CARE Rwanda

A Sustainable Access to Financial Services for Investment (SAFI) project

Learning Document

On

Financial Linkages: Theme number 1

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Finally, to the VSLA groups, thank you for sharing your stories with us. You have made us better informed and experienced people by our interactions with you.
2 Abbreviations and Acronyms

AEE African Evangelistic Enterprise
AMIR Association of Microfinance of Rwanda
CLASSE Community Learning and Action for Saving Stimulation and Enhancement
CO Credit Officer
FGD Focus Group Discussions
FI Financial Institutions
FO Field Officer
IG(s) Intergroupment(s)
KII Key Informant Interviews
MFI Micro Finance Institution
MIS Management Information Systems
MoU Memorandum of Understanding
NGO Non Governmental Organization
NBR National Bank of Rwanda
PIC Project Implementation channel
SACCOs Savings and Credit Cooperative Organizations
SAFI Sustainable Access to Financial Services for Investment
SLA Savings and Loans Association
ToR Terms of references
UOB Urwego Opportunity Bank
VA(s) Village Agent(s)
VSL Voluntary Savings and Loans
VSLA(s) Voluntary Savings and Loans Association(s)
VF Vision Finance
VFC Vision Finance Company
VFC CO Vision Finance Company
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3 Executive Summary

Financial linkages are aimed at integrating the poor into formal financial systems on a demand driven basis, and encouraging the formal financial systems to view the extremely poor as potential markets. CARE Rwanda promotes this transformative approach to reduce poverty by linking savings-led groups with formal financial services and innovations to make those services more accessible and affordable for the poor. The financial linkage will allow VSLA clients to access higher level financial services, including greater loan amounts to groups’ members, insurance and a more secure place to save their money.

Currently, CARE Rwanda through the SAFI project is partnering with Vision Finance Company (VFC), a MFI, to provide savings and loan products and services that meet the financial needs of VSLA clients without compromising the VSLA methodology. SAFI plans to explore partnering with other financial institutions to promote savings given the limited time frame and high demand for savings facility from the VSL groups.

This report analyzes the SAFI project’s VLSA groups linked to Vision Finance Company for the purpose of documenting current processes and lessons learnt comparing from previous linkages in CARE Rwanda. It also seeks to understand the challenges and successes of the current financial linkage in order to determine how the groups are affected by financial linkage and make recommendations for future actions for Rwanda and sub Saharan Africa.

Based on the analysis in this report, the financial linkage with VFC has been built on the lessons learnt from CARE Rwanda’s Banque Populaire experience. Despite operational challenges, the linkage has been very successful with no known adverse effects on the VSLA methodology. However, other MFIs and ways of linkage need to be considered for linkage scale up.

There is no indication that VSLA methodology is adversely affected by the linkage. On the contrary, linkage further strengthens the VSLA methodology and improves the performance of the group. The stringent requirement of the methodology in addition to the training and coaching received in the first year prepares the group adequately for linkage. Another important attribute of the methodology is that it instills discipline without being overbearing for poorest. It also self selects - rejecting those who are lazy and not committed and rewarding the efforts of the creative and hardworking meaning that one joins only after a thorough an informed self reflective process.

The linkage process is still in its early stages and more monitoring is needed to determine its long term effects. However, based on the current qualitative and quantitative data available, the linkage has a positive effect on the poorest. Members of groups who did not borrow from the external loan accepted without complaint the reality that they are sharing risk for a loan which they themselves are not directly going to access. The prevailing rationale is that the interest that is generated from borrowers through the spread, which will be distributed in the share-out, is a sufficiently attractive benefit to offset the downside of the solidarity group guarantee. For the same reason,
these non-borrowing members do not complain even when the mandatory collateral deposit is paid with group fund resources. In the sampled groups where all the members did not desire the outside loans, those that opted out of the external loans still had access to the group’s loan funds. Also, as those who did not make use of the increased borrowing capabilities saw the progress made by their fellow group members, they were encouraged to make use of these external loans and are waiting patiently for the next loan cycle.

3.1 Recommendations for future linkages

- Identify other MFIs with strong rural presence to link the VSLA groups to. This will encourage competition and better branch coverage to meet the needs of the VSLA groups. The success of the current linkage will serve as a marketing tool for the VSLA groups. In addition, AMIR has started promoting VSLAs in their meetings, so more MFIs now have knowledge about VSLA groups.

- Partner with NGOs that have ties to an MFI e.g. World Vision/Vision Finance, World Relief/UOB, AEE/ Amasezerano Bank. In this case, the NGO gets the grant to form and train the groups which are then linked to MFI when they are ready while CARE shares the initial costs, supervises and provides technical support. The budget supporting operation costs could be such that it decreases over the years as the groups become self sufficient and profitable.

- Mobile banking looks to be the most promising delivery channel to reduce the high operating costs currently being incurred by VFC and the VSL groups, but it is not without its challenges. VFC plans to roll out its mobile banking system (in partnership with MTN) in October to all its branches, however, there is still a problem of the availability of mobile agents in the rural areas to adequately support these groups. While this is a challenge, it is also a business opportunity that can be exploited by group members.

Based on all the qualitative and quantitative data available, it is obvious that the SAFI linkage to VFC has been very successful so far. However, since it is still very early in the process, continuous monitoring as well as addressing some of the operational and sustainability challenges raised in this report will help ensure better long term performance.
4 Aim and Objectives
SAFI is a three year project that started in 2009 and is funded by the MasterCard Foundation and the Canadian International Development Agency (CIDA). The purpose of this project is to enhance the livelihood, security, and financial literacy of at least 108,200 Village Savings and Loans Association members. Learning is a core component of the SAFI project.

The projects specific objectives include:

1. Scale-up CARE’s VSLA methodology and improve access to financial services through a multi-pronged implementation model led by a VSLA Technical Support Unit
2. Develop sustainable linkages with formal financial institutions to ensure that VSLAs can access savings, loans and other services targeted to their needs.
3. Facilitate learning and knowledge management

Learning (objective 3 above) is a core component of the SAFI project. The main objective of the learning is to provide important tools, models and lessons on providing access to financial services for communities in Rwanda1 and Africa.

The learning under this theme is focused on documenting CARE Rwanda’s past and present experience with linkages as well as understanding the positive and/or negative effects of VSL group participation in linkage to formal Financial Institutions2.

The objectives of this learning theme are to:-

- Understand the effects of financial linkages on the group’s management and members.
- Understand the impact of financial linkages on VFC in terms of outreach, loan portfolio, and financial performance.
- Understand and address any negative or unintended effect on the VSL groups or members as a result of financial linkages.
- Assess the usefulness and readiness of financial institutions to promote financial linkages to informal financial groups.

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1 Scope of Work & Terms of Reference: Documentation of Learning for the CARE Rwanda SAFI Project (See Appendix 1)
2 CARE Rwanda SAFI Project learning theme strategy and work plan
5 Methodology

The study was carried out by conducting an assessment of the financial linkage from the perspective of VSLAs, CARE, Partner NGOs and VFC. The data gathering activity involved:

5.1 Secondary literature review
The initial phase of the project involved reviewing various SAFI project documents with focus on studies and information relevant to past and present financial linkages.

5.2 Focus Group Discussions with VSL Group Members
Primary data was collected in Focus Group Discussions (FGDs) with VSLG members and with VSLG Committee Leaders/Village Agents using a modified version of the Linkage monitoring tool developed by Access Africa (See Appendix 1). Given the time constraint and the qualitative nature of the data needed, we collected data from Focus Group Discussions (FGDs) with 8 VSLG and with 8 groups of VSLG Committee Leaders/Village Agents. In order to understand the effect of the financial linkage, the groups selected for the FGD had to have been linked to VFC for at least 6 months and used both savings and loan products.

5.3 Key Informant Interviews (KII) with Vision Finance Company and CARE Staff
To understand the Linkage process from the perspective of different stakeholders, we conducted Key Informant Interviews with Credit Officers and Branch Managers from Vision Finance Company as well as Project Managers and Field Officers from CARE Rwanda who were directly involved in the linkage process. See Appendix 2 for the tools used to collect the data from the different respondents.

5.4 Quarterly MIS data evaluation and Financial Information on Linkage from the Vision Finance Company
A trend analysis was conducted based on performance indicators in the quarterly MIS data from the SAFI project. The sample size for the trend analysis was 45 groups (16 linked for credit and 29 not linked), with 15 groups per field officer with groups linked for credit. The groups selected were created at about the same time and were in the same districts. Financial data on the linkage from VFC was also used in analysis.

Review of past linkage between CARE Rwanda’s CLASSE-Intambwe and Banque Populaire
In 2005, CARE Rwanda’s CLASSE-Intambwe, which are Savings and Loan Associations (SLAs) were linked through federations (called Intergroupments) to external loan funds (provided by CARE) at the Banques Populaire, a network of credit unions with a strong presence in rural Rwanda.

Perhaps the most innovative feature of CARE Rwanda’s CLASSE-Intambwe was their federation into Intergroupments (IGs) consisting on average of 25 to 35 VSLAs from villages clustered in a given area. The role of these IGs was to represent VSLAs vis-à-vis CARE, the local Banque
Populaire, local authorities and others. IGs also provided training and advice to VSLAs, and often trained new associations in the CLASSE-Intambwe methodology. The IGs’ most important function was to act as an intermediary between VSLAs and the Banque Populaire to access credit.3

Detailed information of CARE Rwanda’s CLASSE-Intambwe linkage between Banque Populaire can be found in Jan Maes’s August 2007 report, “Linkages between CARE’s VS&LAs with Financial Institutions in Rwanda” and in John K Beijuka’s September 2010 report, “VSLGs Linage Product Development And Needs Assessment”

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3 “Linkages between CARE’s VS&LAs with Financial Institutions in Rwanda” - Jan Maes, August 2007
6 CARE Rwanda’s SAFI Financial Linkage process

A systematic process is used to link the MFI to VSLA groups in the SAFI project. This process is given below:

6.1 Pre-linkage process under SAFI project

- Rwanda’s financial market needs assessment study was conducted to identify constraints and gaps in terms of products, infrastructure, etc within the FIs in the promotion of linkages with VSLGs such as inadequate outreach, high charges for their services, minimum balances for savings products requirements, too frequent repayments (weekly) for the loan product and loan periods that do not take into account of VSLA’s seasonality income flows, etc.

- A VSLG’s needs assessment study was conducted with the purpose of identifying financial products to offer VSLA Groups through the linkage arrangements which address the needs and preferences of the VSLA groups and their members. The needs were identified, analysed and prioritised.

- Based on the financial market, VSLGs needs assessments and the criteria for identification of potential FIs (See Appendix 3), Urwego Opportunity Bank and Vision Finance Company (VFC) were identified as suitable FIs to link matured VSLG first as a pilot for six months to test the:
  a) the suitability of the savings and loan products that have been developed
  b) the VSLGs maturity and section criteria for linkage
  c) Implementation of the MoU in general and application of the roles and responsibilities of the parties in the linkage arrangement in particular.

- Once the FIs were identified, CARE conducted a series of meetings with the Bank’s Management to finalize the MoU. In this phase, Vision Finance Company accepted to sign the MoU (See Appendix 4) with CARE whereas the Urwego Opportunity Bank declined to come to an agreement as they were not confident whether VSLA members would be good clients for the bank based on the mixed performance of the previous partnership arrangement. The MoU clearly defines the roles and responsibilities of CARE, VFC and VSL Groups.4

4 “VSLGs linkage product development and needs assessment” – John Beijuka, September 2010
6.2 Linkage process

The figure and steps mentioned below describes the process followed for the linkage between VFC and VSL Groups

1. PIC identifies suitable VSLA Groups to be linked to Vision Finance Company for Savings (See criteria in Appendix 5)
2. PIC refers these groups to the VFC Credit Officer who evaluates the suitability of the group for a savings product.
3. The VSLG is trained on external savings and loans and on the linkage process by the VFC CO. The complete training involves 5 modules. Then the group decides whether or not to be linked to the financial institution.
4. VF Bank Credit Officer informs the group on the requirements to open a savings account (See Appendix 6 for the list of documents required). The group submits the required documents and opens a savings account.
5. When the group demands a loan and has met the requirements for getting a loan, the VFC CO informs them on the documents required to open a loan account. The group decides the loan amount needed and submits a loan application with the other required documents to VFC CO (See Appendix 6). The VFC CO reviews the application considering the group’s capacity and previous savings to identify a suitable loan amount. This amount is then disbursed to the group. At present, the loan amount is at maximum equal to the amount of money which was shared out in the groups last cycle.
6. The VFC CO follows up with the VSL Groups and collects the monthly repayments from them. Once the Loan Cycle is over, VSL groups can apply for another loan with a higher loan amount -50% more than the previous loan amount. (See Appendix 7 for requirements for a second loan).

<table>
<thead>
<tr>
<th>Number of VSLA groups linked for Savings</th>
<th>308</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of VSLA groups linked for Savings and Loans</td>
<td>51</td>
</tr>
<tr>
<td>Total amount saved by VSLA groups in Vision Finance</td>
<td>10339.5</td>
</tr>
<tr>
<td>Total amount of loan taken by VSLA groups from Vision Finance</td>
<td>30163.49167</td>
</tr>
</tbody>
</table>

Table 1: Status of the linkages process with Vision Finance Company (as of June 2011)
# Comparison of VSLA Groups and VFC Linkage with linkage of CLASSE-Intambwe and Banque Populaire

In this section we analyze whether the recommendations made in “Linkages between CARE’s VS&LAs with Financial Institutions in Rwanda” - Jan Maes, August 2007, after the linkage experience with Banque Populaire have been implemented with the VFC linkage or not. The major differences between the VFC linkage and the Banque Populaire linkage are given in Appendix 8 while the statuses of the recommendations are given below.

<table>
<thead>
<tr>
<th>Recommendations from Banque Populaire Experience</th>
<th>VFC linkage</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bank or MFI partner needed with strong presence in rural areas. For most African countries population density will be much lower than in rural Rwanda, so cost-efficiency will be harder to achieve.</td>
<td>FIs in Rwanda including VFC have a very weak rural presence. In some regions, there are no branches or the branches are as far as 50 KM from the VSLA.</td>
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<tr>
<td>2. Strategy to replace CARE’s credit fund with bank’s own funds should include an interest rate that is high enough and competitive in the market place from the beginning for the bank partner to continue lending after CARE withdraws its credit fund.</td>
<td>In the case of VFC linkage, the Credit fund and Credit risk is taken by the FI. Also the flat interest rate of 2.5% per month is high enough and competitive in the market. CARE discontinued injection of the credit fund as it was proven unsustainable and contradictory to its role as facilitator of a conducive micro/macroeconomic environment.</td>
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<td>3. The goal should not be to link every VSLA to external credit, as many might not be interested in or capable of using bank loans productively. Similarly, there should be a mechanism in place that prevents a powerful minority within an VSLA to monopolize the decision making as to whether to use the internal fund as deposit for a bank loan or as internal loan fund.</td>
<td>This recommendation is taken care of in the case of linkage with VFC bank. CARE is closely monitoring the process to ensure that linkage principles are adhered to on the ground – groups and not individuals are linked; group cohesion is used as collateral for linkage and not group funds themselves.</td>
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<td>4. Access to loans should not discourage VSLA</td>
<td>The VSLA groups &gt; 9 months have</td>
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<tr>
<td>members from saving, and should not be introduced too soon (two years after start of VSLA training is recommended). Especially for very poor, it is important to allow them to accumulate their own savings and a minimum level of productive assets.</td>
<td>been identified as eligible for linking for saving account. Although it is less than the recommended 2 years, no issues have been noticed so far because this addresses an existing risk of group fund theft if kept at home in a box. Groups linked whether for savings only or both savings and credit undergo an assessment using an existing linkage tool before proceeding with the linkage. It was however recommended from the John Beijuka report that linkage should be done beyond one year and this requires project life span of more than 3 years. Future donor negotiations need to incorporate this into the design.</td>
<td></td>
</tr>
<tr>
<td>5. At least as important as the credit linkage are non-financial enterprise development services (access to new markets and value chains, skill training, technology).</td>
<td>VSLA groups have been given training on SPM and Financial Linkages, but there is a need for additional trainings and skill building. The current VSLA guide needs to be synchronized with the SPM and Financial Education curriculum to maximize the benefit.</td>
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<tr>
<td>6. Sustainability strategy: to develop IGs into business service centers or VSLAs, with capacity to provide fee-based services. The sustainability of this approach depends critically on the capacity of IGs to deliver quality services to VSLAs at full cost recovery. According to John Beijuka report, “The VSLAs capacity needs to be built focusing on preparing them to mature and directly access external financing without</td>
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<tr>
<td>Although IG model is not used in SAFI project, VAs are key to the sustainability of linkages. There is a need to build capacity of VA on linkages and agreement with the bank to reimburse the VAs for their services in form of commission or whatever might be appropriate. It has been learned that the efforts applied on building the capacity of</td>
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<td>Having to go through IGs intermediation. The VSLA members interviewed were of the view that once the associations are well prepared to maturity, demand for linkage is automatic. The groups need to reach a level where they can compare and decide on which FI to link with. The capacity building needs to focus on creating and linking quality VSLAs and quantify that need for linkage for both savings and credit through a pilot in one or two districts.</td>
<td>IGS did not translate into improved capacity on the SLAs despite the SLAs paying for such services. Any efforts aimed at facilitating access to formal financial services for SLAs should be directed at the SLAs themselves using a paid agent.</td>
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<tr>
<td>7. Clients need education on credit and consumer protection. It will also be advisable to let the financial partner ratify the new CARE code of conduct in microfinance.</td>
<td>No known instances where VFC have worked against the CARE code of conduct in microfinance. CARE’s linkage principles embrace the consumer protection code of conduct but the financial education curriculum to incorporate SPM manual will also include the consumer protection code of conduct to enable VSLAs and their participants exercise their client rights.</td>
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<tr>
<td>8. CARE should play more of a facilitation role and to be careful not to present the VSLA members as its microfinance members but as potential good customers for the financial institutions.</td>
<td>The recommendation has been followed with the VFC Linkage. CARE prepares SLAs through partner capacity building and has developed a linkage assessment tool that assesses groups’ readiness for linkages. Only mature and qualifying groups are recommended for linkage and CARE will ensure this is happening on the ground.</td>
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<tr>
<td>9. It will be ideal to emphasize from the inception the leverage or risk sharing to allow the financial institution to also share</td>
<td>VFC takes the complete credit risk as a social/commercial model. A clear MOU was agreed specifying roles and</td>
<td></td>
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part of the risk. In this case, the UBP does not take any risk and resists lending its own fund to the VS&LAs, unless the 30 percent payment is waived. A clear cost-benefit analysis needed to take place at the beginning to ensure that the model is profitable for each party before it is launched.

responsibilities of each player without a guarantee fund where CARE and implementing partners prepare SLAs to be viable clients for VF and other MFIs and VF plus other MFIs are responsible for supplying the appropriate financial products as assessed during the product identification process.

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<tr>
<td><strong>10.</strong> It will be advisable to bring the relationship with the financial institution at the board level as well, not only at the management level. This will help to convince the board members about the potential of the new market segment and could put pressure on them in delivering on both their social and commercial missions</td>
<td>There is a healthy relationship between CARE and VFC management. CARE staff have met with the Board Director, Managing Director and senior executives as well as sensitized Govt. of Rwanda on the partnership and what it aims to achieve.</td>
</tr>
</tbody>
</table>

In the table below we analyze whether some of the key recommendations made in “VSLGs Linage Product Development And Needs Assessment” - John K Beijuka, September 2010, have been implemented with the VFC linkage or not.

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<table>
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<tbody>
<tr>
<td><strong>1.</strong> Because of proximity, easy access for supervision and concentration of new matured but not linked VSLGs, the pilot test for bank linkages should be in the eastern and southern provinces.</td>
<td>The linkage has been piloted in the Eastern province.</td>
</tr>
<tr>
<td><strong>2.</strong> The primary focus of the project should be on the savings account. The loan and potentially insurance products could be considered at a later stage.</td>
<td>The primary focus with the linkages has been on savings. Only groups which have operated a savings account for at least three months are considered for loans.</td>
</tr>
<tr>
<td><strong>3.</strong> Partner FIs should if necessary look at the products that have been developed with view to adjust or refine and tailor them to suit their loan policies,</td>
<td>VFC management has been very proactive with the linkage process. They have</td>
</tr>
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<p>| | |</p>
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<tr>
<th></th>
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<tbody>
<tr>
<td>1.</td>
<td>procedures, MIS and the needs of VSLGs and their members.</td>
</tr>
<tr>
<td>2.</td>
<td>decided to computerize their systems and implement mobile money transaction partnering with MTN.</td>
</tr>
<tr>
<td>4.</td>
<td>FIs should visit and adjust monthly service charges within the VSLGs means preferably 100RWF per month or no charge at all; minimum balances for savings products requirements; and minimum loan sizes. Loan repayment frequency should be monthly or balloon payment to be decided on case to case basis.</td>
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<tr>
<td></td>
<td>VFC is offering a savings product with no monthly charges. Loan repayment frequency is monthly and minimum balance is currently 2000 RWF. VSLA Groups are happy with the current services offered.</td>
</tr>
<tr>
<td>5.</td>
<td>There should be no set up fees. FIs should be flexible and not use harsh recovery methods when payment is not on time due to unavoidable circumstances like draught. Because of seasonality of incomes of VSLG members, an average loan term of 6 months is recommended.</td>
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<td></td>
<td>Currently the maximum loan term is 4 months and based on the discussions with VSLA groups, they would prefer loans with longer repayment periods. Till now, there have been no loan defaults.</td>
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<tr>
<td>6.</td>
<td>The bank/FI should put a full time staff on designing and producing appropriate loan product for the VSLGs and tailored to fit into its system. The proposed products should be tested for acceptability, profitability and sustainability</td>
</tr>
<tr>
<td></td>
<td>Although the Managers at VFC are involved in designing loan product for VSLG, there is no dedicated staff to do so.</td>
</tr>
<tr>
<td>7.</td>
<td>The account opening process should be simplified and adapted for VSLGs to reduce the normal account opening costs such as photocopying different documents and minimize documentation requirements to open an account (paperless banking recommended)</td>
</tr>
<tr>
<td></td>
<td>The VSLA groups have complained about the high costs associated with complying with bank’s requirements for savings and loans. In some cases, the groups have spent more money from their social fund on travelling, photocopies and</td>
</tr>
</tbody>
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8. In collaboration with CARE Linkages Technical Support Professional, banks/FIs should design instruments that are VSLGs specific to help groups prepare properly for their operations with the bank/FI. The current loan products have been designed to meet the needs of the VSLA groups.

9. The loan appraisal process should be shortened without compromising the bank/FI loan policies and procedures. The process should not go beyond 15 days. In addition, the processes should be documented into a simple brochure and train the VSLGs on what is involved and how to save time when applying to open a savings and loan account. In general, the loan process has been less than 15 days and processes are documented. Also VSLA groups are trained by FO and CO to streamline the linkage process.

10. In starting the linkage with either UOB or VFC, the bank/MFI should designate a staff and set up a VSLG desk in easily accessible place in the bank, preferably in banking hall to negate the perceptions that: (a) banks /FI operate in un accessible sophisticated buildings with glass counters, computers, etc5; (b) banks are for the rich with a lot of money; and (c) the staff is not friendly to the poor. Currently VFC has no dedicated staff to serve the VSLA groups. Once the number of groups linked with the bank increases, it would be feasible for the bank to invest in dedicated staffs. Based on the interviews with VSLA groups they feel that they are treated with respect by the Bank staff.

11. Regarding collateral, group savings should not be used because savings of members who do not borrow but save only would be penalised in case of some members defaulting. The main collateral should be groupe solidaire. The loan size should be VFC bank currently takes 10% of the loan amount as collateral which is nominal compared to the 20% of the loan amount they take from

\[ VSLGs \text{ are used to transact their businesses under a tree and every member is respected.} \]
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<td>12.</td>
<td>The only delivery channel for UOB and VFC to open VSLGs group savings and loan accounts is largely their branches. But most of the branches are too far away from the VSLGs they intend to serve. UOB should pursue further the Mobile Branch Outreach Services still on pilot test and VFC the Mobile Phone Banking that is being developed.</td>
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<tr>
<td><img src="yellow.png" alt="Yellow" /></td>
<td>Recommendations have been partly implemented</td>
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<tr>
<td><img src="red.png" alt="Red" /></td>
<td>Recommendations have not been implemented</td>
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8 Linkage Evaluation from VSL Groups’ perspective

From the perspective of the VSLA groups, there were some limitations to the performance analysis done based on the MIS data. Firstly, SAFI groups were linked for savings starting December 2010 and credit starting February, 2011. It is therefore still early to make any concrete conclusions based on the data available. Secondly, MIS data is a snapshot of group performance at a point in time and does not tell a continuous story. A trend analysis was used in an attempt to construct a continuous picture of the group’s performance.

Based on the analysis, it was noticed that when groups linked for credit were compared to other groups in the same area and about the same age, yet to be linked for credit, the recent performance (See definitions of performance indicators in Appendix 9) of the linked groups far exceeded the performance of non-linked groups (See Appendix 11). This has not always been the trend. Looking at the quarterly trends from December, 2009 to December, 2010 - before linkage, there was either not much of a difference between the linked and non-linked groups or the non-linked groups did slightly better. This shows that the non-linked groups chosen for comparison are just as strong as the linked groups and leads to the possible conclusion that the sudden spike in performance from the March 2011 for linked groups can be attributed to the financial linkage. It is also important to note that Portfolio at Risk (PAR) for the linked groups is 0.
Despite the promising outcome of the linkage, the sampled groups with large loans had a lot of anxiety and stress as a result of the loan terms – payment in 3-4 months with a fixed interest rate of 10% (2.5% for the bank and 7.5% for the group). As a result, we decided to investigate if higher loans resulted in better group performance. As seen in Appendix 10, which is a comparison of groups with different types of loans – large (> 500,000 RWF), medium (200,001 – 499,999 RWF) and low loans (1 – 200,000 RWF), all performance indicators behaved as expected with groups with high loans having better performance followed by groups with medium loans and then groups with small loans post linkage.

The low utilization experienced in the June 2011 for linked groups and groups with large loans was as a result of the external loan repayment which led to loan utilization close to zero for the groups with large loans.

8.1 Successes
- There is an increase in responsibility and discipline of the members with no default on payments. In the words of some clients:
  “Everyone is now more responsible for the loan because it is external money”
  “Our responsibility towards the usage of the loans has improved”
  “We follow up with members to help each other and make sure that the loan is being used properly”
- Group members have the ability to practice what they have learnt in financial literacy and management trainings. This is adequately captured in the words of one client - “We have now become experts in loan management”.
- There are more opportunities for individual growth and poverty alleviation due to the availability of larger loan amounts. These loans have been very useful for the clients as they have been able to start new businesses or expand old ones. Some of the businesses undertaken by the clients are buying and selling bananas, sorghum and vegetables; making and selling banana beer and sorghum beer; buying and selling small animals; and maintaining a bee farm for honey.
• Group members can smooth consumption with commercial activities instead of total dependence on agriculture. For example, one of the clients we sampled said she used to sell the bananas on her tree before it was ripe to get money for household expenses. It was hard for her because she would see the bananas everyday but would be unable to touch it. But with her current small business she doesn’t have to sell the bananas so early anymore because she makes enough money for household expenses.

• Group members are now able to build sustainable and trustworthy relationships with a financial institution. In addition, being clients of a bank has boosted their confidence and made them feel important. They are very satisfied with the services of the bank – its services were rated excellent (94%) and good (6%). The services that were rated good were as a result of delays in the loan process and no detailed written documentation of the requirements for saving and loans. All groups surveyed scored the bank excellent with respect to flexibility and responsiveness in addressing clients’ issues and treating clients with respect.

• The fund in the box is secure as it can be deposited in the saving account most especially just prior to share-out.

• Loan fund is not susceptible to seasonal cash flows and is adequate to meet group members’ needs since external funds are also available.

• Members continued saving in the group fund even after linkages and savings amounts were increased

• As group members progress, they are motivated to save more and reach for higher goals.

• Less money in the box due to the use of savings accounts makes accounting easier and reduces mistakes.

• Since the financial power of informal groups is eventually integrated into the formal system through linkages, the contribution of such groups to the economy is reflected at national level unlike when savings and lending continues at an informal level.

Some of the perceived dangers of financial linkage are: reduced focus on savings, over-indebtedness of groups, few members taking advantage of the linkage at the cost of other members of the group, and easy money affecting group solidarity. So far, in the case of the SAFI project, none of these perceived dangers have been realized. It is however still very early in the process and continuous monitoring is needed to determine the long term effect of the linkage.

On the other hand, the linked groups seem to have an increased focus on savings as group members’ capacities increase; there is currently no case of over-indebtedness of the groups since the credit officers take the time to make sure the loan given is based on the group’s capacity. There were few sampled groups where all the members did not access the external loans as a result of fear, no project at the time of loan request or absence on the loan day, but this has not had any effect on group solidarity. The affected members are waiting patiently for the next loan cycle which is not a long wait as the loan terms are only 3-4 months.
8.2 Challenges

- Some groups are situated very far from the bank branch. In some cases where the group’s representatives need to be present at the bank, this might involve travelling long distances for groups in remote villages. It is generally expensive or takes a lot of time if walking.
- High costs of picture and photocopies needed to open an account. Most times the group members have to travel long distances to make these copies or take the pictures. These costs deplete the social fund.
- Some rural villages which are long distances from commercial centers have limited investment opportunities, so the group members do similar businesses/IGAs and are in competition with each other resulting in less profit.
- Short loan term (3-4 months) especially for larger loans makes it difficult for borrowers to manage.
- Constant interest rate despite partial payment of principal i.e. interest is not on reduced principal. The bank requires that the group members pay the principal in installments every month. However, the group members complain that they still have to pay a constant interest rate even when most of the loan principal has been paid back. This is a central bank policy that applies to Microfinance rates.
- Some young groups have large amount of savings in the box because the group members are still too scared to take loans or do not have a project at hand yet. Based on the current process, these groups cannot be linked for savings in a FI.

In spite of the challenges listed above, all the groups sampled were very appreciative of the linkage and would gladly do it again given all the information and experience they have now. However, they would prefer to have

- Banks close to the village to facilitate deposit and withdrawal of savings.
- Reduced costs of opening an account.
- Longer loan terms especially for large loans.
- Groups with large loans would prefer a decrease in commission rate.

8.3 Effect of linkage on VSLA methodology

There is no indication that VSLA methodology is adversely affected by the linkage. On the contrary, as seen above, it appears that linkage further strengthens the VSLA methodology and improves the performance of the group. The stringent requirement of the methodology in addition to the training and coaching received in the first year prepares the group adequately for linkage. Another important attribute of the methodology is that it instills discipline without being overbearing for poorest. It also self selects - rejecting those who are lazy and not committed and rewarding the efforts of the creative and hardworking.

6 VFC requires 3% of the loan amount to be paid as commission for services rendered by the bank
As noted above, the linkage process is still in its early stages and more monitoring is needed to determine its long term effects. However, based on the current qualitative and quantitative data available, the linkage has a positive effect on the poorest. Members of groups who did not borrow from the external loan accepted without complaint the reality that they are sharing risk for a loan which they themselves are not directly going to access. The prevailing rationale is that the interest that is generated from borrowers through the spread, which will be distributed in the share-out, is a sufficiently attractive benefit to offset the downside of the solidarity group guarantee. For the same reason, these non-borrowing members do not complain even when the mandatory collateral deposit is paid with group fund resources. In the sampled groups where all the members did not desire the outside loans, those that opted out of the external loans still had access to the group’s loan funds. Also, as those who did not make use of the increased borrowing capabilities saw the progress made by their fellow group members, they were encouraged to make use of these external loans and are waiting patiently for the next loan cycle.

8.4 Lessons Learnt

- Access to financial services alone is not sufficient to break the cycle of poverty.
- Investment in building skills, financial literacy and business development is critical to the success of the linkage.
- The training and coaching received in the first year of group formation is the bedrock for the success of financial linkages and subsequent initiatives geared towards reducing poverty.
- CARE should only act as a facilitator and make no guarantees on behalf of any of the parties as it is doing under linkages partnership with VF.
- Poor people are bankable; they can save and manage loans effectively and utilize them for investment into businesses. There is however a need to concurrently support with marketing and business development initiatives and focus on the impact these initiatives have on addressing underlying causes of poverty.
- The VSLA methodology instills discipline in the group members and makes it easier for them to work with the bank.

8.5 Possible future linkage actions

- Groups that are not matured but have large amounts of savings in the box could be linked to financial institutions for savings product only to help with the safety of the funds.
- SAFI project should identify/ organize potential groups in the same area to be linked in the same approach i.e. SAFI project should facilitate group meetings of linked groups in clusters at the same time and in the same area to help make efficient use of the credit officer’s time and reduce operation costs.
9 An analysis on VSLA inactive accounts in VFC

In the course of this research, it was discovered that about 30% of the VSLA accounts in VFC Rwamagana branch (covers Rwamagana and Kayonza districts) were inactive i.e. have only the initial account opening transactions. This necessitated conducting focus group discussions with these groups (35 group representatives) to understand the reasons for these inactive accounts as the groups have spent so much money to open the accounts in the first place. Some of the reasons and issues raised by the groups are given below.

- More than half the groups (57%) complained that the distance to the branch is very far and they are unable to justify the cost of going to deposit money in the branch. The distance range from 1 to 4 hours walking or a round trip transportation cost ranging from 600 RWF ($1) to 6,000 RWF ($10) per person.
- 54% think that using that money for internal loans or group businesses like storing grains to sell later is a better use of their money and will give them more profits. When probed further on why they opened the account in the first place, they said that they thought they would have enough money for internal loans with extra to save in the bank. While the group with the grain warehouse said they would need a place to save their money when they sell the grains.
- 2 of the groups were active even though the data received from VFC showed them as inactive. The groups made deposits and loan repayments in VFC’s account in Banque Populaire, they had receipts but their passbooks had not yet been updated.
- Some of the groups opened the account because of the possibility of getting a loan. Some of the groups have accounts with SACCO where they deposit money for safekeeping. One of the groups could not agree on whether or not to take a loan, so they suspended all activities on the account. Another group said that the benefit of the loan was not enough to cover the transportation costs. They spent 24,000RWf to get a loan of 400,000RWF ($666.67), but the interest to the group from the loan is 13,000RWF ($21.67).
- There were cases of wrong information or misunderstanding within the VSLA group. One of the groups did not deposit their money in the account before share-out because they thought they would not be able to withdraw everything at share-out or that the bank will charge commission on the savings. Another said that they got information that CARE is no longer works with VFC.
- Some of the groups have access to loans from SACCO with more favorable loan terms e.g. SACCO is offering loans with interest at 1.5%, while VFC is 2.5%. So the motivation to use VFC services is low.

9.1 Recommendations on Inactive Accounts with VFC

- VFC should try to visit the groups to answer questions and correct misconceptions.

\[ \text{\$1 = 600RWf} \]
To help with the distance, VFC could open an account with a close by SACCO to aid in loan repayments and deposits. The groups should inform the credit officer of any deposits and the information should be updated by VFC in their records.

10 Linkage Evaluation from CARE and its Partner NGO’s perspective

CARE’s primary goal from this partnership is to develop sustainable linkages with formal financial institutions to ensure that VSLAs can access savings, loans and other services targeted to their needs beyond the informal circle. The target for SAFI project is to link at least 19% of the VSL Groups to formal financial Institutions.\(^8\)

10.1 Successes

- CARE Rwanda has been able to identify and partner with a Financial Institution whose goals are aligned with SAFI’s goal of assisting the poorest, mostly women.
- VSLA linkage to VFC is completely market-based with no subsidy or guarantee from CARE, and hence, is a far more sustainable strategy as compared to the previous linkage arrangement with BPR. Not only VFC provides its own funds, it also takes the full credit and portfolio risk. VFC is also going to have the SAFI- VSLA product as a separate product on their new core banking system that shows how important this is for VFC, and will also enable in future tracking, analysis and monitoring of linkage much more closely.
- For the first time, a group rating tool has been developed and implemented. Though it is early days in its implementation, going forward, this is going to be an important tool for linking VSLAs in Rwanda and in other countries as well. Partner NGO staff were trained on Linkages and have started to link VSLA groups with VFC. The pilot project has been rolled to 308 groups for savings and 51 groups for loans across the three channels (mostly the direct implementation) and the performance of these groups has been satisfactory.
- Four different linkage channels have been identified and are being rolled out – with VF, SACCOs, Technology (MTN/Tigo) and some Terrafina Microfinance partners (Inkunga COOPEC and CLECLAM).
- The key challenges faced with Banque Populaire linkage as mentioned in the table above have been avoided in the partnership with VFC.
- All VFC staff - from its top management to Credit Officers, who have worked with VSLA groups, are convinced about the methodology and look forward to having VSLA members as long term clients.
- After learning about the success of VFC linkage with VSLA Groups, a few other MFI’s and SACCOs have shown keen interest in working with the VSLA groups and the process to link groups to these is at an advanced level. Inkunga Coopec, a MFI has linked 19 VSLG in Karongi district without CARE’s

\(^8\) Scope of Work & Terms of Reference: Documentation of Learning for the CARE Rwanda SAFI Project
supervision. Also, in Kirehe and Nyagatare districts, many VSLG groups were approached by and linked to SACCOs without CARE’s supervision.

10.2 **Challenges**

- Based on the discussions with SAFI managers and Field Staff, it is evident that the CARE Field Officers have a large case load with multiple responsibilities as a result of which they are unable to perform all the required linkages training in a timely manner.
- According the MoU, the VF Credit Officer is supposed to train the VSL groups on linkages while the CARE or Implementing Partner FO ensures the quality of the trainings provided by Credit Officer. However, currently the first 2 modules are administered by CARE and partner Field Staff and the last 3 modules by Credit Officers from VFC. To ensure sustainability of the linkages process, the CO should do all the trainings because the financial institution is the one who bears the risk.
- Due to resource constraints at VF, it is difficult to support VSLAs appropriately and in some cases, the CARE staff gives the VF Credit Officers a ride to the VSLA groups. It is not feasible for VF to purchase more motorcycles and realize any profit margins from the linkage business with CARE VSLAs because the groups are located far from most VF branches.
- The Credit Officers have monthly targets to meet, and it’s easier for them to deal with clients who are closer to the Bank and take bigger loans or make bigger savings. This tempts them to concentrate on urban areas and yet most VSLAs are in remote rural areas.
- VFC branch in Musanze gave loans to VSLA Groups without first rolling out a savings product. This happened because the Credit Officers were not trained on VSLA methodology and given clear instructions. Although this problem has been resolved with proper training of the Credit Officers, CARE and partner should be careful and provide proper trainings to Credit Officers before introducing the linkages process to new regions.
- Currently the involvement of VAs with the linkage process is negligible. By involving VAs with the linkages process, CARE would be able to scale up the linkages process.
- According to the Vision Finance Company, they have not been able to make the operations profitable yet due to the high cost of transportation. As the number of groups linked with VFC increases in a sector, VFC should be able to reduce their operational costs. Further study needs to be done to evaluate the cost of current linkage process.
- Some VFC branches have complained that there is no defined way of working with CARE. For example, the Credit Officer and FO make weekly plans but do not communicate these plans to each other which leads to confusion.
- At least one of the Partner Implementation Channel, AEE mentioned that there are no VFC branches in the region where they have created VSLA Groups.
• Confusion and inconsistencies on what needs to be done when all group members are not present at the time of disbursement of money as some of the credit officers are new to VSLA methodology and have not received complete training. In some cases:
  a. Bank gave loan to VSLA Group members who were present.
  b. Bank denied disbursing the loan and asked all members to be present before they could be presented with the loan.
  c. Bank gave complete loan even though all members were not present.

10.3 Lessons Learnt and future linkage actions
• Training the Bank Officers on VSLA methodology is the key to successful implementation of Linkages. To make linkages more sustainable, there is a need for training the new Credit Officers internally in the bank by other experience Credit Officers. CARE needs to facilitate this before the end of SAFI project.
• Current process is highly dependent on the FO. There is a need to clearly define the implementation model for instance consideration should be made to involve the VA to make the model more sustainable and scalable. Besides involving, a reward/compensation structure for VAs also needs to be evolved, which will sustain their interest in supporting the process. This compensation could come partly from both VSLAs as well as from VFCs.
• Recently many MFI in Rwanda were shut by the Government and many clients of these MFIs lost all their savings in these MFIs. This has left a bitter taste in the community with respect to MFIs. One of the reasons for the successful roll out of linkages has been due to the trust between VSLA groups and Partner Implementation Channels. To continue this, VFC needs to work closer with the community, i.e. getting the trust of Local Leaders, Village Agents and the VSL Groups before the SAFI project ends in Jan 2012. CARE should facilitate this before the end of the project.
• CARE Rwanda needs to evaluate the current status of groups that were linked to Banque Populaire to determine if financial linkage is needed and how this linkage can be facilitated if necessary to avoid leaving the older groups behind. Based on the discussions with SAFI managers, these old group have not been considered for two reasons:
  a. Since the time of linkages with Banque Populaire, they have changed their legal status and are not interested in working on VSLA methodology,
  b. Before linking these VSLA groups it is required to give them refresher training on VSL methodology and financial Linkage. Currently, this is not possible due to budget constraints.
• Some groups have been linked to SACCOS without CARE’s aid. An evaluation is needed to determine the effect of these linkages on the VSLA group and to see if there is a requirement to support these VSLA groups for sustainable linkages with SACCOs.
• In future, staffing levels for linkages will be carefully designed to address this. In the current set up, TSU professionals and partner FOs who were responsible for VSLA capacity building will focus on support for financial linkages to the end of the project as VSLA targets have already been reached.
• There is need to adhere to what was agreed regarding the roles of CARE and its partners versus those of VF on implementation of linkages.
• There is need to explore the use of mobile technology and other innovative mechanisms that lower the cost of reaching VSLAs.

11 Linkage Evaluation from Vision Finance Company’s perspective

Vision Finance Company s.a – Rwanda (VFC) was established in 1999. It is an affiliate of World Vision International. Since its founding, VFC has been committed to alleviating poverty in Rwanda by ensuring that poor people have access to credit to support business initiatives that will improve their life circumstances. VFC’s mission is to promote economic empowerment and improve the standard of living of the Rwandan population through the provision of financial services to the working poor with an emphasis on women living in rural areas. VFC is regulated by BNR to operate as deposit taking microfinance institution. Vision Finance Company works with both men and women, with more emphasis on women (65%). Its main target group is made of people at grass root level, the productive poor who are struggling to find means of surviving through economic activities.9

11.1 Successes
• To date the Portfolio at Risk of the VSLA Clients has been 0%, which a very positive picture as compared to the international standard of 5%. For non VSLA clients, VFC has a portfolio of risk of approximately 8%.
• With VSLA clients VFC has gained access to a wider base of clients. VFC had managed a client base of around 17000 in 11 years, but with VSLA they have added more than 6000 clients in just 6 months.
• Compared to their other VFC clients, VSLA groups are pre-trained by SAFI staff and considerably less effort is needed to sensitize them on banking procedures.
• With this partnership with CARE, VFC is able to achieve its mission of economic empowerment to the working poor especially women living in rural areas with this CARE partnership. They have disbursed US$30160 amounts in loan to a total of 51 groups and 308 groups have saved a total of US$ 10340 with VFC. This is an example of an efficient way of sharing roles and responsibilities in future partnerships aimed at integrating the poor to

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9 VFC website
formal microfinance and in the quest to reduce global poverty by economically empowering poor and marginalized women and girls.

11.2 Challenges

- The last two weeks of the month are very busy for the bank and they prefer to work with VSL only in the first two weeks of the month. VFC should consider prioritizing or managing its plans or staff to support VSLA linkages as a line of business product so that they can reap benefits once more VSLA groups are linked with the bank and operational costs are reduced due to economies of scale.

- Although VFC has been able to gain access to a large client base, and the PAR is 0, VFC has not been able to make its operations profitable. This is due to the huge cost of transportation and because the amount of savings and loans by VSLA groups are considerably low.

- In some VFC branches, there are no cashiers to take deposit from the clients.

- Since rural Rwanda FIs including VFCs presence is weak, in some cases the VF CO has to travel about 50 KM (2 hours) to reach the clients. Some FO complained that because of this, the CO doesn’t visit the groups regularly to collect savings/loan repayments and the VSLA group members are left with no choice but to travel to the VFC branch as they are concerned for the safety of money.

- VFC branches are not computerized and managing so many clients manually is a challenge for the Branch Manager and Credit Officers. There is a plan to computerize the branches starting October 2011. CARE should discuss with the bank how the computerized processes can be streamlined with respect to the VSLA groups.

- Some Bank Managers have cited the possible risk of money being stolen from CO when he is carrying it to the village on a motorcycle. Also since most VSLA groups meet in the late afternoon/evening, by the time CO collects money from these groups, the bank branches closed and the CO has to keep the money till the next day.

- Some branches have faced competition from SACCO and obstruction from government which could hinder their operations. In late 2009, VFC opened a branch in Rwamagana (A city in the eastern province of Rwanda) where Urwego Opportunity Bank (UOB) already had a presence. Due to the competition, VFC faced higher than normal loan default rate as many clients took loans from both the banks and were not able to repay. To contend with the problem of multiple borrowings in Rwamagana, UOB and VFC had come to an agreement to share their lists of existing clients at the end of each month.10

- All in all, this is an example of a case that demonstrates the need to promote businesses hand in hand with the facilitation of access to financial services to attract and enable MFIs operate profitably in rural areas. Without businesses, people’s saving capacity faulters. This calls for innovative solutions on the part of both organizations that prepare VSLA clients as well as MFIs who serve them so that the money

10 [http://microfinanceafrica.net/tag/vision-finance-company/](http://microfinanceafrica.net/tag/vision-finance-company/)
that VSLA members borrow is used to invest in profitable or viable IGAs and that this raises their saving capacity; attracting MFIs in the end.

11.3 Lessons Learnt and future linkage actions
- As the number of VSLA clients increase over time, there is a need to have designated Bank staffs and desks to handle VSLGs issues.
- VFC is planning to roll out mobile phone money transaction in partnership with MTN in October 2011. If this is implemented well, it should solve the issues of security of money during transportation and high operations costs.
- There is a need to streamline the operations to reduce transportation cost. Possible solutions could be to hire the VA or other members in the community as VFC bank representative in the village whose primary job would be to:
  a. Make recommendations to the CO on suitable VSLA groups for loan and saving products.
  b. Facilitate the new VSLA groups by training them on linkages and assisting them with procurement of documents.
  c. Collect loan repayments and Savings from VSLA groups in its village and deposit it at the VFC branch on a weekly or bi-weekly basis.
  d. With VFC’s partnership with MTN for mobile transactions, VAs could also work as mobile phone money agents in the villages to collect and give out deposits on behalf of MTN for a nominal fee.

11.4 Recommendations for future linkages
- Identify other MFIs with strong rural presence to link the VSLA groups to. This will encourage competition and better branch coverage to meet the needs of the VSLA groups. The success of the current linkage will serve as a marketing tool for the VSLA groups. In addition, AMIR has started promoting VSLAs in their meetings, so more MFIs now have knowledge about VSLA groups.
- Partner with NGOs that have ties to an MFI e.g. World Vision/Vision Finance, World Relief/UOB, AEE/Amasezerano Bank. In this case, the NGO gets the grant to form and train the groups which are then linked to MFI when they are ready while CARE shares the initial costs, supervises and provides technical support. The budget supporting operation costs could be such that it decreases over the years as the groups become self-sufficient and profitable.
- Mobile banking looks to be the most promising delivery channel to reduce the high operating costs currently being incurred by VFC and the VSL groups, but it is not without its challenges. VFC plans to roll out its mobile banking system (in partnership with MTN) in October to all its branches, however, there is still a problem of the availability of mobile
agents in the rural areas to adequately support these groups. While this is a challenge, it is also a business opportunity that can be exploited by group members.

12 Conclusion
Based on all the qualitative and quantitative data available, it is obvious that the SAFI linkage to VFC has been very successful so far. However, since it is still very early in the process, continuous monitoring as well as addressing some of the operational and sustainability challenges raised in this report will help ensure better long term performance.

13 Appendices

13.1 Appendix 1: Modified Linkage Monitoring Tool

13.2 Appendix 2: Tools for data collection – VFC/CARE

13.3 Appendix 3: Criteria for the identification of potential financial institutions

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<td>Legal Status</td>
<td>Certificate of registration/incorporation</td>
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<td>Market Potential</td>
<td>Outreach/branch network; critical mass beyond present location</td>
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<tr>
<td>Portfolio Quality</td>
<td>PAR &gt; 30 days ; OSS, FSS (performance)</td>
<td>4</td>
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<tr>
<td>Governance, Management, HR</td>
<td>Quality; Professional/skilled personnel</td>
<td>4</td>
</tr>
<tr>
<td>Technical Feasibility</td>
<td>Product compatibility &amp; adjustable to VSLA Members Needs</td>
<td>4</td>
</tr>
<tr>
<td>Delivery channels</td>
<td>Branches, ATM, Mobile banking ; service charges</td>
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<tr>
<td>Affiliations (AMIR, CRA, etc.)</td>
<td>Paid up and submitting prescribed reports; track record</td>
<td>2</td>
</tr>
<tr>
<td>Management Information System (MIS)</td>
<td>Operating MIS; Internal controls; Policies and Procedures</td>
<td>2</td>
</tr>
<tr>
<td>Regulatory Framework</td>
<td>Regulated by BNR, CRA</td>
<td>2</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>27</td>
</tr>
</tbody>
</table>

Source: Derived from Financial Market assessment
13.4 Appendix 4: MoU between CARE and financial institution
SAFI MOU BETWEEN CARE and VFC.doc

13.5 Appendix 5: Criteria for maturity of VSLA groups
VSLA Maturity Selection Criteria

13.6 Appendix 6: Documents required for savings and loan accounts

13.6.1 Savings account requirements
1. Color Photographs and Photocopies of ID Card of VSLA Group’s President, Secretary and Treasurer.
2. Photocopy of the groups internal rules and regulations.
3. 1200 RWF (approx 2 USD) for passbook and bank card.
4. 2000 RWF (approx 3.5 USD) as minimum deposit.

13.6.2 Loan account requirements
1. Photocopies of ID Card of VSLA Group’s President, Secretary and Treasurer.
2. Group photo of minimum 70% of members taken by the Vision Finance CO.
3. Loan application letter signed by all VSLA members.
4. Photocopy of the groups internal rules and regulations.
5. Report which states the total amount of money shared out in the last cycle.
6. List of all members with their names, id no and the amount of loan requested.
7. Group registration form signed by the local leader.

13.7 Appendix 7: Requirements for a 2nd loan

13.7.1 Second loan account requirements
1. Photocopies of ID Card of VSLA Group’s President, Secretary and Treasurer.
2. Loan application letter signed by all VSLA members.
3. Report which states the total amount of money shared out in the last cycle.
4. List of all members with their names, id no and the amount of loan requested.
5. Group registration form signed by the local leader.
# 13.8 Appendix 8: Differences between current and previous CARE-Rwanda financial linkage

<table>
<thead>
<tr>
<th></th>
<th>SAFI /VSLA – Vision Finance Linkage</th>
<th>CLASSE – Banque Populaire Linkage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No. of members</strong></td>
<td>average 29</td>
<td>7-30 people, average 16</td>
</tr>
<tr>
<td><strong>Gender</strong></td>
<td>Primarily women ~ 80%</td>
<td>mixed gender</td>
</tr>
<tr>
<td><strong>Type of association</strong></td>
<td>time-bound (12 months)</td>
<td>not time-bound</td>
</tr>
<tr>
<td><strong>Savings A/C opening charges</strong></td>
<td>One time RWF 3,200 ($5.33)</td>
<td>One time RWF 3,700 ($6.16)</td>
</tr>
<tr>
<td><strong>Max. Loan Amount</strong></td>
<td>Equal to the groups shareout amount in last cycle</td>
<td>4 times groups savings</td>
</tr>
<tr>
<td><strong>Loan money source</strong></td>
<td>Vision Finance Fund</td>
<td>CARE Credit Fund of $20,000 managed by Bank Populaire</td>
</tr>
<tr>
<td><strong>Bank loan duration</strong></td>
<td>Three – Four months</td>
<td>Four – Twelve months</td>
</tr>
<tr>
<td><strong>Bank interest rate</strong></td>
<td>2.5% percent per month</td>
<td>typically 10% per month</td>
</tr>
<tr>
<td><strong>Deposit</strong></td>
<td>10% of loan amount</td>
<td>25% of loan amount</td>
</tr>
<tr>
<td><strong>Other charges</strong></td>
<td>3% Commission, 1.5% Insurance</td>
<td>1% Commission</td>
</tr>
<tr>
<td><strong>Internal loan use</strong></td>
<td>mostly for productive use</td>
<td>mostly for productive use</td>
</tr>
<tr>
<td><strong>Fund managed by</strong></td>
<td>VSL Group Members</td>
<td>Intergroupment of VSL Group</td>
</tr>
<tr>
<td><strong>Repayment Rate</strong></td>
<td>100%</td>
<td>93.5%</td>
</tr>
<tr>
<td><strong>Bank’s presence in rural Rwanda</strong></td>
<td>Weak, 30 outlets in Rwanda</td>
<td>Good, 145 outlets in Rwanda</td>
</tr>
</tbody>
</table>
### 13.9 Appendix 9: SEEP Performance ratios

<table>
<thead>
<tr>
<th>Ratio No.</th>
<th>Ratio name</th>
<th>Formula</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>R1</td>
<td>Attendance rate</td>
<td>No. of members attending meetings / No. of active members</td>
<td>Indicates short-term relevance and value of services and appropriateness of methodology</td>
</tr>
<tr>
<td>R2</td>
<td>Retention rate</td>
<td>No. of active members / (No. of active members + No. of dropouts)</td>
<td>Indicates long-term relevance and value of services</td>
</tr>
<tr>
<td>R3</td>
<td>Membership growth rate</td>
<td>(No. of active members – No. of members at start) / No. of members at start</td>
<td>Indicates long-term relevance and value of services</td>
</tr>
<tr>
<td>R4</td>
<td>Average savings per member mobilized to date</td>
<td>Cumulative net value of savings / No. of active members</td>
<td>Indicates level of confidence in CMMF system; may be compared to alternative and similar savings opportunities</td>
</tr>
<tr>
<td>R5</td>
<td>Annualized return on savings</td>
<td>(Net profit/loss / (Cumulative value of savings / 2)) x (52 / Average age of CMMFGs, in weeks)</td>
<td>A measure that allows for comparison of the efficiency with which different CMMFGs generate profits</td>
</tr>
<tr>
<td>R6</td>
<td>Average member investment</td>
<td>(Total assets – Total liabilities) / No. of active members</td>
<td>Indicates retained individual investment (savings + earnings)</td>
</tr>
<tr>
<td>R7</td>
<td>Average outstanding loan size</td>
<td>Value of loans outstanding now / No. of loans outstanding now</td>
<td>Indicates changing debt capacity of members</td>
</tr>
<tr>
<td>R8</td>
<td>Portfolio at risk</td>
<td>Value of loans past due / Value of loans outstanding now</td>
<td>Measures amount of nominal default risk; may not be reliable indicator of loan losses</td>
</tr>
<tr>
<td>R9</td>
<td>Loan losses</td>
<td>Value of loan write-offs / ((Value of loans outstanding at start of period + Value of loans outstanding now)/2))</td>
<td>Indicates extent of uncollectable loans compared to the simple average value of loans outstanding over a given period</td>
</tr>
<tr>
<td>R10</td>
<td>Risk-coverage ratio</td>
<td>Net profit-loss / Value of loans past due</td>
<td>Indicates degree to which current yields cover potential maximum losses</td>
</tr>
<tr>
<td>R11</td>
<td>% of members with loans outstanding</td>
<td>No. of borrowers / No. of active members</td>
<td>Indicates degree to which loan access is equitable</td>
</tr>
<tr>
<td>R12</td>
<td>Fund utilization rate</td>
<td>Value of loans outstanding / (Total assets – (Fixed assets + Other funds))</td>
<td>Indicates level of credit demand</td>
</tr>
</tbody>
</table>
13.10 Appendix 10: Trend analysis comparing performance of linked and non-linked groups

![Average age of groups in weeks](Image)

![Retention Rate](Image)

![Attendance Rate](Image)

![Return on Savings to Date](Image)

![Annualised Profit per Member (RWF)](Image)

![Average Member Investment (RWF)](Image)
13.11 Appendix 11: Trend analysis comparing performance of groups with different loan sizes

- **Average Age of Groups (weeks)**
  - Small
  - Medium
  - Large

- **Attendance Rate**
  - Small
  - Medium
  - Large

- **Retention Rate**
  - Small
  - Medium
  - Large

- **Return on Savings to Date**
  - Small
  - Medium
  - Large