CARE Access Africa

Principles of Linkages

Group is linked, not individuals: An important component of the VSLA groups is their ability to make decisions about the utilization of group funds, and the skills they gain in managing those funds. Therefore, we recommend that MFI's lend not to the individuals in the group, but to the group as a whole. In a traditional group methodology individuals within a group would apply for a loan, the group would approve the request, and the MFI would fund that loan (with or without their own internal approval process. Experience has shown that for VS&L group it is more appropriate for the group itself to receive a lump sum loan into the common pool. Those funds would then be commingled with the group savings and would be distributed in the same manner. This maintains the group cohesion and reinforces the growing financial skills of the members. Under this system, the concept of joint and several liability is still maintained as in a traditional group lending scheme.

Maximum debt to equity ratio: CARE will recommend a maximum debt to equity ratio for the VSLA groups. A suggested ratio is 3 to 1. In previous linkage efforts, where CARE has not set this limit, some groups have become over-indebted, which has lead to default and group dissolution.

Balloon repayments: CARE recommends that group loans are repaid in one balloon payment, due at the time of the scheduled share out. If groups are required to follow a traditional monthly or biweekly repayment schedule, it slowly decapitalized the group throughout the lending cycle. Because the group constantly revolves the loan funds this decapitalization can be extremely frustrating, as people are likely to want to take larger loans as the cycle progresses, but may be forced to take smaller loans as the make repayments to the MFI. Loan documents and group practice should reinforce that external debt be repaid before shares are distributed when the group liquidates.

Limit collateral deposits: Some microfinance institutions require manadatory savings deposits before loans can be made. These serve a dual function; they encourage a savings culture and also act as collateral for the outstanding loan. However, VSLA groups already have a saving culture, and have an existing savings pool that acts as collateral for the loan. VSLA groups have a history of receiving high return on their savings, as interested paid on loans is earned as return on savings during share-out; therefore forced savings with no or little return can be extremely frustrating. The groups existing financial records of past experience managing their finances should count towards their financial history.

Minimum age of groups for linkage is 1 year – preferable 2-3 years: Linkage is a graduation step for some VSLA groups. VSLA members use the financial services from the groups to manage their household economies and to gain important financial management skills. Most VSLA members have limited demand for high levels of credit when they first join the groups, as they have limited ability to invest the money productively. It is only once HH finances are stabilized, small IGAs have grown a bit and financial skills have been gained that groups are ready and able to take on outside debt.

Linkage is not automatic – demand driven and performance based: Some groups will never link to external sources of funds, often because the group will be able to meet its members needs. CARE has experience with older group intermediating up to $9,000, with members able to receive loans up to $500. CARE will not encourage linkage as an automatic next step, it will be based on demand by the members for additional resources. The linkage step also needs to be based on the performance of the group. A group that experiences high default rates or is unable to conduct their share-out without external help is not ready for the added responsibility of external funds.