAs as a way to reach other customers in the communities where VSLAs operate because VSLA members are leaders providing information to their communities. And, thanks to the work of VSLA support organizations, this market is large and growing.⁶

1.3.3 EXPERIENCE TO DATE

Efforts in VSLA-Bank linkages are relatively new, but there is experience and the number of banks seeking or beginning to engage with VSLAs is growing exponentially. In 2011, CARE’s Access Africa Program shared experience from seven partnerships linking VSLAs with formal financial services.⁷ Some institutions offered mobile money, some savings and credit, and one insurance. From this and other experience, CARE developed a toolkit with guidance on VSLA-Bank linkages. Tools they offer include the following:

- Principles in VSLA-Bank linkages
- General guidance, issue papers, and cases of other initiatives
- Scorecard for assessing VSLA readiness for bank linkages
- Training materials for VSLAs engaging with banks

These are referred to throughout this case as the “CARE guidance,” considered by Opportunity and many others as incorporating global best practice.

1.3.4 VSLAS AND VSLA-BANK LINKAGES IN UGANDA

The VSLA movement is mature in Uganda, and VSLAs are increasingly recognized as a strong market prospect for formal financial institutions. In Sub-Saharan Africa, 34% of savers only use a community-based savings group.⁸ There are tens of NGOs supporting VSLAs in Uganda with several leading international organizations building capacity of Ugandan NGOs. Approximately 1.2 million people, 70% women, are members of some 60,000 NGO-supported savings groups in Uganda. They save an estimated \$70 million (USD) annually.⁹ A new initiative will be working

⁵ Allan *et al* 2014; BFA 2014; CARE 2015; Odell, Chidiac and Hendricks 2011; Wilson and Chidiac 2012

⁶ *ibid.*

⁷ Odell, Chidiac and Hendricks 2011

⁸ Bhandari, 2015

⁹ *ibid.*



with the Government of Uganda and VSLA support organizations to exponentially expand the number of VSLAs nationally. The Government of Uganda and the Association of Microfinance Institutions in Uganda both support the development of a range of strategies for community finance, among them VSLAs. The market is significant and growing. In addition to OBUL and Barclays Bank, several other significant financial institutions have begun offering products targeting VSLAs.¹⁰ Thus, although Opportunity has entered the market early, it is already a competitive environment. Within this context, Opportunity, Visa, and CARE International formed a partnership to pilot VSLA-Bank Linkages in Uganda. Opportunity partnered with CARE because of their leading role in VSLA facilitation. Not only are 65% of Uganda's savings groups facilitated by CARE or CARE partners,¹¹ CARE has also developed formal guidance and materials to help other institutions, including banks, to rapidly build capacity for facilitating appropriate VSLA-Bank linkages.



2 PROJECT OVERVIEW

With the support of Visa in 2015, Opportunity launched a pilot initiative to expand formal financial services to Village Savings and Loan Associations (VSLAs) in Uganda through Opportunity Bank of Uganda, Ltd. (OBUL). The VSLA linkage strategy in Uganda was developed based on extensive experience providing financial services to the marginalized and unbanked, coupled with a commitment to increasing outreach to VSLAs by providing relevant products and services via secure, convenient, electronically-based delivery channels. The pilot initiative sought to:

- Tailor bank products to address the pressing financial needs of VSLAs
- Deploy, enhance and expand access to electronic channels for VSLAs
- Launch training & marketing to equip VSLAs for financial inclusion

¹⁰ Allan, Massu and Syarer 2014; key informant interviews conducted as part of this case

¹¹ Bhandari, 2015



In addition, funding from Visa’s partnership is enabling Opportunity to conduct an operational model analysis of the VSLA linkage pilot in order to document/share experiences to date and refine the strategy going forward. This case study is a result of the operation model research. Throughout the pilot, CARE International in Uganda has been an important strategic partner sharing guidance and tools and facilitating linkages to VSLAs through CARE’s partners on-the-ground.

2.1 PROGRESS TO DATE

OBUL partnered with 10 VSLA support organizations to help the bank engage VSLAs across the central, eastern, and western regions of Uganda. As of October 2015, six months after the first VSLA account was opened, OBUL had provided financial literacy training to 198 VSLAs and opened 164 new Group Savings Accounts. Overall, fourteen of OBUL’s 19 branches registered VSLA accounts for the first time.

2016 Progress Update

As of January 2016, OBUL’s VSLA project has engaged a total of 425 VSLAs (an estimated 8,500 rural Ugandans) through over ten partners, providing them with financial literacy training and sensitization to the bank’s unique VSLA savings and loans products, along with other financial services. Of these VSLAs, 185 have opened savings accounts. As of July 2016, 13 VSLAs have received group loans.

2.1.1 WHAT TRANSACTIONS HAVE TAKEN PLACE?

VSLAs have an annual cycle, so any activity tracking under one year provides limited information. In this case, the analysis was conducted just before the annual pay-out in which VSLA members receive a distribution of shares. Demand is highest for savings at this time of years. After the share-out, in January-March, demand for loans is high because the VSLA savings balance is low. Although the expectation is that savings amounts are high at the time of analysis, the balances observed were low because so many VSLAs had only opened accounts over the last few months. Tracking transactions for a full year in 2016 will reveal more. Nevertheless, the case presents the transaction data available.

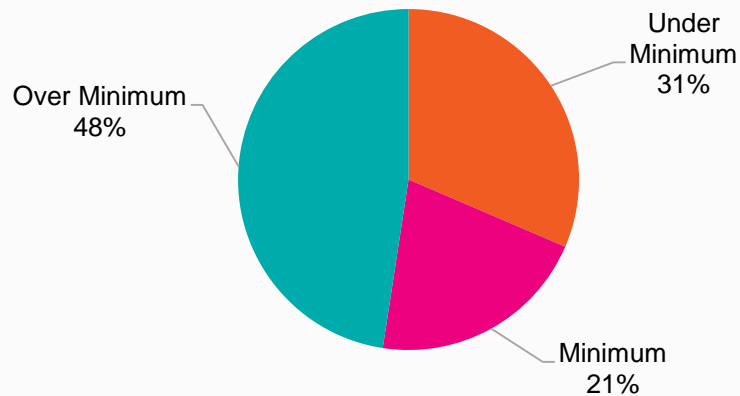
VSLA account opening began in March 2015, and data was reported through October 2015. The majority (83%) of the VSLAs have already placed savings into their accounts, while 17% were still in the process. The highest savings balance as of October was \$5,304, and the average amount \$307. With a minimum opening balance of \$14, 21% of the accounts held exactly the minimum opening balance, indicating that they had yet to transact. The majority (79%) had made transactions, with 48% ending the month of October with balances over the minimum, and 31% under the minimum. Just under one third (31%) had balances over 100,000 UGX and were therefore able to earn interest on their savings. **(See Table 1 and Figure 1.)**

Table 1: VSLA Account Transactions

Number of Accounts	Number of Groups Trained	# Members Served	% Active	High Balance		Average Balance	
				UGX	US\$	UGX	US\$
164	198	3,280	83%	18,563,419	5,304	1,075,051	307



Figure 1: VSLA Account Balances



2.2 BROAD NEXT STEPS & PLANS

To date, transactions with VSLAs have used physical channels – bank branches and mobile bank vans – and have focused on savings mobilization. In 2016, OBUL will:

- Continue to mobilize additional VSLAs
- Begin offering credit to VSLA groups
- Pilot group use of electronic delivery channels, specifically the E-Wallet Push/Pull Banking channel and Airtel 3-PIN security mechanism, and a bulk payment platform.



3 OBUL VSLA PRODUCT ADAPTATION

OBUL adapted its group savings and loans products for VSLAs based on established principles in VSLA-Bank linkages. **(See Text Box)** One of the core principles is that bank services should strengthen and support existing VSLA practices by emphasizing group accounts and actions and focusing on savings as much (or more) than lending. As one VSLA leader put it, “Opportunity Bank must continue with what the VSLA groups are doing rather than creating new things.”¹² OBUL adapted its existing group savings account and created a group loan facility. Both are established in OBUL’s policies and procedures, incorporated into OBUL’s staff training materials, and listed in OBUL’s product and service listings.

Principles in VSLA-Bank Linkages

- Groups are linked, not individuals
- Linkage is demand driven not supply driven
- Core principles of VSLA methodology are upheld
- Emphasis on member savings is maintained
- Member savings are not held as collateral
- Only mature groups are linked
- Conservative savings to credit ratio is maintained
- Prepare the groups before linkage

(Care International, 2012; OBUL Training, 2015)

3.1 SAVINGS ACCOUNT ADAPTATIONS

Prior to the VSLA-Bank Linkage project, OBUL offered a group savings account, which was adapted to meet VSLA needs. As of 2014, OBUL had just fewer than 1,000 group accounts. They did not constitute a significant part of the portfolio and were not very active. After discussions and orientation to VSLAs with CARE, OBUL made several adjustments to its group savings product **(See Table 2)**:

- Eliminated the account opening or registration fee;
- Interest of 3-5% depending on the balance;
- Elimination of monthly ledger fees of UGX 2,000;
- Withdrawal charge of UGX 2,000 per withdrawal (previously, 4 withdrawals/month were free)

By adapting its group product, OBUL did not need to offer a specific “VSLA” branded savings account. Once the group product was adapted, OBUL began to offer the same terms to current and any new group savings account holders, whether VSLAs, cooperatives or other groups.

The CARE VSLA-Bank linkage principles were adhered to for the most part, with a few exceptions. One key exception has been the use of a VSLA-Bank Linkage scorecard. The scorecard creates a rating used to determine if a VSLA is ready for formal savings, and/or ready for external borrowing. OBUL found that, in recruiting VSLAs for savings accounts in the targeted timeframe, it was not feasible to use the scorecard. Rather, different partners have criteria they apply to select the VSLAs that they feel are ready for bank-linkages. OBUL plans to use the scorecard mainly for assessing eligibility for loans. Another difference is that – contrary to the

Group Savings Account Description

Opportunity Group Savings Account: *Unity is Power*

This is intended for Customers who wish to save as a Group. This is mainly applicable where there is an existing group but also in

¹² Badru VSLA Leader Kakoge Nakasongola branch



current CARE guidance – OBUL does plan on using VSLA savings as security deposit for lending. OBUL communicates to the group that if the group takes a loan, only a portion of the savings (20% of the loan amount) would be locked as a security deposit. OBUL does not feel they can take the risk of unsecured lending and that loan-ready VSLAs would also be able to understand OBUL’s rationale.

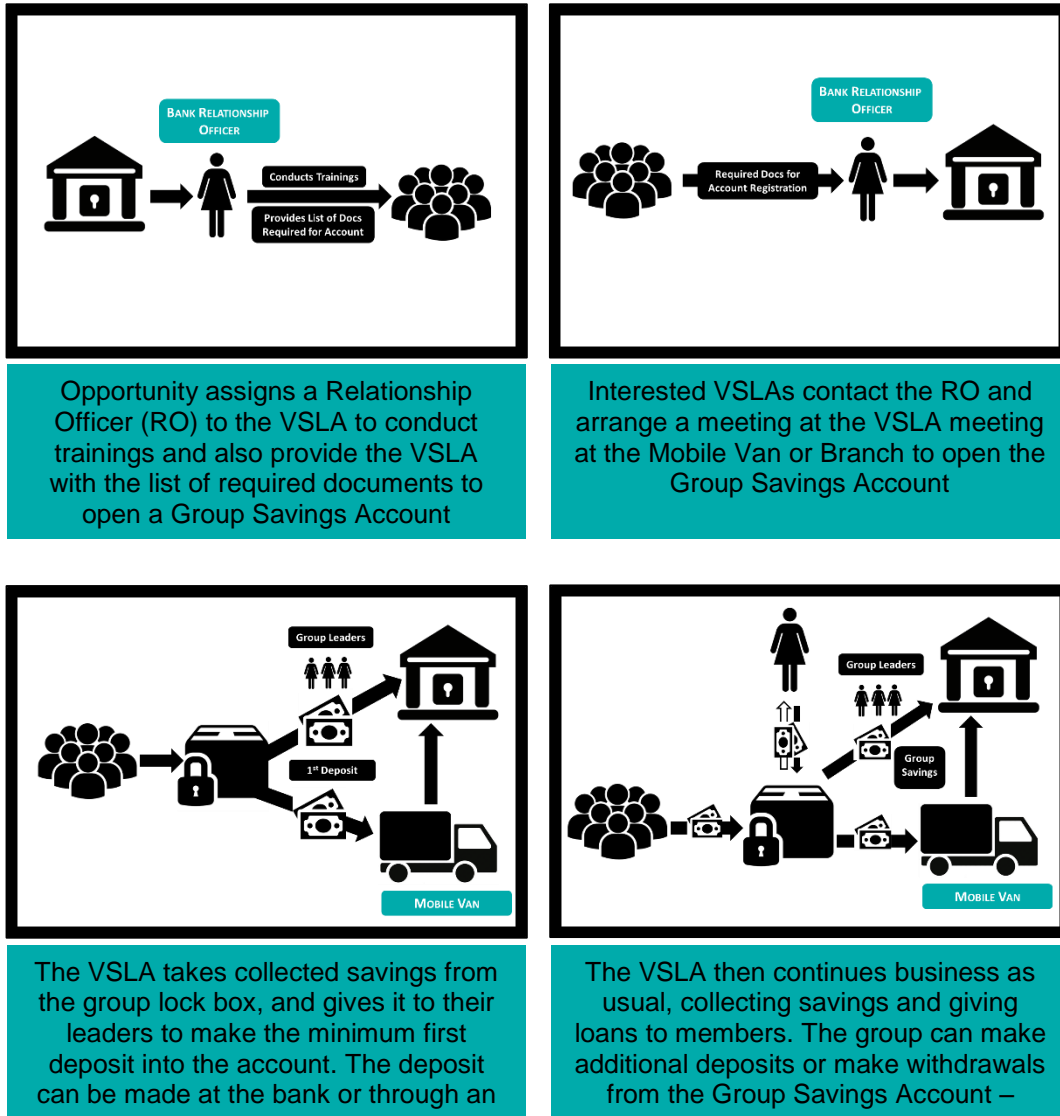
Table 2: VSLA Savings Account Description

Main Features	Main Benefits	Basic Requirements
<ul style="list-style-type: none"> • Group registered as a Community Based Organization (CBO), etc. • Certificate of Registration from CBO/NGO board, Sub-County, etc. • A copy of the By-laws (Constitution) • Letter of recommendation from a partner organization or other community development organization • Minimum deposit 50,000 UGX • Minimum amount to earn interest is 100,000 UGX • 2000 UGX withdrawal fee 	<ul style="list-style-type: none"> • Able to transact with minimal/no transport costs • 2000 UGX withdrawal fee • Withdrawals are made by multiple Authorized Group Officials with authorization from VSLA members • Attractive interest rates of 3-5% per year depending on the balance (e.g. 3% for a balance of UGX 100,000) • Security of your savings • A portion of savings may be used as security for loans • Teamwork and synergy • Free deposits • One free statement per month 	<ul style="list-style-type: none"> • Proper identification of the Chairman, Secretary and Treasurer. • Resolution to open an account, signed by 75% of members • Letter of recommendation from the local government • A passport size photograph of each of the signatories

The account opening process is physical – rather than electronic – at this point (**see Figure 2**). A Relationship Officer (RO) is assigned to a VSLA and visits the VSLA to explain the features and benefits of OBUL’s banking services for VSLAs. The RO provides the groups with a list of documents they need to open an account. Interested groups fix an appointment with the RO to conclude the VSLA account opening process at the group meeting venue or the branch/ mobile van. Once the account is opened, group leaders are provided with account information and bank cards.



Figure 2: Process for VSLA Savings Account Opening, Deposit Making and Withdrawal



3.1.1 SUCCESS FACTORS – VSLA SAVINGS ACCOUNT

Several success factors make this savings product and service a strong performer among VSLAs so far. These factors include the following:

- **OBUL Staff Comfort Level with Rural, Less Educated Clients:** Because OBUL has a long history of serving the rural poor; staff are familiar with and comfortable with this population. They know how to interact respectfully with lower income and less literate populations. Compared to some banks seeking to offer services to VSLAs, OBUL's history serving a similar population provided a comfort level for staff and clients.



- **Savings Security:** VSLA members highly value the ability to keep their savings in a secure location and appreciate that their deposits are insured. “We were very worried of our money in the box, but when we opened an account with Opportunity Bank, we were told when our money is with the bank it cannot be stolen and if it got stolen the bank will compensate us,” says VSLA member Bugaga in Nakasongola District. OBUL partners and staff also report that the primary driver for VSLAs to open savings accounts is the physical security of their savings.
- **Interest on Savings and Low Fees:** VSLA members are very cost-conscious and generally understand that Banks charge high fees for a savings account. Because members earn significant interest when their savings is loaned out to members, there is a high opportunity cost in keeping savings in a bank account. Thus, members examine pricing carefully. OBUL eliminated the registration fees, allows four free transactions per month, and offers interest on savings (3-5% per year) when the balance is above a set range (double the minimum opening deposit). There are no fees assessed if the account drops below the opening minimal balance. These costs are competitive in the Uganda market.
- **In-Person Bank Visit and Financial Education:** There is an underlying mistrust of banks among VSLA members. For this heavily rural population, the in-person visit from OBUL’s staff creates a personal relationship between the VSLA members and the bank. The in-person training provides VSLA members with an opportunity to voice concerns, ask questions, and gain clarity on the features and benefits for the group of having an account and/or taking a loan. It also gives bank staff – often new to VSLAs – an opportunity to interact with this new customer base, see the similarities and differences with the current client population, and listen and respond – as much as possible – to their needs. (More on financial education in Section 4.3.) As one partner staff member put it, “You have to visit these people from time to time; you have to actually show up. Messages and phone calls will not do for this rural population. They want to see you.”

3.1.2 COMPETITIVE POSITION

How does this product compare with what other banks in Uganda are starting to offer VSLAs? Generally the banks providing savings products for VSLAs are still in the initial stages of linking VSLAs. More banks have started to link VSLA groups including Barclays Bank Uganda, Bank of Africa, Centenary Rural Development Bank, and Post Bank Uganda Limited. These banks are all using a variety of innovative delivery channels and attractive product features, including interest charged, interest earned, and free weekly withdrawal.

Whereas most banks involved in VSLA linkages rely on having more points of sale spread across the country to facilitate linkages, OBUL has focused on creating closer relationships within the rural communities where they operate – particularly relationships with rural women. The OBUL Mobile Van delivery mechanism has made banking for the VSLAs easier for OBUL than other banks, making OBUL a preferred bank. Groups feel that it is better banking with the mobile van rather than carrying the cash themselves to a bank outlet, which is potentially risky for the VSLAs.

So far, the main challenges with the savings product and bank account opening process are on the supply side, as follows:

- **Financial feasibility:** OBUL has yet to assess or project the cost and income of delivering this savings product. While it is unclear at this early stage how profitable the



group savings account will be, OBUL plans to assess profitability once there is a stronger track record of savings patterns, borrowing activity, and costs.

- **Social Performance Measurement:** With individual and solidarity group clients, OBUL normally gathers social performance data upon account opening. Because – in this situation – only the group leaders are providing identification, it is not possible for OBUL to gather social performance data on this population. For the moment, OBUL also did not attempt to gather social performance data on the group leaders. One purpose of the VSLA project is to reach more remote and lower income populations, but this data has yet to be gathered. The issue was raised in the partnership workshop as a partnership issue to be discussed further because partners are already gathering data on their VSLA clients, which may provide OBUL with data and/or a process through which OBUL could gather additional data points in OBUL’s social performance system.

OBUL management sees these as challenges to address as and when the VSLA linkage systems are more established. As one OBUL manager put it, “these are level 3 activities, but we are still at level 2.”

3.1.3 CURRENT SAVINGS TRANSACTIONS

As of this report, OBUL offers several physical transaction options for group accounts, but had yet to fully implement electronic transfer mechanisms for groups (**see Figure 1**). To make a deposit, any one group leader can physically carry cash to a branch or branch satellite location at their convenience, depending on the rules of each VSLA. Or, the Opportunity van can pick up the deposit closer to the VSLA location. The vans circulate to rural locations based on a schedule. For withdrawals, three group leaders must be present. Transactions can take place at a branch, satellite branch, or the mobile van.

Several factors have contributed to the success of savings and withdrawals so far, including the following:

- **Teller familiarity with group savings products:** Because OBUL already has a group savings account, and handles group loans as well, staff are familiar with the need for three signatories, and/or to have multiple group leaders be present at the time of transaction.
- **Extensive branch and satellite office presence:** OBUL offered the VSLA product in 14 branches in 11 districts in Uganda.
- **Mobile Banking Van:** The Opportunity mobile van provides on-site banking services for VLSAs and other rural residents. It is highly valued by VSLA members, who fear that their cash will be stolen on the way to or from the bank, or are reluctant to spend time and money going into town to the bank. “Other banks are far and transport is left to the groups, but with OBUL they collect our money. When we want to withdraw the group leader calls the OBUL officer and they bring the money for the groups by the mobile van,” says the leader of Nkobazambogo savings and credit association (VSLA) which banks at Nansana Branch.

Relying on physical money transfer presents several challenges to OBUL and VSLA clients, as follows:

- **Availability of the Mobile Van:** Some VSLA leaders were under the impression that they could call at any time and the Opportunity van would immediately come and pick up their savings. Unfortunately, due to the cost and high demand on the van services, this is



not possible. Rather, the van generally has a scheduled route, and/or creates a route for a given week based on demand. Thus, some groups reported the wait to be more than expected and some mistrust developed due to unclear communication.

- **Cost and Scarcity of Vans:** Opportunity recognizes the need for vans in some situations, but due to cost and convenience, has been investing in and promoting electronic banking and mobile money solutions. As a result, the demand for van services is often higher than the supply of vans.
- **Coordination and Communication:** There are logistical challenges with ensuring that new VSLA group clients know when and where the van will travel, and for the VSLA group leaders to ensure that sufficient leaders are present at the time to make banking transactions.

OBUL management recognizes these challenges, and sees electronic banking and mobile money as solutions. These have always been part of the vision for the VSLA services, as described in the next section.

3.1.4 FUTURE SAVINGS TRANSACTIONS – MOBILE BANKING AND MOBILE MONEY

Since the project's inception, OBUL has planned to offer electronic banking services to VSLAs. Two such services are in the development phase:

1. Group E-Wallet Push/Pull Mobile Banking & 3-PIN Security Mechanism **(See Figure 3.)**
2. Bulk Payment Functionality **(See Figure 4.)**

This section provides a description of OBUL's plans, progress and some market feedback received to date on the services as devised.

Group E-Wallet Push/Pull Mobile Banking & 3-PIN Security Mechanism

OBUL formalized a partnership with Airtel to accommodate VSLA requirements for multiple signatories to approve transactions. The functionality of the security mechanism is under pilot. This security feature digitizes the VSLA's traditional model of three keys held by group officers for the lock-box, and is integrated into the Group E-Wallet Push-Pull Mobile Banking electronic channel.

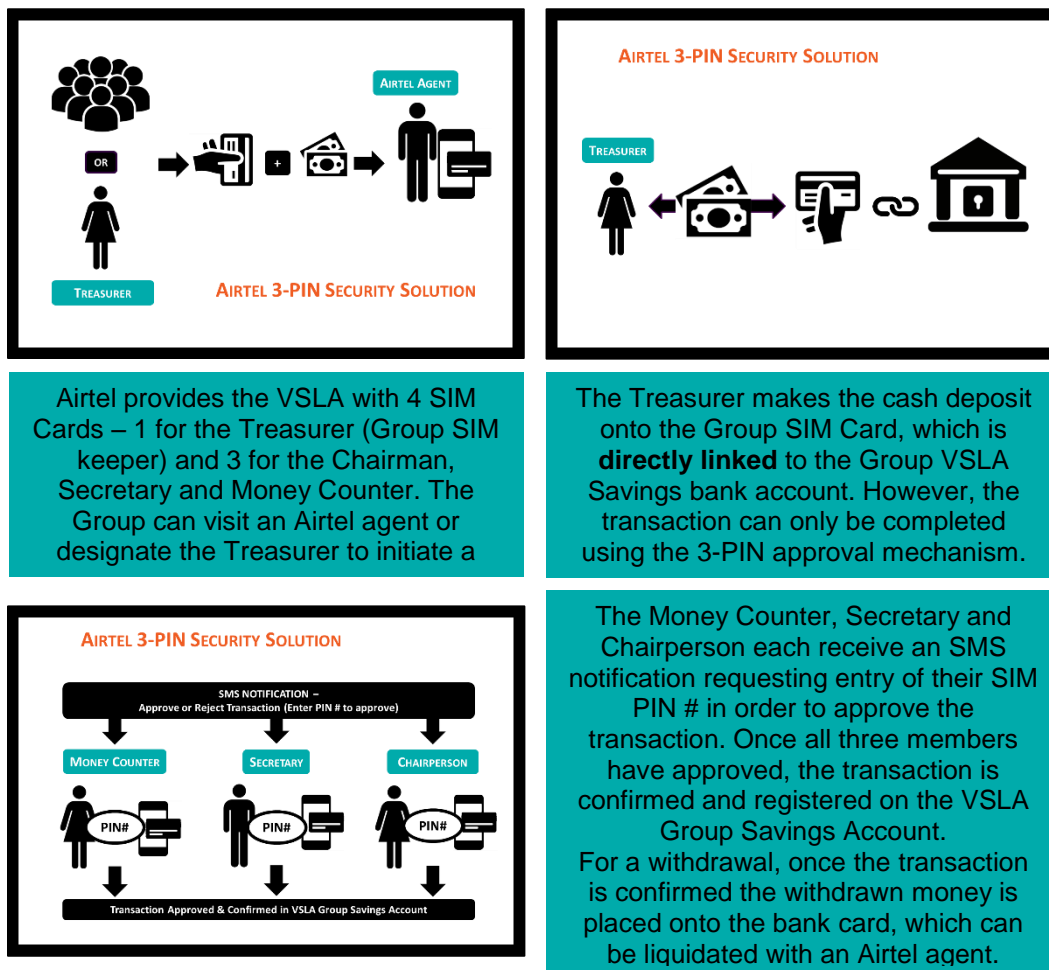
Group E-Wallet Push/Pull Mobile Banking is facilitated through OBUL's Airtel partnership and allows VSLAs to make secure deposits and withdrawals remotely without requiring the group to travel to a bank outlet. Airtel provides the VSLA with 4 SIM cards – one Group SIM for the Treasurer, also known as the Group SIM Keeper, and three for the Chairman, Secretary and Money Counter. In order to make a deposit the Treasurer initiates the group approved transaction by making a cash deposit on the Group SIM Card, which is directly linked to the Group VSLA Savings bank account. However, the transaction can only be completed using the 3-PIN approval function. The Money Counter, Secretary and Chairperson each receive an SMS notification on their cell phone requesting the entry of their SIM PIN number in order to approve the transaction. Once all three members have entered their approval, the transaction is confirmed and registered on the VSLA Group Savings Account. For a cash withdrawal, once the transaction is confirmed the withdrawn money is placed onto the Group SIM Card, which can be liquidated by the group with any Airtel agent. **(See Figure 3.)**

OBUL is monitoring a pilot initiative by Airtel with another bank and CARE, and plan to participate soon. The initial pilot demonstrating the push-pull technology worked smoothly. Airtel's next step is to test the platform in real-world conditions. This test is scheduled for



February 2016 (after Airtel’s busy end-of-year season). OBUL staff are optimistic that OBUL will be part of this real world test. From OBUL’s point of view, however, the lack of an electronic platform has not slowed down the initiative to serve VSLAs. On the contrary, OBUL and partners who support VSLAs recommend that services be introduced in phases so that group members can become used to one new product or practice before moving on to absorb the information and skills related to a second new product or service. “When working with VSLA groups it should be a step by step approach and not introducing many things to them at once,” advises Patrick Kigongo of Act 4 Africa, a partner working with VSLA groups linked to OBUL’s Mayuge branch.

Figure 3: Airtel 3-Pin Security Solution



Airtel provides the VSLA with 4 SIM Cards – 1 for the Treasurer (Group SIM keeper) and 3 for the Chairman, Secretary and Money Counter. The Group can visit an Airtel agent or designate the Treasurer to initiate a

The Treasurer makes the cash deposit onto the Group SIM Card, which is **directly linked** to the Group VSLA Savings bank account. However, the transaction can only be completed using the 3-PIN approval mechanism.

The Money Counter, Secretary and Chairperson each receive an SMS notification requesting entry of their SIM PIN # in order to approve the transaction. Once all three members have approved, the transaction is confirmed and registered on the VSLA Group Savings Account. For a withdrawal, once the transaction is confirmed the withdrawn money is placed onto the bank card, which can be liquidated with an Airtel agent.

OBUL has recently implemented a bulk payment solution, which facilitates “one-to-many” and “many-to-one” transactions. (See Text Box and Figure 4.) After a detailed review of vendor proposals, OBUL selected the firm “Yo! Uganda” to support the platform, which went live in July 2015. OBUL plans to use the upcoming VSLA sharing period to pilot the new functionality with the Mbugo Cooperative, a coffee cooperative supported by Lutheran World Relief. The plan is then to roll out bulk payment functionality to other VSLAs in addition to other beneficiaries, such as e employers of local labor, pending the outcome of the pilot review. However, as with the Airtel e-wallet system, OBUL plans to move slowly, targeting more advanced groups, and ensuring



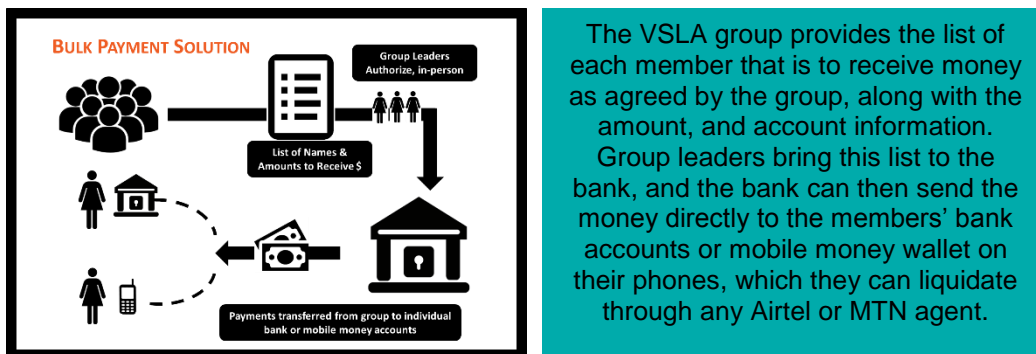
that the bulk payment mechanism is demand-driven, and that members are in a position to absorb the rules, process, and safeguards of the system.

Bulk Payment Functionality

This electronic channel will specifically enable a VSLA to transfer funds from the group bank account to individuals. The VSLA leaders will provide a list of member names, cellphone numbers, fund amounts to be received, payout date and account numbers to the bank. OBUL can then upload this information to the banking system and use the bulk payment platform to simultaneously wire the funds to each individual member's E-Wallet on their cell phone or transfers the funds to members' bank accounts. E-Wallet funds can be liquidated through any Airtel or MTN agent, and members can access their bank accounts through OBUL's branch and mobile van delivery channels. (See Figure 4.)

In addition to the new bulk payment platform, OBUL is implementing an SMS alert system that will also be supported by Yo! Uganda, which is currently in the testing phase. This alert system will enable the bank to send out notifications to bank clients, including VSLA members, to alert them to transactions or confirm transactions, as well as encourage savings, promote new products and services, and collect real time feedback.

Figure 4: Bulk Payment Solution



The VSLA group provides the list of each member that is to receive money as agreed by the group, along with the amount, and account information. Group leaders bring this list to the bank, and the bank can then send the money directly to the members' bank accounts or mobile money wallet on their phones, which they can liquidate through any Airtel or MTN agent.

Although OBUL has yet to use either system for VSLA's, in the course of their work and in the course of this research some market feedback provided a view into upcoming issues to navigate, as follows:

- **Bulk Payments Require Access to Bank or Mobile Money Accounts.** Although hard data is not available, VSLA partners and experts engaged in this research report that the majority of VSLA members do not have a bank account nor do they have access to mobile money. While cell phone penetration is reportedly very high in Uganda, there remains a significant gap between having access to a mobile phone and being able to use mobile money. While some groups may be ready to use the bulk payment channel, most groups will first need to cross the hurdle of obtaining a bank account and/or a mobile money account. Thus, the bulk payment service is likely to be appropriate only for more mature groups with higher financial literacy and higher payments.
- **Airtel / Mobile Money Agent Network.** The issue of access to mobile money is equally relevant for this service. Many VSLA members also fear that they will make a trip into town to obtain cash from their mobile money agent only to find the agent without sufficient cash. Stakeholders suggested that OBUL coordinate with mobile money



agents at the time of significant VSLA cashing out to ensure that mobile money agents had sufficient float to cover high expected seasonal cash needs. VSLA groups interviewed for this research expressed mixed views with regard to trusting a single group leader to take their cash to the bank. Some groups reported being willing to pay for such a service, while others were concerned about what happened if the agent reported the funds stolen on the way to the bank. Many VSLA members and partner staff were equally concerned that VSLA group leaders taking cash to mobile money agents would abscond with the money and/or would be robbed.

In alignment with industry trends and positive experience to date, OBUL remains committed to leveraging technology for effective alternative delivery channels. This research has provided some additional, specific information about potential hurdles, and indicates that OBUL may continue to rely on the mobile vans for some time, if only as an initial outreach mechanism.

Overall, VSLAs are used to in-person, hands-on transactions, and generally distrust impersonal, formal, electronic systems and systems that involve agents or group representatives travelling with group funds. In the course of this research, stakeholders discussed the issue of trust and how to strengthen VSLA trust in the banking system and bank trust in the VSLAs. Suggestions included the following:

- **Clear, consistent and correct communication:** When bank staff explain a product or service, set correct expectations, follow through with services that match the message, clients trust the staff and the bank more. When bank staff make promises they cannot keep – usually out of misunderstanding or a drive to meet targets – distrust is fostered when actual bank services do not meet expectations.
- **Transparency:** Bank staff and all materials describing services should include comprehensive cost and interest rate information to ensure that VSLA clients are not surprised. Partners suggested that OBUL develop clear, pictorial materials to explain services and clarify fees to help VSLA clients retain information and differentiate between OBUL and other banks.
- **In-person, participatory dialogue:** When bank staff provide VSLA members with an opportunity to ask questions and express concerns, staff can clarify points of confusion and respond to VSLA member concerns. If a lecture approach is the main training and communication method, then participants may not have ample opportunity to share their fears and bank staff lose an opportunity to build trust.
- **Enhancing Financial Education:** Financial education should be enhanced to include a focus on using mobile money and/or opening individual bank accounts so that VSLA members can better understand the safety mechanisms and risks of mobile money and be better positioned to take advantage of electronic and mobile money options if there is a good fit.

One VSLA leader, Badru, from Kakoge near Nakagongola Branch put it well: “Formerly, groups knew that banks exploit people, but after explaining to them the benefits on the group loan like the low interest and also the interest earning on the savings from the bank, the groups are now gaining confidence to collaborate with OBUL.” In sum, correct, clear, and well delivered information coupled with appropriate services goes a long way in cultivating trust in a system that has – up to this point – excluded the target population.



3.2 LOAN PRODUCT ADAPTATIONS

As with its savings product, OBUL's loan product is in line with general principles for linking VSLAs to banks, but OBUL needed to devise a new loan product for this purpose. The product was named "Community Group Loan," in anticipation of other kinds of community groups that would use it. Some elements are very specific to VSLA types of community groups. Prior to this project, OBUL's group loan product was the solidarity group loan, which was adapted for agricultural lending by adjusting the payment periods and amounts. There are several key differences in the group loan offered to VSLAs and the solidarity group loan, including the following:

- **Purpose:** Community Group Loans – as targeted initially to VSLAs for the present – are for the purpose of on-lending to individuals. It is recognized that these loans may be for income generation, consumption, or emergency situations. Solidarity Group Loans are primarily for the purpose of financing an enterprise – typically a business or a farm.
- **Borrower:** Community Group Loans are extended to a group, whereas solidarity loans are extended to individuals and guaranteed by the group.
- **Loan Amount Basis:** With Community Group Loans, the amounts are set at the group level and are based on the amount of the last VSLA group share-out. The loan amounts for a solidarity group are set at the individual loan amount and are based on the individual's past business performance, and/or anticipated agricultural input package that will be applied in the upcoming season.
- **Fees:** Solidarity Group members are charged several loan application and processing fees, which are calculated as a percentage of the loan amount. Community Groups are charged a flat amount for each loan.
- **Interest Rate:** Interest rates for Community Group Loans are slightly less (2.25%/month, flat) than the interest rate for Solidarity Group Loans (2.75%/month, flat for loans under UGX 2 million, 2.5% for loans above UGX 2 million). VSLAs will on-lend to members, who pay a 5%-10%/month interest rate on a declining balance.
- **Documents Required:** With Community Group Loans, only the group leaders are required to supply identification and a photograph, but with Solidarity Groups, all clients provide identification and a photograph.
- **Collateral:** The collateral for Community Group Loans is group savings of 20% of the loan amount, with leaders offering a guarantee on behalf of the members. Solidarity Group Loans require a 15% loan deposit from each individual, necessitating bank accounts for all individual members, and a personal guarantee from each member for the other members' loans.

The loan product generally follows the principles and guidance offered by CARE. Borrowing is restricted to groups with a 2-year history and loans are demand-driven, meaning that no group with a savings account is required to take a loan. Communication and marketing focuses first on savings. In addition, OBUL has trained staff to use the VSLA scorecard, and has built into its loan eligibility approval process that thresholds and loan amounts be determined by score. **(See text box.)** The main difference between OBUL practice and CARE recommendations is that OBUL requires a security deposit of 20% of the loan value in the form of compulsory savings. OBUL expects that VSLA members will not confuse voluntary and mandatory savings, and that



this can be easily explained to groups who are ready to borrow. By the time a VSLA group is borrowing from OBUL, there should be sufficient trust due to having done business together with the group savings account. Overall, the loan product is well in line with CARE guidance.

CARE VSLA Scorecard/Rating Criteria

CARE provided OBUL with a scorecard rating tool for VSLAs, which OBUL plans to use in assessing VSLA readiness to borrow. The key elements are:

- Group Maturity
- Savings volume in previous cycle
- Savings volume in this cycle
- Attendance rates
- Loan fund utilization rate
- Portfolio at risk
- Amount written off as a percent of last share-out
- Percent of members with active loans
- Member discipline during meetings
- Meeting procedures
- Member awareness about group norms
- Decision making about loans

Each criterion is assigned a numerical rating depending on performance and then an overall score is calculated. VSLAs with a score below a specific amount are not eligible for loans. Groups with a good score are able to borrow an amount of up to 50% of the value of their previous share-out. Groups with excellent scores are able to borrow more, up to 2 times their previous share-out amount.

As of July 2016, OBUL has issued thirteen VSLA loans. However, the general response to the adapted loan product has been positive. VSLA members and partners have expressed appreciation at the low interest rate and monthly repayment schedule. One of the VSLA groups that is borrowing reflected upon an increased rigor with loan repayment because a bank is involved. "People now worker harder than before the linkage because they are dealing with a bank not like in the group where they take long to pay," noted Badru VSLA Leader from Kakoge, near Nakasongola branch.

Although OBUL has only extended a limited number of loans to a VSLA (given the focus on savings first), there are indications of demand for loans. In focus group discussions with client VSLA members, several types of loans or information about financing were requested, including information about asset loans for motorcycles and homes along with larger loans for agriculture. In addition, VSLAs expressed an interest in training on how to add more value to their business, in modern farming practices, and in projects that would help them make the best use of their land. This demand for business and farm expansion skills indicates a readiness and desire to get to the next level, which often requires both training and finance.

At the same time, VSLAs have some negative reactions and some remaining fears about borrowing from OBUL. A number of more financially savvy VSLA members have observed that OBUL charges a flat rate of interest, whereas the VSLA charges interest on a declining balance, which is preferred by members. On the other end of the spectrum, members of another group remained fearful of bank borrowing because they thought that their assets would be at risk. "We don't want loans because tomorrow you find the bank has put up your land, your property for sale," said a group member of Tukolele Walala Savings Group, near Mayuge branch. These different perspectives reflect the diversity of VSLAs and of member financial literacy levels – the



topic of the next sections on financial education services. This diversity is also related to the wide range of partners OBUL engaged during this project, the topic of Section 4.4 on marketing and outreach.

3.3 FINANCIAL EDUCATION

Financial education to VSLA groups is so far a minimal element of OBUL's services to VSLAs. This period of minimalist delivery has provided a useful opportunity for gathering market intelligence about the financial education needed by the diverse population of VSLAs supported by various partners.

To date, OBUL's training focus in this project has been to deliver critical information to OBUL branch staff who, in turn, pass this information on to partners supporting VSLAs and to VSLA members themselves. The key topic areas for OBUL's VSLA training provided to staff at the moment are the following:

- Background about VSLAs, the VSLA-Bank linkage project, and targets
- Benefits of VSLA-Bank Linkages to VSLAs and to OBUL
- OBUL's VSLA savings and loan product specifications
- Savings account opening requirements and processes; and how to make a deposit or withdrawal
- Marketing to VSLAs, especially through partners

Additional training will be rolled out as VSLA-Bank linkage work continues. For example, as OBUL begins to prepare groups for borrowing, OBUL staff will receive additional training on the VSLA loan eligibility criteria, use of the scorecard, and disbursement and repayment processes.

To date, OBUL staff has focused their training to VSLAs on providing information about the features and benefits of an OBUL bank account. OBUL is in the process of adapting training guidance provided by CARE and hopes to roll out a more formal, in-depth financial education services in 2016.

At the partnership workshop held in conjunction with this research, OBUL staff and partners explored how best to approach the issue of financial literacy for VSLAs. VSLA members opening savings accounts come to OBUL with diverse levels of financial literacy and priorities depending on the background of members, the maturity of the groups, and the financial education already delivered by the partner organizing and establishing the VSLA. Indeed, many VSLAs are mid-way through a planned financial education curriculum when they open a savings account. Issues that partners and OBUL anticipate include the following:

- Overlapping content
- Contradictory content
- Absorption capacity of groups receiving multiple trainings
- OBUL's ability to customize content and training methodology to different populations (literate and illiterate, more and less financial experienced, etc.)

To address these challenges, OBUL and partners suggested that they should share financial education plans with one another, and coordinate both content and timing of training. OBUL will have to be prepared to offer different financial education to different types of VSLAs and to



determine which type of VSLA needs which training. Section 4.4 identifies a few general types of VSLAs and briefly describes financial education each would typically need from OBUL.

Personal Financial Planning

Opportunity Bank
For your success

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OBUL Financial Education Material

An additional challenge with OBUL providing what it refers to as “financial education” is in managing expectations. Financial education is understood differently by various professionals. On the one hand, most people – especially more rural, less literate populations with less experience with formal banking – desire or could benefit from a wide array of information and training on financial management concerns. On the other hand, good practice in financial education reflects that people are most likely to apply information and skills that are relevant to an immediate need and opportunity. Financial education provided by Opportunity and other banks is often criticized as being too narrowly focused on how to properly use bank services. It is seen as more self-serving than developmental. Yet, this training is focused on a practical need and opportunity. When asked what services they would desire from OBUL during the course of this research, some VSLA members responded with the desire for more information about OBUL’s products and services and how to use them. Others expressed a demand for training in value-added businesses and modern farming practices. Thus, the demand for a wide range of training exists, but what training is a bank ultimately responsible to provide? What training is most likely to fit into a bank’s sustainable business model? While the field of financial education grapples with such strategic issues, in the short-term it is likely that OBUL’s financial education to VSLAs will remain focused on bank services and how to use them, as these are complicated enough for OBUL and partner staff as well as VSLA absorption capacity. To better



manager partner and VSLA expectations, however, OBUL may consider renaming its financial training to reflect its core purpose. While this strategy may help OBUL manage expectations, the challenge of how to address the financial education needs of rural populations on a sustainable basis remains.

3.4 MARKETING AND OUTREACH - PARTNERSHIPS

Overall, OBUL's main and most effective marketing and outreach strategy was to build effective partnerships with VSLA support organizations. As part of its internal promotion of the new VSLA products, OBUL offered an incentive – a monetary prize – to the branch that opened the most VSLA savings accounts. Five branches stand out as strong performers: Kawempe, Natete, Mayuge, Nansana, and Iganga. However, when OBUL management analyzed the critical success factors for these branches' performance, strong partnerships were clearly identified as the key element of success. These partnerships enabled OBUL staff to develop a personal relationship with VSLAs. Radio programming – although better when delivered on local stations with local languages – generally reaches out anonymously and is not very effective with VSLAs. Similarly, other OBUL marketing strategies – like moving door-to-door in market places, and “cold-calling” businesses – do not reach VSLAs, which are located in more remote rural areas where members are often less trusting of outsiders. VSLA penetration, it seems, requires a personal introduction. For the most part, this has come from working with partners. **(See text box.)**

A few other marketing and outreach techniques have also contributed. For example, referrals can come from other customers such as solidarity group or farmer group members who are also members of a VSLA. OBUL management also reflects that in some successful branches, a staff member with a higher comfort level for working with rural communities and/or someone with a strong mission drive to work with this population championed VSLA outreach at the branch, which added to success.

Best Performing Branches and the VSLA Partners Active in Each Branch

Branches:

Natete (Central) – 20 VSLAs: Mbugo Farmers Cooperative and Lutheran World Relief

Kawempe (Central) – 40 VSLAs: Stromme Foundation and partners

Iganga (Eastern) – 27 VSLAs: CARE and partner SEPSPEL

Mayuge (Eastern) – 16 VSLAs: CARE and partners, and Act 4 Africa

Nansana (Central) – 17 VSLAs: CARE and partners

3.4.1 PARTNERSHIP STRATEGY

When working with partners, OBUL recommends a step-by-step process,

1. **Orient yourselves:** Orient one another to each institution's mission, products and services, and key objectives for supporting VSLAs. Learn one another's rules and processes. When possible, articulate ground rules for working together into a formal Memorandum of Understanding.
2. **Introduce operational field staff** and orient them to the same.
3. **Share and coordinate schedules** in which VSLA partner staff travel with OBUL staff and personally introduce OBUL to VSLAs.



4. **Take advantage of partners' events and gatherings for VSLAs;** offer to make a presentation and/or sponsor part of the event. This translates into an endorsement by the VSLA partner.
5. **Remain in regular communication** to identify and solve operational challenges and/or miscommunications quickly.
6. **Hold reflective meetings** to enhance learning and improve operations.

In terms of marketing materials, OBUL staff mention that promotional t-shirts are very effective because the gift is valued symbolically and materially by the VSLA groups, and the t-shirts serve as a constant promotion for the bank.

Although OBUL planned on working with 2-4 partners initially, ultimately OBUL has worked with 10 partners in Eastern, Central and Western Uganda, who organize and train VSLAs. **(See Table 3 and Figure 5.)** OBUL's main drive was to reach out to the most VSLAs quickly. However, OBUL has learned that working with this many partners has generated useful lessons. There is a diverse range of partners, VSLAs, and VSLA members in the "VSLA Market."

Figure 5: Map of Partner Locations in Uganda

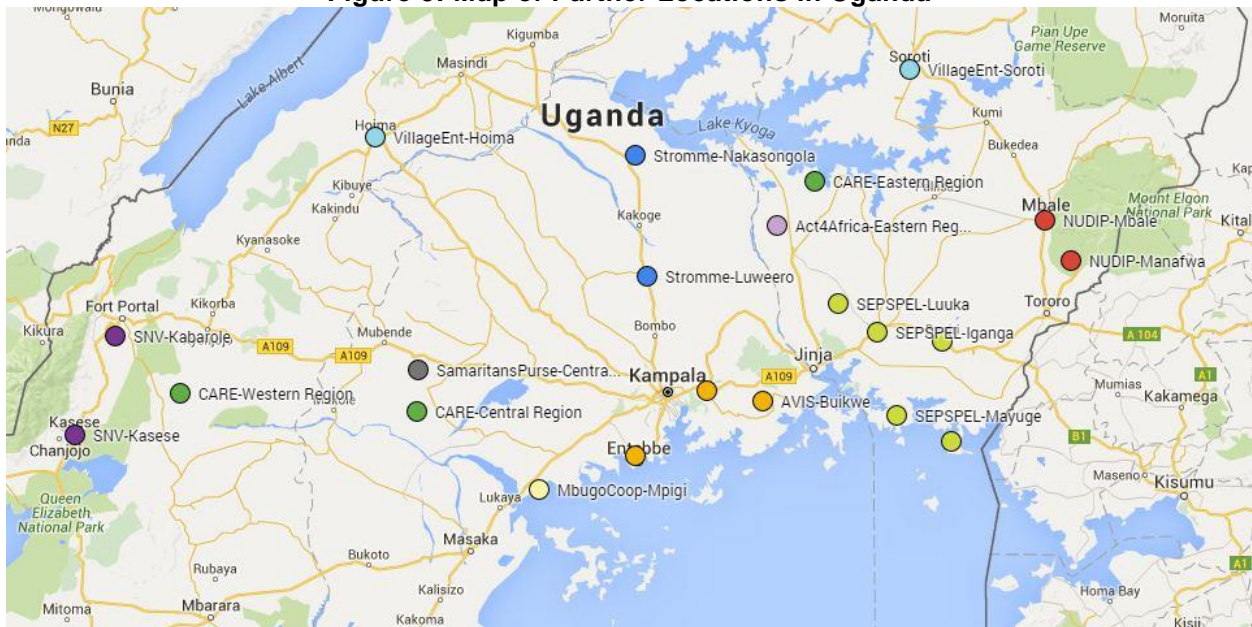




Table 3: VSLA Support Partners

VSLA Support Partners	Locations	Number of VSLAs Accounts	Agreement Type
CARE	Central, Eastern & Western Regions (Nansana, Iganga, and Mayuge branches)	48	MOU Signed
NATIONAL UNION OF DISABLED PERSONS IN UGANDA (NUDIPU)	Mpigi District (Natete Branch)	28	MOU Signed
STROMME FOUNDATION	Nakasongola & Luwero (Kawempe Branch)	46	MOU Signed – Loan Guarantee *
NATIONAL UNION OF DISABLED PERSONS IN UGANDA (NUDIPU)	Mbale AND Manafwa	4	MOU Signed
AVSI ASSOCIATION OF VOLUNTEERS IN INTERNATIONAL SERVICE	Wakiso, Buikwe, Mukono	14	Verbal Agreement
VILLAGE ENTERPRISES	Soroti, Hoima		Verbal Agreement
SNV	Rwenzori Region (Kasese And Kabalore)		Verbal Agreement
SEPSEL SOUTH EASTERN PRIVATE SECTOR PROMOTIONS ENTERPRISE LIMITED.	Iganga, Mayuge, Luuka, Namayingo, Bugiri		Verbal Agreement
ACT 4 AFRICA	Eastern Region		Verbal Agreement
SAMARITAN'S PURSE	Central Region		Verbal Agreement

3.4.2 TYPES OF VSLAS REACHED

VSLA partner organizations, such as CARE, often serve a very diverse population. Because VSLA members have varying levels of financial literacy, VSLA partner organizations offer a variety of training topics and promote bank linkages for multiple purposes based on the unique characteristics a VSLA may possess. Partners do not just provide OBUL with access to VSLAs – they develop OBUL’s understanding of the specific population(s) served by each partner and the focus of the VSLAs organized and trained by each partner. Working with a variety of partners ultimately links OBUL with a wider range VSLAs and VSLA members. This diversity will provide rich experience and marketing information going forward. Some market information is already apparent. **(See Table 4.)**

To date, OBUL staff identifies three main categories for VSLAs and VSLA members, although more segmentation may come over time.

- **Entrepreneurs:** At one end of the spectrum are more mature VSLAs with very economically active members who run established business or farms. They often have high financial literacy as exhibited, for example, by their request to have interest charged on a declining basis rather than as a flat rate. These groups are equally driven by the



prospect of a safe location for their significant VSLA funds and by the desire for larger loans. They are also interested in training in value-added business activities and more modern farming practices. The Stromme Foundation works with a significant population of this kind of VSLA.

- **Vulnerable populations:** At the other end of the spectrum are VSLAs comprised of economically and socially vulnerable populations. For example, Action4Africa works with HIV impacted communities, particularly widows. This vulnerable population is saving to invest in basic household assets that will stabilize their livelihoods – animals, seeds and farming tools – or in basic necessities like home repair and access to clean water. Many members, in charge of their financial lives for the first time, are just learning about household budgeting, and many have very low literacy levels. Action4Africa is using VSLAs and VSLA savings accounts to match these clients' savings to more rapidly stabilize their living situations. Although clients do borrow from their own VSLA fund, at this point their demand for loans does not exceed their capital, and Action4Africa advises against external borrowing. At any rate, there is little incentive for these groups to borrow when Action4Africa is providing grants.
- **Economically Stable populations:** In the middle of the spectrum are established VSLAs whose members are economically stable but not quite entrepreneurial at this stage. The primary drive of this group is a safe and accessible location for their savings. They are interested in borrowing, but remain somewhat skeptical, fearing the consequences of borrowing from a bank – the cost of borrowing and the risk to their assets. Depending on the financial education provided by partners and the maturity of the group, some groups are more financially literate than others.





Table 4: Types of VSLAs Served by OBUL

VSLA Type	Entrepreneurial	Economically Stable	Vulnerable
Economic status	Established businesses, poised for growth	Stable livelihood, looking for income generation opportunities	Dependent or working their way out of dependency, seeking economic stability
Financial Literacy	Financially savvy, literacy levels may vary but some literate members	Financially Aware, semi-literate	Low awareness and skill levels, low literacy in general
Demand for Bank Services	<ul style="list-style-type: none"> Savings accounts for safety Loans for growth Orientation/training on bank services Advanced training in business management or modern farming practices 	<ul style="list-style-type: none"> Savings accounts for safety Potentially some borrowing Orientation/training on bank services Business identification/assessment; good agricultural practices and crop assessment 	<ul style="list-style-type: none"> Savings accounts for asset transfer (matched savings) and safety Orientation/training on savings services
Potential profitability for OBUL ¹³	<ul style="list-style-type: none"> Good prospect, short-term 	<ul style="list-style-type: none"> Potential medium-term prospect 	<ul style="list-style-type: none"> Potential long-term prospect

3.4.3 CHALLENGES AND RECOMMENDATIONS FOR PARTNERSHIPS IN VSLA-BANK LINKAGES

OBUL’s general approach to partnerships in VSLA-Bank linkages is inclusive, and they see multiple partnerships as helping the bank effectively and efficiently reach diverse populations. There are a few operational challenges that arise from managing 10 partnerships, including the following:

- Managers at the central and branch level have to negotiate MOUs and orient themselves to multiple partners. Staff training materials need to be customized for different locations depending on which partners are active in which locations;
- Staff incentives may be biased toward the VSLAs most ready to borrow, and so may favor some partners working with more entrepreneurial clients (typically less vulnerable/marginalized, see Section 4.4.2);
- Financial education curricula (and training of trainer materials) of OBUL and VSLA partners may overlap or be contradictory, and having multiple partners makes it hard to adapt to each partner’s curricula;
- Operational schedules at the branch level need to be coordinated with multiple partners.

Management will be monitoring its experience working with 10 partners going forward in order to determine if the bank will need to focus on fewer partnerships, on what basis they will select partners for deeper engagement, and how they will engage with VSLA support organizations with whom OBUL does not have a specific relationships.

¹³ At the moment, OBUL reports profit on lending, but is only recording a profit on savings accounts with steady, high balances. If VSLAs ultimately develop predictable high balances for several months of the year, these prospects may change. (BFA, 2015)



At the OBUL-Partnership workshop held as part of this research, partners and OBUL staff identified some immediate operational challenges in VSLA-Bank linkage partnerships and offered several suggestions for addressing them. These include the following:

- **Different Goals with VSLA-Bank Linkages.** While OBUL recognizes multiple short and long-term goals for VSLA-Bank linkages, incentives for ROs are currently based on the loan portfolio. This gives on-the-ground staff a bias toward credit products. In contrast, the initial VSLA service will always be savings, and only a minority of VSLAs registered so far will likely borrow in the coming year.

Suggestion: Advance alignment in VSLA partners and OBUL objectives.

Prospects: Strategically, OBUL's goals are aligned with VSLA partners and OBUL senior management recognizes that there is an element of social responsibility and/or long-term investment in the VSLA work. In the short run, there is a plan in motion to introduce savings incentives to ROs in 2016. This should contribute to the alignment of OBUL's institutional goals with incentives for OBUL on-the-ground staff and translate into better OBUL-partner alignment.

- **Misunderstanding of respective policies and procedures.** VSLA partners work with multiple banks and OBUL staff work with multiple VSLA partners. Yet, staff need to understand the policies and procedures of each partner. For example, if clients are expecting Action4Africa to match their savings, then OBUL staff should be aware of this and understand how it will work. If a VSLA support organization has a policy of linking only VSLAs with a 50 or higher on their scorecard, OBUL staff should be aware and should respect this policy, rather than accidentally opening accounts for less mature VSLAs. Similarly, OBUL would want VSLA partner staff to be able to clearly communicate OBUL's products and services while also not making any promises that OBUL cannot keep, such as promises of overly high interest on savings or of the availability of the mobile van with a day of making a phone call.

Suggestion: OBUL and VSLA support partners should formalize the partnership and include in partner agreements key policies and procedures that staff should be aware of. Partnerships should be launched with hands-on staff co-training, and each partner should provide clear, handy "cheat sheets" summarizing policies and procedures for each other.

Prospects: OBUL currently has formal partner agreements with six of the ten partners and is working toward agreements with the others. OBUL includes an orientation to partners operating in the branch catchment area in its VSLA staff training. As OBUL develops more formal materials for VSLA training, practical materials for partner and OBUL staff should also easily be developed.

- **Alignment of Financial Education Content.** The financial education of some VSLA support partners may contain negative messages about banks in general and/or staff may convey negative messages about banks to VSLA members. These messages are often delivered in order to protect VSLA members from exploitative bank practices or to engender pride in the VSLA as a community-managed bank. In the context of promoting VSLA-Bank linkages, these messages need to be adjusted. At the same time, the bank financial education material needs to emphasize client protection and transparency in order to engender trust. Another issue is simply the potential for overlap in content.



Suggestion: VSLA support partners and OBUL should carefully coordinate their financial education materials through mutual review and modification.

Prospects: OBUL is currently formalizing its financial education curricula for VSLA members based on CARE's guidance. As part of this process, OBUL will share draft materials with all partners and make adjustments to both general materials and in materials that are partner or population-specific.

- **Coordination of VSLA recruitment and monitoring visits at the branch level.** Often, both partners and OBUL staff are interested in promoting and developing VSLA-Bank linkages, but it can be challenging to coordinate travel schedules to rural villages at times when VSLAs will be meeting.

Suggestion: Each branch should identify a specific VSLA representative with whom the partner will share VSLA visit schedules, identifying days when they will be visiting more mature groups likely to benefit from linkages. The point person will then organize OBUL staff to accompany the partner.

Prospects: After the workshop, several partners and branch staff began implementing this improved coordination schedule, which also occurred due to strengthening of professional relationships and trust during the workshop.

- **OBUL would like to be the bank of choice for its partners.** There are several banks offering group accounts and targeting VSLAs. Naturally, OBUL would like to be the chosen bank for its partners. However, most partners prefer to train VSLA members to assess bank services and select the bank they would like to use, based on the service features and benefits that fit their needs best.

Suggestion: OBUL should strive to provide the best service. VSLA partners should be frank and quick in communicating issues with bank services so that OBUL staff can quickly rectify the issue and provide improved services.

Prospects: Larger numbers of OBUL staff are becoming aware of the VSLA market, OBUL's products, and VSLA support partnerships as OBUL extends training throughout the bank. VSLA partners are developing relationships with OBUL staff – building on the recent workshop – and feeling more comfortable sharing feedback. Trust is being built with increasingly positive interactions.

Because the main route to VSLAs and this customer base is through VSLA support partners, OBUL staff recognizes the importance of maintaining good partner relationships.

3.4.4 PARTNERSHIP FOR DEVELOPING THE VSLA-BANK LINKAGE SERVICE

The most significant partnership for OBUL in this VSLA-Bank linkage project was their partnership with CARE International in Uganda. CARE International, as the global leader in VSLA development and VSLA-Bank linkages, provided invaluable guidance and resources to OBUL. At the early stage of the program CARE staff educated OBUL program managers about the intricacies, risks, and strategies of linking VSLAs to banks. This dialogue took place in the context of negotiating a clear partnership agreement. Once this agreement was in place and



OBUL staff were well aware of the issues and good practices, it was easier and faster to negotiate and enter other partnerships. As OBUL developed its VSLA service offerings, specific guidance provided by CARE was crucial to rapid development and implementation. Particular elements or tools within the CARE guidance that have been especially helpful include the following:

1. Principles in VSLA-Bank linkages
2. The VSLA Scorecard: for rating VSLA readiness for bank linkages
3. VSLA training materials: for training bank staff and for training VSLAs on bank-linkages
4. General guidance, learning papers, case studies

Throughout this document, the CARE principles and guidance are referred to as global good practice, and comments are made on the extent to which OBUL has adhered to all elements of the guidance. For the most part, OBUL staff is in accord with and strives to implement all the guidance, but there are elements that have been challenging to implement in the timeframe, and that OBUL has felt were a lower priority than others. For example, OBUL has left the issue of VSLA readiness to open a savings account in the hands of its partners, some of whom apply the CARE scorecard, but not all. As a “proxy” for the scorecard, OBUL expresses to partners that they would like to be introduced to VSLAs who are more mature, especially those running smoothly for two years. In another example, OBUL is unable at this time to take the risk of uncollateralized lending. Rather, they are attempting to communicate clearly with VSLA leaders and members that a portion of their savings will be kept as collateral, specifically 20% of the loan amount. These requirements are in line with other group loans that OBUL offers, including agricultural production loans. OBUL maintains a dialogue with CARE about these issues, and both partners are sharing experience with the global community interested in VSLA-Bank linkages.



4 ISSUES FOR FORMAL FINANCIAL INCLUSION

In the course of this rather short pilot in VSLA-Bank linkages, several core issues of concern to the field of financial inclusion arose. As OBUL and other Opportunity Banks go forward with VSLA-Bank linkages, Opportunity will be following these issues to generate and share lessons. So far, the limited experience of this project and other similar work at Opportunity suggests potential resolutions to these challenges.

- 1. Retention of VSLAs beyond the pay-out period.** So far, OBUL has only recruited VSLAs to open accounts and deposit savings. By January 2016, it is expected that all VSLAs will share-out their savings, reducing their balances to zero. At that point members will make a decision about whether to continue using their savings accounts with the bank. Due to this seasonality in VSLA operations, OBUL and other banks serving VSLAs would be wise to consider a marketing push to promote deposits or continued account usage in early 2016. Such annual marketing initiatives may become a regular part of promotion activity.
- 2. The Profitability of VSLAs for Banks.** Banks such as OBUL should track and analyze the transactions, costs and income earned from bank services to VSLAs. Bankable Frontiers Associates (BFA) conducted a savings product profitability analysis for OBUL in mid-2015, with a focus on OBUL's main savings accounts, which are individual accounts. BFA was able to segment OBUL's customer base, identifying customer groups based on behavior. They identified groups that save in ways that are profitable for the banks, and groups that might be influenced to do so, thus recommending a marketing and promotion strategy that is likely to pay off. A similar analysis of the group savings account – over time – would help banks to determine the profitability of VSLA work in general, and to hone in on types of VSLAs and VSLA behavior that generate income and therefore will make bank services to VSLAs and their rural members sustainable in the long run.
- 3. Focus, expectations and sustainability of financial education by banks.** A key element of financial inclusion for less literate populations with less experience with formal financial services is “financial education.” This broad term means different things, from skills in household budgeting to profitability calculations to how to use mobile money services. Opportunity financial education – as is the case with most banks – touches on a range of topics, but focuses on promoting increased and correct use of bank services. For example, an Opportunity workshop may teach basic household or business budgeting, with the underlying purpose of training clients to manage money well so that they make loan repayments in full and on time. Opportunity and other banks have received criticism for focusing their training on bank services, but there are two advantages to this focus. First, a narrow focus on immediate needs and opportunities provides clients with immediately applicable skills, an approach considered best practice in financial education. Second, the more banks see financial education as benefitting business, the more likely they are to incorporate it into their business model – thus sustaining financial education without grants. A recommendation emerging from this and other related projects is that the bank should establish and communicate better expectations of its financial education, and potentially present it as “Taking Full Advantage of Bank Services” or “How to Benefit the Most from Your Bank,” and so on.
- 4. Client protection and social performance with VSLA and other group loans.** One challenge identified in working with VSLAs (which has come up with other similar group products) is that only the leaders are required to be identified with proper identification and validated residential locations. In addition, VSLA partner organizations are the primary organizations gathering data from clients. Opportunity follows the standards of



the SMART campaign for client protection, and uses a Social Performance Management system to monitor client protection implementation as well as to assess other aspects of social performance, including outreach to the poor and women's empowerment. Without direct access to clients, specifically without clients either completing an individual application form or being listed in OBUL's client database, the social performance system in use by OBUL and other banks will not gather client protection or social performance information. Opportunity is embarking on global research on its Social Performance Measurement system ("Measuring Organizational and Client Change through SPM"). Opportunity is part of a global alliance on social performance (Social Performance Task Force) and has put this issue on the global research agenda. In the short run, individual banks like OBUL are left having to work with partners to identify information needs, coordinate data collections, and navigate data sharing mechanisms, resulting in a large amount of work with 10 partners.

- 5. Long-term sustainability of VSLAs as a mechanism for reaching rural, unbanked populations.** Without VSLA support partners, OBUL would not be able to reach VSLA members who represent a significant population of financially excluded people, primarily women. From a mission and business point of view, this is a valuable population for socially-driven banks such as Opportunity banks. However, Opportunity learned a significant lesson with its agricultural finance work, in which partners are essential for providing extension services, organizing farmers and facilitating market linkages. Relying on subsidized partners to reach new clients presents risks. If and when grant-funded projects for VSLA formation and training end – whether nationally or in a particular location – the bank's ability to grow its portfolio and reach out to that population is immediately constricted. Leaders in VSLA organizing and strengthening have been devising sustainable models for VSLA replication, including training and empowering community mobilizers who earn commission from VSLA members to organize VSLAs. OBUL also sometimes uses community mobilizers to recruit clients and/or form solidarity groups, and has been working with "community knowledge workers" (CKWs) in its agricultural financial initiative. These CKWs promote OBUL, collect data from potential clients, help OBUL identify good prospects for Agricultural Finance, and then organize, strengthen and train groups once they are formed. While VSLA support partners are appropriate and critical during this learning phase for OBUL, both the partners and OBUL would benefit in the medium-long term from testing sustainable models for VSLA formation and training – including the community mobilizer model.

For mission-driven banks like Opportunity banks, the business and social prospects of leveraging VSLAs for financial inclusion are strong. As the Iganga branch manager stated, "VSLAs, if well marketed, can improve the bank's savings volume." The Government of Uganda, in 2016, will launch a major VSLA organizing and training initiative that is likely to significantly increase demand for banks services in the coming years. In addition, microfinance funders and many governments in developing countries are recognizing and investing in other community financing strategies that leverage microfinance for community development. Opportunity is pioneering some of this work by financing farmers groups and schools in Africa, and community health initiatives in India. OBUL sees the VSLA savings and loans products as one of many potential group and community-based products that have strong potential for social and business development.



ANNEX 1: COMMUNITY GROUP LOAN VS. SOLIDARITY GROUP LOAN PRODUCT FEATURES

Product Name & Description.	VSLA Group Loan (VSLA members accessing micro loans in order to support their micro enterprises.)	Solidarity Group Loan
Loan Type	<ul style="list-style-type: none"> Community Group Loan 	<ul style="list-style-type: none"> Opportunity Solidarity Loan
Target Group	<ul style="list-style-type: none"> VSLA groups, 10-30 per group 	<ul style="list-style-type: none"> Individuals who form a group of 20-40 members to cross guarantee each other
Purpose	<ul style="list-style-type: none"> On lending to VSLA members 	<ul style="list-style-type: none"> Individual financing for business, agriculture
Terms and Fees		
Loan Amount	<ul style="list-style-type: none"> Min UGX 1,000,000 	<ul style="list-style-type: none"> Min UGX 100,000 per business
	<ul style="list-style-type: none"> Max UGX 20,000,000 	<ul style="list-style-type: none"> Max UGX 5 million
Loan Tenure	<ul style="list-style-type: none"> Min 3 month 	<ul style="list-style-type: none"> Min 4 months
	<ul style="list-style-type: none"> Max 12 months for mature groups 	<ul style="list-style-type: none"> Max 12 months
Interest Rate	<ul style="list-style-type: none"> 2.25% per month Flat- 	<ul style="list-style-type: none">
Loan Processing Fee	<ul style="list-style-type: none"> 50,000/-flat not application and processing fees 	<ul style="list-style-type: none"> Lending arrangement fee, Monitoring fee, and loan application fees, all a % of the amount borrowed.
Stamp Duty	<ul style="list-style-type: none"> 10,000 up front- 	<ul style="list-style-type: none"> (See above)

(Continued next page.)



Product Name & description.	VSLA Group Loan (VSLA members accessing micro loans in order to support their micro enterprises.)	Solidarity Group Loan
Calculations		
Determination of Loan Amount	<ul style="list-style-type: none"> Based on VSLA assessment guided by the relationship officer at a group meeting. Determined by the last shared out amount. 	<ul style="list-style-type: none"> Solidarity group's capacity, character, group cohesion, contribute to the determination of the solidarity group loan amount.
Determination of Loan Term	<ul style="list-style-type: none"> Based on group performance on repayments but first cycle 3 months, second 4 months and 6 only for third cycle and above. Month of sharing is put into consideration, so that loan term does not go beyond sharing month. 	<ul style="list-style-type: none"> Between 3 months and 1 year, increasing with multiple loan cycles.
Determination of Interest Rate	<ul style="list-style-type: none"> Based on market rate, assessment of cost of funds as well as risks associated with VSLA lending methodology. Rate at 2.25 % per month; Flat for now. 	<ul style="list-style-type: none"> Based on market rate, but currently ranging from 2.5% - 2.75% depending on the size of the loan.
Disbursement Mode	<ul style="list-style-type: none"> Full disbursements to the VSLA account for onward disbursement to individual members. All charges are prepaid. 	<ul style="list-style-type: none"> Disbursement to individual members; for farmers, sometimes in-kind disbursement
Calculation of Interest	<ul style="list-style-type: none"> Flat basis 	<ul style="list-style-type: none"> Flat basis
Repayment Mode	<ul style="list-style-type: none"> Monthly loan installments 	<ul style="list-style-type: none"> Weekly installments; for farmers, balloon payments for principle according to crop schedule
Installment Date	<ul style="list-style-type: none"> As indicated on the repayment schedule issued to the group 	<ul style="list-style-type: none"> As indicated on the repayment schedule issued to the group

(Continued next page.)



Product Name & Description.	VSLA Group Loan (VSLA members accessing micro loans in order to support their micro enterprises.)	Solidarity Group Loan
Documentation		
Required Legal Documents	<ul style="list-style-type: none"> • VSLA Constitution • Resolution to borrow from members of the VSLA • Certificate of registration from Community Development Officer (CDO) • Group Loan application form – completed • Valid ID for signatories (Voter cards, LC ID, Passport, Drivers permit, National ID) 	<ul style="list-style-type: none"> • Group constitution and certificate of registration from the CDO • Individual guarantees and guarantees from the group, signed by leaders • Individual loan application forms – completed • Valid ID for individuals
Client Eligibility Criteria		
Legal Form of Business	<ul style="list-style-type: none"> • VSLA Certificate of registration from Community Development Officer (CDO) 	<ul style="list-style-type: none"> • Group certificate of registration
Banking Experience	<ul style="list-style-type: none"> • 3 months banking/saving relationship before accessing credit 	<ul style="list-style-type: none"> • Four weeks of savings experience with the bank
Business Location	<ul style="list-style-type: none"> • VSLAs within the proximity of OBUL's branch network and not beyond 80 km radius away • from the branch 	<ul style="list-style-type: none"> • Within 50 km of a branch location
Nationality of Proprietor/Partners/Key person(s) of company	<ul style="list-style-type: none"> • Ugandans as determined by the VSLA 	<ul style="list-style-type: none"> • Ugandans as determined by the individual identification cards
Age of Proprietor/ Partners/Key person(s) of the VSLA	<ul style="list-style-type: none"> • Age of member borrowers: above 18 years but not more than 70 years 	<ul style="list-style-type: none"> • Above 18 years but not more than 70 years
Age of VSLA / individual business	<ul style="list-style-type: none"> • At least 2 years in existence – for the VSLA 	<ul style="list-style-type: none"> • At least 1 year in existence – for the individual business
Collateral		
Collateral	<ul style="list-style-type: none"> • Loan security fund of 20% 	<ul style="list-style-type: none"> • Loan security fund of 15%



ANNEX 2: DETAILED METHODOLOGY

The research for this case study took place in November, 2015 and was conducted jointly by Opportunity International – US Knowledge Management team and DEMIS Consults. The methods and data sources for the research were the following:

- Literature review, bringing to bear global and Ugandan good practice
- Project document and data review, including proposals and reports
- Interviews with OBUL staff at central and branch levels (3 staff at headquarters and 7 staff in 3 branches)
- Interviews with partners staff at central and field levels (6 staff in 4 partners)
- Focus group discussions with VSLA leaders and members (9 groups with 143 members present)
- A participatory workshop with OBUL and VSLA staff members at central and branch/field levels (24 participants)
- OBUL senior management engagement through a draft presentation of findings and subsequent discussion (approx. 10 managers present)
- Engagement of Opportunity International project managers

The tables below provide lists of staff and groups consulted.

Table A2-1 OBUL Staff Interviewed

Name	Location	Position
Rogers Kakeeto	Kampala-Head Office	Head Of Marketing And Business Development
Simon Senyonga	Kampala-Head Office	Marketing And Business Development Project Manager
Tony Junet	Iganga	Manager
Alex Katende	Kampala-Head Office	Microfinance Supervisor VSLA Champion
Simon Kuteesa	Nansana	Relationship Officer
Samuel Kisitu	Mayuge	Operations Manager
Grace	Mayuge	Marketing Officer
Harriet Kabuye	Iganga	Branch Manager
Jangopa John	Iganga	Field Supervisor
Wosukira Lawrence	Iganga	Branch Relationship Officer

Table A2-2 Partner Staff Interviewed

Name	Organization	Location	Position
Nakiryia Harriet	Act 4 Africa	Mayuge	Instructor
Sanon Mukose	Act 4 Africa	Mayuge	Instructor
Henry Mutabazi	CARE	Kampala	VSLA-Bank Linkage Manager
Badru Senfuka	READ Uganda	Nakasongola	Field Officer
Lubowa Henry	READ Uganda	Nakasongola	Field officer
Sande John	SEPSPEL	Iganga	Field officer



Table A2-3 VSLA Focus Group Discussions

Name of VSLA	# of group members	# of group members met	Location
Bugaga Kutereka	30	17	Gamba Village, Namayumba s/c, Wakiso District.
Nkobazambogo Credit Association	26	12	Kitayita Village, Namayumba s/c, Wakiso District.
Tukolere Wamu Savings Group	30	17	Bulyana Village, Namayumba s/c, Wakiso District.
Ziritwawula Savings Group	35	20	Kabale Village, Kakooge s/c, Nakasongola District.
Balikyewuunya Credit And Savings Group	35	15	Kabaale village, Kakooge s/c, Nakasongola District
Tulina Esuubi Buddu Savings Group.	30	18	Kabaale Village, Kakooge s/c, Nakasongola District.
Tukolere Walala Savings Group	18	9	Magamaga Town, Mayuge District.
Ndigyegaana Ntya	30	16	Matuba Village, Mayuge District.
Bakusekamajja Group A Credit And Savings	36	19	Kazigo-Kyanvuma Village, Luuka District, Iganga.

(Continued next page.)



Table A2-4 VSLA-Bank Linkages Workshop

Name	Organization	Position
Patrick Kigongo	ACT 4 AFRICA	Country Manager
Wange Ignitius	AVSI	Project Officer
Nakasi Cathy	AVSI	Project Officer
Geofrey Mbirizi	LWR	Program Manager
Ambrose Ogwang	NUDIPU	Project Officer
Yovani Watindi	OBUL	Branch Manager
Harriet Kabuye	OBUL	Manager
Mariam Babirye	OBUL	Branch Relationship Supervisor
Aggrey Kintu	OBUL	Branch Manager
Tony Junet	OBUL	Branch Manager
Margret Namazzi	OBUL	Transformation manager
Alex Katende	OBUL	Microfinance supervisor
Simon Senyonga	OBUL	Project Manager
Agnes Kayongo	OBUL	Microfinance manager
Robert Kiwalabye	OBUL	Branch Relationship Supervisor
Adrine Atusasire	READ	Project Manager
kibuuka Elisha	READ	Project Officer
Senfuka Badru	READ	Cased Based Initiatives
Iubowa Henery	READ	Project Officer
Ali Balimumiti	SEPSPEL	Project Officer
Kaluuba Kassim	SESPPEL	Project Officer
Alfred Kiwalazi	Stromme	Livelihoods Manager
Denis Lutung	Stromme	Project Officer
Nakandi Patricia	UBC	Reporter



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