Expanding our Cashbox: Linking Saving Groups to Financial Services

Making linkages a success and leveraging digitisation

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Executive Summary

This report shares the lessons learned by VisionFund in savings group linkage loans[1]. VisionFund is the wholly owned microfinance subsidiary of World Vision, serving more than 1.1 million borrowers and 670,000 savers, through 28 microfinance entities in four regions: Africa (11 countries), Asia (six countries), Latin America (seven countries) and Eastern Europe (four countries).

The information from this report comes from VisionFund's savings group linkage loan products in four countries: Tanzania, Rwanda, Ghana and Zambia. The impetus for this report was to share the results of these projects with financial service practitioners and investors seeking to reach savings groups (SGs).

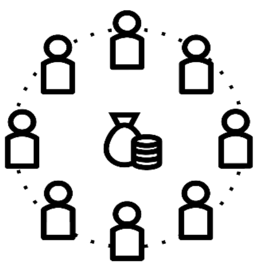
Headline findings of the impact of savings group linkage loans from the recent pilot in Zambia, as well as those from other organisations, indicate that when done well, savings group linkage has positive outcomes for savings groups. The linkages enable groups to increase their savings, their loans, and do not impinge on or harm the way the group functions.

The key theme of this report is that financial services for savings groups need to be developed by putting the needs of the savings group at the centre. Financial service providers (FSPs) need to offer a product customised to the needs of savings groups, and this report recommends the key product features required to maximise the effectiveness of the loan to savings groups and avoid negatively impacting the group.

PRODUCT DESIGN

1. **Only mature, cohesive SGs eligible for linkage loan**
2. **Small loan size (max USD 1000 – 1500 per group**
3. **Loan due date 1 month before share-out**
4. **Repayment mode suits group cash flow**
5. **No compulsory savings**
6. **Interest rate allows the group to make a return**

Another success factor is an adequate means of delivery of savings group loans that take into account the following factors:



PRODUCT DELIVERY

1. **Partner with a facilitating NGO with a known methodology**
2. **Assess the SG, not the household**
3. **Train FSP loan officers in SG methodology**
4. **Work with the whole group, not just the leaders**
5. **Keep member transaction costs to a minimum**
6. **Efficient loan turnaround time – no delays**
7. **Facilitate effective financial literacy training**

[1] This report was prepared with assistance from Triple Jump. Triple Jump and VisionFund partnered on a project with VisionFund Zambia to pilot lending to saving groups, building in the experience of VisionFund in three other countries. Moreover, Triple Jump shared finding of a digitisation pilot in Uganda for the purpose of this article.

The report outlines the key risks for FSPs in lending to savings groups (including portfolio quality, fraud and over-indebtedness) and describes practical ways of mitigating those risks. The initial finding from VisionFund's work is that savings group linkage loans can be provided in a way that manages these risks effectively. Likewise, the FSP can offer a pathway for group members with more economic capacity to graduate to additional products, without burdening the whole group with a large debt, nor losing valuable members.

A key recommendation is that FSPs need to recognise that loan amounts for savings groups are small, and as such, solutions **for achieving financial self-sufficiency** need to be found. The report explores options for digitisation and working with agents as the highest potential solutions. Finally, the report outlines how to get started as a FSP with a recommended plan of action for FSPs to link with saving groups.

1. INTRODUCTION

Purpose of This Report

This report describes the findings from VisionFund International's (VF) work over the past five years (2014 – 2019) in linking saving groups with VisionFund microfinance institutions (MFIs), including a major project with Triple Jump which was recently evaluated in Zambia. The report is augmented by findings from other organisations of lessons learned and keys to success for such linkages. The aim of the report is to share practical findings on keys to success in lending to savings groups in ways that improve household well-being and are sustainable and scalable. The emphasis of the report is on the credit side of the linkage, because that is where our main experience has been, but insights are also offered from other organisations about linking savings groups to savings accounts.

Report Outline

The report starts with an overview of VisionFund and Triple Jump's saving group linkage work, explains the rationale for linkage, providing a theory of change as to why linking savings groups to financial services has social impact. The report goes on to share the results of the recent evaluation of the VisionFund and Triple Jump pilot in Zambia, which demonstrated the positive impact of linkage for the savings group members. The information from the pilot evaluation is broadened to include the findings from VisionFund's other MFIs and as well as published findings from other organisations.

After establishing the key theme that FSPs need to offer products to savings groups in ways that supports their goals and way of working, the report provides detailed recommendations on the product features and process for savings groups linkage savings and loans.

The report identifies three key risks which FSPs need to manage and ways that VisionFund has found of mitigating these risks. The report acknowledges the challenge of reaching savings groups sustainably and outlines two potential opportunities for addressing this challenge: working with village agents and digitising savings groups.

The primary experience of VisionFund so far has been in linking savings groups for credit; the work in developing saving products for savings groups is still evolving.

Before embarking on this journey of making savings group linkages a success, it is important to first establish the definition of 'savings group' in this report.

What is a Savings Group?
The following definition of a savings group is quoted from the World Vision Savings Group model (Saving for Transformation):

"*A Saving for Transformation (S4T) group is a group of people who save together in a safe, convenient and flexible way. S4T groups are owned, managed and operated by the members, using a simple, transparent method whereby groups accumulate and convert small amounts of cash into savings. The group's savings can be lent as credit to earn additional income, kept in a safe place for emergencies, or both. S4T projects are low cost, requiring only facilitation staff and a small operating budget. They are community led and therefore, highly sustainable.*

Savings increase the resilience of families by helping them to protect and care for their children by providing a safe and convenient way to save money. Groups of people meeting together for the purpose of saving also helps to build social capital, a major contributing element of community resilience."

Other NGOs have similar models: examples include the CARE Village Savings and Loans Association (VSLA) model, Catholic Relief Services' (CRS) SILC model and Stromme's CMMF (Community Managed Microfinance) model. Typical elements for all these savings group models are:

- Savings groups are owned, managed and operated by the members;
- Clear and standardised group procedures and governance structure;
- Moneybox for cash, with three padlocks (or the equivalent), which ensures that three persons approve transactions;
- Collecting savings from and lending to group members (with interest);
- A group register, for recording savings and loans (mostly paper-based);
- Savings cycles of 6, 9 or 12 months; a share-out at the end of the cycle, which acts like an action audit, and an entry and exit point for members, although in general, the same people continue together cycle to cycle. (Some savings groups' methodologies don't have a share-out and are continuous.)

What is a Savings Group Linkage Loan?
A savings group linkage loan is credit offered by a 'formal' financial institution (typically a microfinance institution or a local bank), to the group. It is disbursed into the group fund of the savings group, rather than to individual members, and is managed by the savings group according to their normal lending criteria and processes. The financial institution assesses the group's capacity for this loan, typically on the basis of the group's last share-out and achievements: whether internal loans were repaid, how much members save, whether the group retains members from cycle to cycle. It differs from a regular MFI group loan which is a loan to a client, for a specific amount and term, often guaranteed by other borrowers in the group.[2]

What is a Savings Group Linkage Savings Account?
Another means of financial inclusion of savings groups is through a saving account. Savings groups open an account at a bank or MFI, and deposit any of the funds from their cashbox that are not on loan to members. If the bank or MFI has a savings account customised for savings groups, then there may be special features, such as dual signatory control, or three-pin access, or adjusted terms and conditions to allow for the cash flow of the group.[3]

Overview of VisionFund and Triple Jump Savings Group Linkage Work

In 2011, VisionFund started lending to saving groups in Rwanda through a product designed specifically for savings groups. In 2014, it was expanded to Ghana, and Tanzania in partnership with World Vision, with additional partnerships with Technoserve and CARE in Rwanda. In 2017, linkages were expanded to Zambia through World Vision and the R4 project of the World Food Programme in Zambia.

[2] The 2017 SEEP Network Report, "A Typology of SG-FSP Relationships" (page 3) defines two types of loans to saving groups: class 3 individual loans to members that are dependent on a person's membership in the SG and class 4 loans: loans made to the group, guaranteed by group funds which carry the moral guarantee of the group. The definition used in this report are class 4 loans.
[3] The 2017 SEEP Network Report, "A Typology of SG-FSP Relationships" (page 3) defines two types of saving accounts: class 1 – individual savings accounts and class 2: group savings, issued in the name of the SG allowing the SG to save as a single entity. The definition in this report is class 2.

The following table provides a snapshot of this work:

Country	Date of Data	Number of active SG linkage loans	Number of SG members in the linked groups	Portfolio Outstanding (USD)	Average loan balance per group (USD)
Rwanda	Oct 18	95	1,819	$106,521	$1,121
Tanzania	June 18	62	1,240	$69,654	$1,123
Zambia	Sept 18	22	442	$5,871	$266
Ghana	Dec 18	194	4,520	$259,352	$1,336
Total		373	8,021	$441,398	

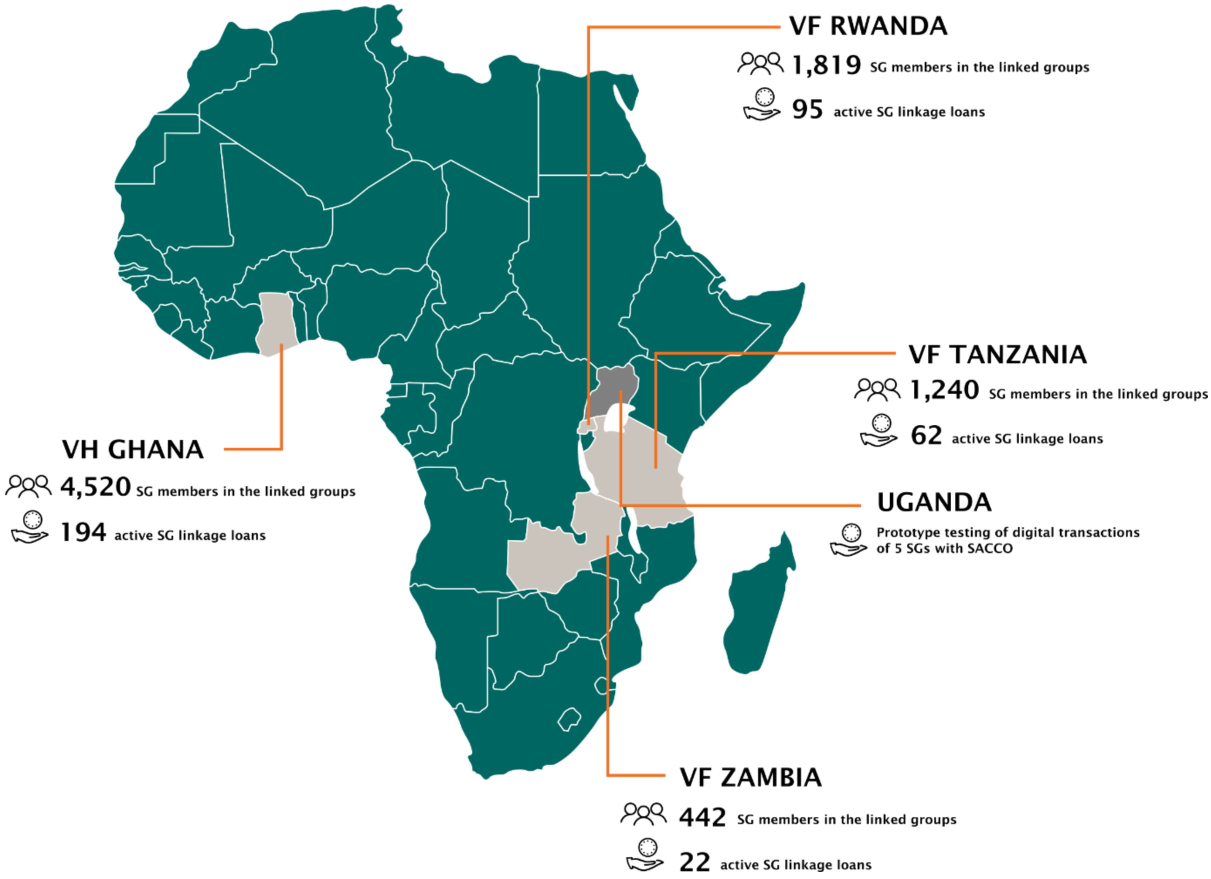
In 2017, VisionFund reviewed the savings group pilots, successes and next steps, and sought Triple Jump as a partner to conduct market research, product development, a pilot and external evaluation. The goal was to ensure the savings group linkage had greater customer focus and sustainability. Triple Jump partnered with VisionFund to pilot a new approach to savings group linkage in VisionFund Zambia.

Market research was conducted among World Vision Zambia savings groups totalling 138 members in 41 groups. As a result of the research, VisionFund Zambia launched a new product in 2018, piloted among 22 savings groups from World Vision and the World Food Programme. The pilot was then evaluated by a Triple Jump consultant through 21 focus group discussions with 112 women and 33 men.

To augment the findings from the pilot evaluation in Zambia, VisionFund also undertook a review of the savings group linkage work in Vision Fund Rwanda, Tanzania and Ghana through focus group discussions among savings groups and/or consulting MFI staff.

In Rwanda, options for digitisation of savings groups were also assessed by learning from other organisations. The pilots were conducted by World Vision Rwanda and CARE Rwanda, with staff of another pilot project by African Evangelical Enterprise also providing feedback. The findings on digitisation in Rwanda were correlated with those from Triple Jump's work with Stromme NGO in Uganda. The Triple Jump/Stromme pilot is testing digitising the money box of groups, and digital group accounts.

PROJECT OVERVIEW



2. WHY LINKAGE? PATHWAY OF CHANGE

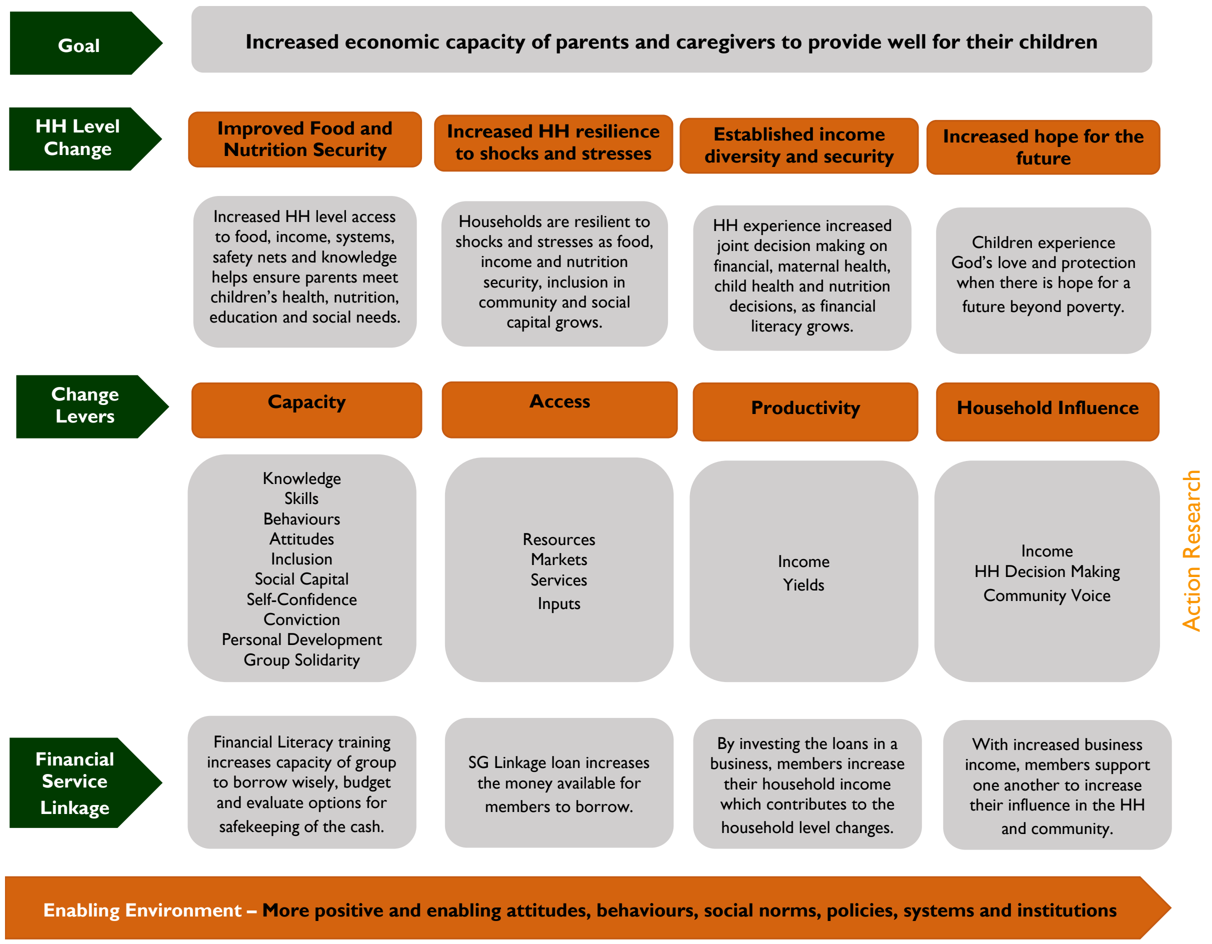
How a Savings Group Linkage Loan Helps the Group

Linking savings groups to a bank or microfinance institution can enable the group to:

- Add to the group fund to meet members' demands for more loan capital to expand their business (credit)
- Save excess cash in the box safely (savings accounts).

The intended impact of the linkage is to improve household well-being. Facilitating NGOs have described this theory or pathway of change in different ways. Given that VisionFund is the microfinance arm of World Vision, the World Vision Saving for Transformation (S4T) pathway of change is used as a basis, with the impact of linkage added to this pathway:

Saving for Transformation – Pathway of Change with Financial Service Linkage



Adapted from the World Vision S4T Pathway for Change

The Demand for Savings Group Linkage

The level of financial inclusion of savings groups varies significantly by country. In Rwanda, CARE has 18,687 groups and 83% of these groups have a savings account (66% with a Savings and Credit Cooperative). A recent CERSEM report citing SAVIX[4] data shows that 9% of groups on SAVIX have a financial linkage; 75% of these linkages are credit only and 21% are savings only and 4% are savings and credit.[5]

The 2006 CGAP report by Murray and Roseburg evaluated 60 groups and found that groups which were externally funded "fail so consistently that this model of microfinance support is never a prudent gamble."[6] Two thirds of the groups which were offered external funding by CARE during project promotion disbanded shortly after receiving their external loans.

During the same period, several papers were written by savings group experts Hugh Allen and David Panetta, which became seminal works guiding savings group linkage. Key advice was that the risks to the group of linkage be considered and that groups not be indebted beyond their capacity to repay.[7,8]

Following early failures in linking savings groups to FSPs, CARE facilitated the development of a Linkage for Change Charter which has become an excellent standard for linkage[9]. There are three key differences in the way the charter helped resolve the early problems identified above.

- Groups are linked to a financial service provider, not given funding by the facilitating NGO. When the funds come through the facilitating NGO, groups may be confused about whether it is a grant or a loan, whereas funds through an FSP are more clearly a loan with a contractual agreement.[10]
- Groups are given a chance to establish their savings methodology first before linkage is offered. Where a group forms with the goal of receiving external funding, saving motivation is not strong and the groups lack a strong foundation.[11]
- Linkage is only offered where there is a demand for more capital to invest in businesses and where all group members want to borrow.[12]

VisionFund's linkage work is based on the foundation that this type of linkage founded on the Linkage for Change charter will not do harm and will benefit savings groups.

The five-year Banking on Change partnership between Plan International, CARE and Barclays Bank in 11 countries was evaluated in 2015 and 2016. As a result of the project, over 5,000 groups opened bank accounts, financial products were created to suit the needs of savings groups and Barclays and CARE have continued to work on Project Link to digitise the linkage.[13]

In all four of VisionFund microfinance institutions in which savings group linkage was piloted, groups gave the positive feedback that they do want a linkage loan. The groups wanted a loan to:

- Enable more members to get a loan from the savings groups, particularly at the beginning of the cycle when the group fund balance is low;
- Enable the group to offer members the loan size they need. Savings groups that have more loan applications than funds frequently divide their loan fund balance equally among loan applicants, resulting in applicants not

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[4] The SAVIX is a reporting system that provides standardised reports on SG programmes worldwide. The SAVIX receives voluntary financial and operational data from more than 1,200 projects worldwide. It reports on a current total of just over 6 million members in about 276,000 savings groups, in 44 countries. Results are updated daily through the online SAVIX MIS (www.mis.thesavix.org).The aim of the site is to increase awareness of SG scale, facilitate analysis and improve operational practice, by comparing project performance and reporting on long-term research findings.

[5] CERSEM (Centre for Research on Social Enterprises and Microfinance), Saving Groups and SAVIX Database, 2018. (In collaboration with University of Agder).

[6] Murray and Rosenburg in 2017, SEEP Network, FSD Africa and FSD Zambia, Evidence, Hope and Hype: A Review of the Literature concerning Commercial Relationships between Savings Groups and Financial Service Providers, p9.

[7] 2010, Hugh Allen, "Why I think CMMPS Should be Careful about Borrowing from Private Banks". Enterprise Development and Microfinance: An International Journal. Quoted in 2017, SEEP Network, FSD Africa and FSD Zambia, Evidence, Hope and Hype: A Review of the Literature concerning Commercial Relationships between Savings Groups and Financial Service Providers, p14.

[8] 2010, Hugh Allen and David Panetta, "Platforms and Linkages of Savings Groups: What are they?" Seep Network Savings-Led Financial services Working Group. Quoted in 2017, SEEP Network, FSD Africa and FSD Zambia, Evidence, Hope and Hype: A Review of the Literature concerning Commercial Relationships between Savings Groups and Financial Service Providers, p15.

[9] CARE, Barclays, Plan, Linking for Change Savings Charter. https://www.careinternational.org.uk/linking-for-change/images/linking%20for%20change%20savings%20charter.pdf

[10] See Principle 1 in the Linking for Savings Charter: saving groups linked to formal financial services.

[11] See Principal 3 in the Linking for Savings Charter: it starts with savings.

[12] See Principal 4 in the Linking for Savings Charter: people come first, linkage must be demand-driven, not supply-driven.

[13] https://www.careinternational.org.uk/get-involved/corporate-partnerships/financial-inclusion/breaking-barriers-financial-inclusion

getting the loan size they need. Access to a linkage loan enables the group to boost their loan fund and therefore offer members the loan size that they need; and
- Invest in a group business. A number of groups in Rwanda have started, or want to start, a group business and they need funds for this business.

The Demand for Savings Accounts

The feedback from savings groups consulted by VisionFund is that a savings account is particularly needed in the last two months of the savings cycle, when the members are repaying their loan in preparation for share-out. At this time, the group fund balance is higher, and members are concerned about cash safety.

This is borne out by studies by CARE[14] and FSD[15] where a key motivation for opening savings accounts was prevention of theft. Secondary motivations were earning bank interest and qualifying for linkage loans.

The concerns which savings groups had about savings accounts were:
- Distance to the bank: some groups spend an entire day to make a single deposit or withdrawal and transaction costs are therefore high.
- Account structure: savings groups often incur fees because of the number of months when they have a zero-account balance. Accounts with fees do not suit savings groups because it depletes the loan fund and makes the share-out complicated.
- Savings history not used by lenders[16]: in most cases groups seem to save with one entity and borrow with a different entity, which is possibly a missed opportunity for FSPs to utilise savingss history and relationships with savings groups, to offer linkage loans.

From the perspective of the FSP, offering savings accounts to savings groups does have the potential of a new client base for deposit mobilisation. However, the nature of the deposits makes liquidity management difficult for a small MFI. Account balances tend to be small for most of the cycle and only increase in the last two months of the savings cycle, which means that an institution needs to have a range of customers with funds at different maturity dates.

Results and Impact of the Savings Group Linkage Loan

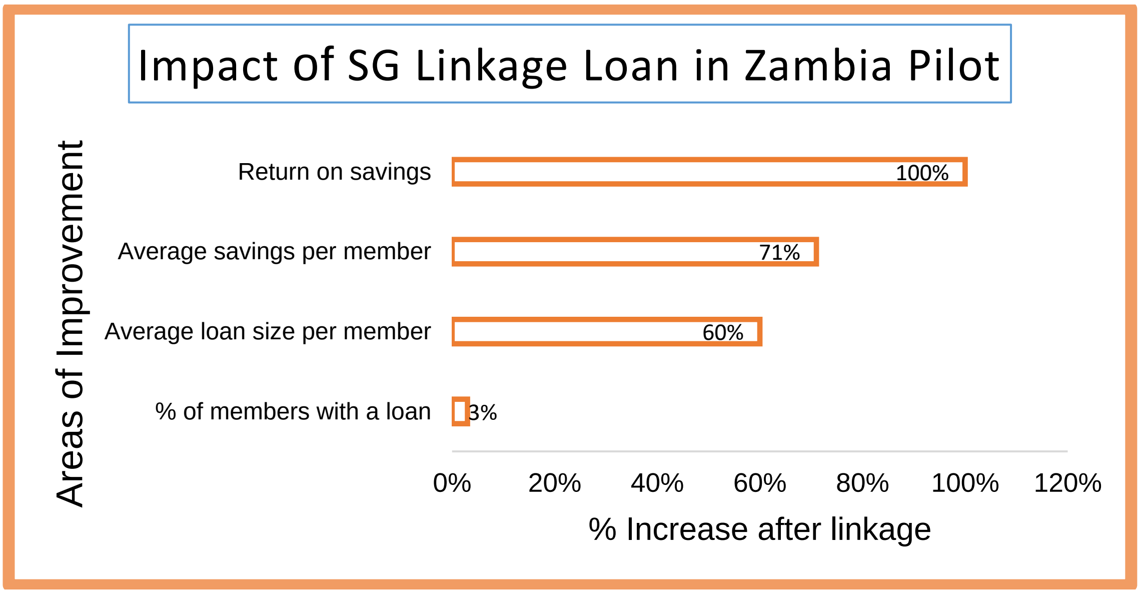
Results from Industry Research

The recent study of linkages, by the Financial Deepening Trust in Uganda, found two related areas of impact of linkage loans. Women were able to borrow more and expand their businesses, which resulted in increased household income. A follow-on impact from this was that women were then able to contribute money to the household which gave them a greater say in how money was spent.[17] Access to the mobile money platform also helped increase the financial inclusion of communities living far from banks.

Results from VisionFund Zambia Savings Group Linkage Loan Pilot

A primary concern of VisionFund and Triple Jump in lending to savings groups is to ‘do no harm’. A key evaluation question during the pilot in Zambia therefore was: how did the loan affect the group? The findings from the 22 savings groups among two pilot partners were assessed, and the results showed a positive impact on the group:
- Average savings per member among profiled groups increased by 71%, from a mean of $143 to $251.
- Average loan sizes increased from $40 to $64.
- Return on savings increased from 7% to 14%.
- Percentage of members with outstanding loans increased from a mean of 74% to 77%.
- Groups reported that the debt was manageable – there was zero portfolio at risk or write off in the pilot, which is exceptional in the operating environment.
- The pilot was also successful in reaching women: 75% of members were women, again higher than that of the MFI’s overall portfolio.

[14] April 21, 2015, CARE, Barclays and Plan, Linking Saving Groups to Banks, p6.
[15] Mar 15, 2018. FSD Uganda and FSD Zambia; Linking banking models applied in Uganda, p31-33.
[16] Mar 15, 2018. FSD Uganda and FSD Zambia; Linking banking models applied in Uganda, p33.
[17] Mar 15, 2018. FSD Uganda and FSD Zambia; Linking banking models applied in Uganda. p20



None of the savings groups interviewed changed the way they operated because of the linkage loan. They all adhered to their constitution in terms of savings, loan repayment timeframe and interest charged.

Some groups said that member participation has increased as members know they have enough funds in every group meeting to receive a loan. As one group member stated, "this thing has been like a magnet, bringing members to every meeting." Members also said that there was increased interest from others in the community to join savings groups or set up new groups, due to credit linkage. Five groups have been formed since hearing about the savings group linkage loan and 50% of the village agents interviewed said more people were coming up to join savings groups. While it is important that groups focus first on savings more than on external credit, the enthusiasm was remarkable.

In Zambia, the positive impact was in large part because the VisionFund product was specifically designed to fit in with the savings groups' functioning. That is:

- No compulsory savings requirement;
- No collateral or requirements for land titles;
- The loan was disbursed into the group fund so there were no additional recording requirements or control over what the group does with the money, other than advice to lend to members who have an income generating activity in which to invest;
- Groups had a three-month grace period so that they could utilise the money fully at the beginning of the savings cycle when the group fund was at its lowest; and
- The loan maturity date matched the cycle of the savings group.

Results from Savings Group Linkage Loan in Other VisionFund MFIs

Savings group linkages in Rwanda started as early as 2011, in partnership with CARE. The work was initially reviewed in 2011[18] and the findings were positive: linkages strengthened the savings groups, and linked groups out-performed unlinked groups. Today savings groups are offered a range of financial services from VisionFund Rwanda including a savings account, a small linkage loan, or for larger amounts, a hybrid between a linkage and regular loan with more household cash flow assessment. Following a recent product redesign and interest rate changes, the number of groups with active loans has increased from 95 to 222.

In Ghana, the outreach is growing steadily, and 194 groups currently have loans. The keys to success are lending only to mature, cohesive groups, and growing through close and careful cooperation with the partner.

In Tanzania the number of groups reached by VisionFund has fluctuated over the years and current active loans are less than 50, although this will increase following a recent product redesign. Key lessons learned in this redesign were:

- **Lend only to groups which follow the VSLA or similar methodology:** Other styles of savings groups may not share-out at the end of the cycle, and therefore the internal controls built into the VSLA model are not in place.

[18] July 2011, Sustainable Access to Financial Services for Investment (SAFI) Project Learning Document on Financial Linkages: Theme no.1 CARE Rwanda.

- **Work with all group members*:*** If the group leadership becomes too strong and the transparent process of the savings group methodology gets undermined, then the addition of a linkage loan is risky for the group. The FSP needs to take care to continue to work with all group members and not focus on the leaders.
- **Avoid large loan sizes:** Where the loan to a group exceeds $1,500 it becomes an attraction for some members to make fraud; they use the group to get more funds, but then not do not repay the loan. The savings group linkage methodology gets over-loaded by large loans.
- **Ensure MFI staff have sufficient knowledge of savings groups:** Lending to a savings group is significantly different than a regular MFI group loan. Some staff were unclear how to cross check the information from the group and did not know what records they should look at.

3. SAVINGS GROUP LINKAGE vs. REGULAR MFI LOANS

During the evaluation of the savings group linkage pilot in Zambia, VisionFund solidarity group clients who were also members of savings groups were interviewed. When asked whether they preferred solidarity group agriculture loans or the savings group linkage loan, all members clearly preferred linkage loans because:

- They benefit from social capital;
- Other members provide support if one person cannot due to sickness or similar problems;
- There is group support and encouragement leading to good business performance and loan repayment; and
- Peer pressure encourages members to repay loans.

Also, VisionFund Zambia loan officers preferred savings group linkage loans because they experienced fewer repayment problems and appreciated the high level of solidarity among the members of the group who had been together for two or more years before getting the loan.

A savings group linkage loan may also be more beneficial because it enables the MFI to increase outreach to distant rural areas and new client segments. It may offer entry level finance to pre-microfinance clients and expand the potential market for individual and solidarity group loans.

A key recommendation therefore is to have a clear graduation path to regular MFI loan products, in parallel with the savings group linkage loan.

Over time, the needs of savings group members will evolve. A few members may need additional funds as their businesses expand. At this point, MFIs need to be ready to offer an additional loan to these members, either an individual loan, or a loan to a sub-group, through the regular solidarity group mechanism. A few members can apply for an FSP loan, which is handled directly through the FSP and the member(s), without the savings group incurring any liability. The member is highly encouraged to remain in the savings group. When many of the members have their own MFI loans the MFI can phase out the savings group linkage loans to avoid duplication and repayment problems and transition remaining members to community bank loans.

This conclusion is supported by other practitioners. For example, Hugh Allen and Paul Rippey evaluated the linkage with FSPs in Niger. The linkage went well for the first two years, but then 25%-40% of groups had difficulty repaying their loans.[19] Allen and Rippey found that groups were receiving multiple loans and lenders were not coordinating their efforts. As a result, they recommend reducing the amount lent to groups, and to avoid the practice of having the whole group guarantee loans if they are only used by a few members. This fits exactly with the recommendation of this paper, which is to make one loan to a group, and for larger loans, which benefit a few members, to offer individual credit for which the group does not have liability.

Overall, it is better to lend to savings group members through a regular MFI loan when:

- Not everyone in the group wants a savings group linkage loan;
- The amount required by the group is larger (for example, more than $1,500 per group) so that there needs to be an assessment of each member's business;
- Most group members already have an MFI loan so there is no point adding a savings group linkage loan. In a country with high levels of financial inclusion, a savings group linkage loan may be unnecessary at best and may create over-indebtedness at worst.

[19] 2017, SEEP Network, FSD Africa and FSD Zambia, Evidence, Hope and Hype: A Review of the Literature concerning Commercial Relationships between Savings Groups and Financial Service Providers, p3-4.

4. MAKING SAVINGS GROUP LINKAGE A SUCCESS

Having identified the impact and results of savings group linkages and the demand from groups, it is important to consider the practical application – how can a FSP successfully establish a linkage with savings groups? What kinds of policies and procedures should an investor be supporting?

According to the Banking on Change project results[20]:
"Traditional products offered to groups do not always suit their needs: Linking to savings groups may require bespoke savings products that have reduced or no fees; many groups also expect interest to offset the cost of travelling to the bank and to ensure their savings are growing."

The strong recommendation of this report is that FSPs need to identify the specific needs of savings groups and strive to develop the products that serve their needs. VisionFund and Triple Jump have gathered experiences from the literature, and from MFI staff and savings group members in the four countries where VisionFund offers linkage loans and documented the key recommendations regarding the product and process to help guide FSPs and investors.

The graphic below describes the key elements of the VisionFund linkage loan:

Best Practice: VisionFund Linkage Loan Product Features

Loan amount	• 50% of previous cycle share-out but no more than $1500
Loan term	• Depends on the length of the saving cycle - linkage loan due 1 month before share out
Repayment mode	• 4-weekly to coincide with SG's loan meeting • Option of 3 month grace period or quarterly
Disbursement	• To group fund • All members sign loan agreement
Pricing	• Sustainable and transparent • Annual percentage rate must be lower than group charges
Compulsory Deposit	• None
Channel	• Preference is mobile disbursement and repayment
Guarantee	• Whole of group guarantee. No share-out until linkage loan is closed

[20] 21 April, 2015, CARE, Barclays and Plan, Linking Saving Groups to Banks, p8.

What is Important to Savings Groups in Accessing Loans?

Put Savings Groups at the Centre of the Design

From VisionFund's experience with savings group loans in four countries since 2014, the following product features are recommended in a Savings Group Linkage loans:

PRODUCT DESIGN

1	**Only mature, cohesive SGs eligible for linkage loan**
2	**Small loan size (max USD 1000 – 1500 per group**
3	**Loan due date 1 month before share-out**
4	**Repayment mode suits group cash flow**
5	**No compulsory savings**
6	**Interest rate allows the group to make a return**

1. **Eligibility Criteria: Mature, Cohesive Groups**

   Lend only to mature groups that have completed a minimum number of share-outs. For example, in VisionFund Ghana, a group must complete at least two share-outs before it can be considered mature enough for a linkage loan. In Zambia, some groups had a six-month cycle, so they needed to complete three share-outs before being linked.

   This same recommendation is offered by the FSD study of linkage in Uganda which noted that the second year was important for groups to develop businesses and increase their savings amount, all of which are important ingredients for credit linkage to work. [21]

   Group cohesion is also an important success factor in the linkage lending. Groups that are well formed with good leadership tend to manage a savings group linkage loan well, compared to groups that are not cohesive and have their own internal challenges. FSPs, with help from the partner and their agent, have to observe groups carefully and be satisfied with the level of cohesion before offering a loan.

   VisionFund utilises a group readiness assessment check to confirm group readiness for linkage; the resource can be found on the VisionFund Innovations website. [22]

2. **Small loan size**

   FSPs need to avoid lending too much to savings groups. Groups may be enthusiastic about receiving a larger loan, but if it is beyond their capacity, it will strain group relations and make them worse off than they were before. The loan size should be no more than half of the immediate previous cycle share-out. This ensures that the loan amount is based on the track record of the group, without stretching them beyond their limits. A loan amount that is equal to the previous cycle share-out assumes that the next cycle is going to be better than the previous one, because the loan amount plus the interest is going to be more than the share-out.

   In VisionFund Zambia's pilot evaluation interviews, the savings group village agents cautioned against over-burdening groups with a loan that was too large and thought that an amount that was 50% of the previous cycle share-out was optimum.

[21] Mar 15, 2018. Financial Service Deepening Uganda and FSD Zambia; Linking banking models applied in Uganda. P15, 20.

[22] https://www.visionfundinnovations.com/

In addition, a product limit, or a maximum loan size to any group is highly recommended. FSPs need to avoid the temptation to overload the savings group linkage method by lending too much. Although it seems as if it might improve sustainability and meet the demands of the group, in the long run it will lead to portfolio quality problems, which in turn will strain group relations.

A better solution for groups needing more money is to provide a pathway for graduation to the FSP's regular products.

3. **Loan due date one-month before the group shares out**
The loan term of a savings group linkage loan is not determined by a specified number of months from the disbursement date. Instead, the loan maturity date needs to fall one month before the group shares out. This is because the group starts to call in their internal loans two months before their share-out date. The savings group linkage loan can then be repaid in the subsequent month. This still allows the group and FSP one month to solve any late payments before the group shares out.

Some FSPs prefer to disburse the savings group linkage loan at the same time as the group share-out. The concept is that members can then have an even larger loan amount to start or expand a business. This approach is not recommended because group members exit and enter after each share-out. Therefore, the names of the people on the loan contract may differ from the people who join in the next saving cycle.

4. **Repayment mode suits group cash flow**
The key feedback from VisionFund's consultations with groups across many countries, is that members want the loan instalment to be affordable. As such, members did not favour quarterly instalments, nor a balloon/end of cycle payment. However, members do want to have the use of the money for a period before starting to make repayments. Many groups are willing to make four weekly instalments. The most favoured repayment mode was a three-month grace period followed by four weekly instalments. FSPs should be aware that groups meet on a weekly basis, so a 30-day repayment period is inconvenient for groups to manage. Internal loans are for up to three months, so savings groups need to discuss how they will manage four-weekly instalments. Example solutions include using a combination of service charges and shares to meet the instalment to the FSP, calling in some loans after a month, or asking savings group members to pay back some loan principal each month.

5. **No compulsory savings**
The savings group linkage loan should not interfere with the functioning of the group, and for that reason compulsory savings are not recommended. If the FSP asks the group to deposit some of their savings, it means that these funds are then not available to lend out to other members, which decreases the group's return on funds. The aim of the linkage loan is to minimise any disturbance to the group functioning and to this end, it is better to leave the group to manage their own savings.

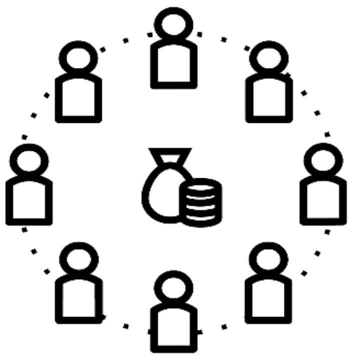
6. **Interest rate allows the group to make a return**
The interest rate charged by the FSP needs to be clear and fair, quoting the Annual Percentage Rate (APR), which takes into account all loan fees as well as whether the rate is charged on a flat or declining basis. Groups want to make a margin on the linkage loan because they realise that the interest they pay on internal loans is coming back to their savings fund. As such, it is perceived as beneficial for the group when the rate charged by the FSP is lower than the rate charged by the group on their own internal loans.

Interest rate levels and preferences vary significantly by country and MFIs need to do their own market research and business case to determine a sustainable, yet competitive rate. For example, VisionFund Ghana recently responded to requests by groups changing from a flat, to a declining balance interest calculation and the number of groups with a linkage loan more than doubled in seven months (from 86 active groups in May 2018 to 194 groups in December 2018).

In Rwanda, groups were very sensitive to interest rates and compared the FSP rate to subsidised rates from the local SACCO, even if they could not qualify for a loan from the SACCO. By comparison, in VisionFund Zambia, the interest rate is higher than that charged by VisionFund Rwanda and yet during the pilot evaluation, only 30% of groups said that the interest rate was too high, whereas 70% of groups made no complaint.

Best Practice: Convenient Loan Process

The previous section described the product features which are important to savings groups. It is essential that the linkage loan product design takes into account the needs and preferences of groups. FSPs also need to consider the loan process, or how the product is delivered. The following section describes the key lessons learned by VisionFund in delivering savings group linkage loans.



PRODUCT DELIVERY

1. **Partner with a facilitating NGO with a known methodology**
2. **Assess the SG, not the household**
3. **Train FSP loan officers in SG methodology**
4. **Work with the whole group, not just the leaders**
5. **Keep member transaction costs to a minimum**
6. **Efficient loan turnaround time – no delays**
7. **Facilitate effective financial literacy training**

1. Partner initially with a facilitating NGO with a known methodology

It is ideal if FSPs start their linkage work by engaging with partners that are promoting and facilitating savings groups through the VSLA or similar methodology. Partners and Village Agents can identify groups which are ready for linkage and help prepare other groups.

Working with a partner enables the MFI to establish standard operating procedures because the savings group record-keeping procedures and group constitution are known. This means that FSP loan officers know what to check to evaluate the loan application of the group.

The additional benefit of working with a partner that keeps group records is that the FSP can obtain preliminary information from the NGO such as the group formation date and the previous share-out amounts, so that groups can be pre-screened according to the eligibility criteria. The FSP also benefits from knowing that these groups are in existence which means that validation by a separate FSP staff is not needed.

Some partners mentor the savings groups for a short period and after this, the group is independent from NGO or agent support. Provided the group is still following the known savings group methodology, FSPs can still lend to the group effectively, but will need to have a more active role in training and screening the group.

There are other cases where savings groups are no longer supported by a facilitating NGO, and the groups have moved away from the savings group methodology and developed a different way of operating. In these cases, FSPs need to carefully evaluate whether the savings group's constitution is sound or if it exposes the group to undue risk when they get a linkage loan. For example, in some countries, savings groups have the internal policy that it is compulsory for members to take a loan from the group. If a savings group linkage loan is added to the mix it is very risky because members may end up borrowing even though they have no viable income generating activity to invest in.

Lending to savings groups that are receiving gifts from an NGO is also not advisable because groups may mix up a loan with a grant. Likewise, it is highly problematic to offer a savings group linkage loan if a group does not do the share-out. These groups tend to be missing the internal controls and transparency that the savings group methodology offers. In addition, indicators of group success (share-out, membership retention rate, loan write off ratio) cannot be measured in the same way as an savings group that has shared out.

2. **Assess the savings group, not the household**
The savings group linkage product needs to have a clearly defined eligibility criteria and means of appraising the loan. FSPs need to assess the savings group by utilising the saving group's own records. The following table compares what is assessed in a regular MFI loan, with what is assessed in a savings group linkage loan.

Regular MFI group loan assessment	Savings group linkage loan assessment
Household cash flow	Previous cycle share-out
Credit bureau records	Internal loan loss rate
Business stability	Membership retention rate
Business records	Saving group ledgers and passbooks
Spouse approval; group guarantee	Savings group 100% consensus to get the loan (secret ballot)

3. **Ensure MFIs loan officers are well trained for savings group lending**
To reinforce a point made earlier in this report: lending to savings groups is different from regular MFI group lending, and as such, loan officers need additional training and coaching. Specific areas for training include: how a savings group operates, savings group recordkeeping, calculating and checking a share-out, conducting a savings group quality assessment check, facilitating participative financial literacy training, identifying groups which meet the eligibility criteria, how a savings group loan is disbursed into the group fund and training a savings group to manage a linkage loan.

4. **Work with the whole group**
To respect member's savings and right to control their own money, ensure all members agree to the linkage loan through a secret ballot. If even one member is not comfortable with the linkage loan, reject the loan. The group fund belongs to all members and thus all members have a say in what risk their money is exposed to. Likewise, invite all group members to sign on the loan contract and include all members in the identifying photo, so it is clear that the loan belongs to the entire group. Failure to follow this procedure can lead to group leader fraud and/or control of the loan by a few members.

The linkage loan should be disbursed to the group, and the group encouraged to incorporate the loan into their group fund and manage it in the same way as their normal savings group loans. This makes use of the excellent savings group methodology of simple recording and control by all members, regardless of literacy level. Incorporating the linkage loan into the group loan fund increases the group's sense of ownership over the loan and lessens the chance of a few members commandeering the money or committing fraud.

5. **Keep member transaction costs to a minimum**
Most of the savings groups served by VisionFund are in rural locations, often far from the VisionFund or partner bank branch. The method of disbursement is usually through cheque. This means that the group leader/s need to come to the nearest bank to cash the cheque and bring the funds back to the group. Most groups interviewed were okay with this initial cost to them. In some countries, members expressed a preference for disbursement via mobile money, but in other countries there was a concern about the cash-out fee.

In general, disbursement via mobile to saving groups requires a three-PIN code access to be set up. Where this has not been available, some groups are transacting via the MFI's usual mobile channel, by having a group SIM card kept in the cash-box, which is an innovative but simple solution. VisionFund Uganda is now piloting disbursement via mobile money. Refer also to the section on digitisation in this report (page 20).

6. **Efficient loan turnaround time – no delays**
A related recommendation is that after the promotion and training is complete, then the time between application and disbursement needs to be efficient, at most two weeks. This is particularly important because savings groups tend to have businesses which need working capital (e.g. buying and selling), and because there is a key time at the beginning of the savings group cycle when demand for loans exceeds the group fund. Groups may wish to adjust their internal rule about the ratio between member shares and the loan amount from 3:1 to 5:1 to ensure the linkage loan can be utilised.

Given that the savings group cycle is finite, a loan disbursed late in the cycle does not give the group time to use the funds. Moreover, the APR increases because the upfront fee is paid over such a short time period. To achieve a quick loan turnaround time, FSPs need to train and prepare groups at the end of the previous saving cycle, so the loan is ready to disburse as soon as the new saving cycle starts.

7. **Provide extra financial literacy training**
   Before accessing a loan from an FSP, a savings group will need additional training on what it means to get a linkage loan, the loan product and process for disbursement and repayment, and loan conditions. For example, in VisionFund Zambia this was extended further to include a visual, participative training called, "Borrowing Wisely for Saving Groups." 451 savings group members participated in this training. All group members joined an oral test and no loan was disbursed without every group member understanding this key content and agreeing to get the loan. This training enabled groups to fully assess their risk in getting the linkage loan and ensured they knew how to put it to productive use. See the VisionFund innovations website for the flipcharts used in the training.

Key risks in offering savings groups linkage loans

From an MFI perspective, the following key risks need to be managed:

- Poor repayment
- Fraud
- Over-indebtedness.

Poor repayment

Poor loan repayment is primarily experienced when lending to immature groups, groups with poor solidarity, groups where group leaders make fraud because the loan sizes are sufficiently high to attract them, or where there is collusive fraud with the staff.

This risk is best mitigated by keeping the loan size small, lending only to mature groups, and working with all group members, not just the leaders. A clear business process that is exactly followed, with supervisory checks and thorough staff training also encourages good loan quality.

Separation of function between the partner and FSP is also important to avoid unintentionally giving groups the message that the loan is a kind of financial support or grant.

Fraud

Fraud can be made by group leaders (falsifying share-out records, putting multiple names in the group, persuading the group to take a loan which only they will benefit from), village agents, or loan officers.

The key to preventing fraud is ensuring that roles are clear:

- The agent does promotion, referral and financial literacy training;
- The loan officer does loan appraisal; and
- The branch management makes the loan decision and does supervisory checks.

Any incentives offered to village agents should be linked to the number of groups referred, and the number repaying their loan on time.

The other ways to prevent fraud are working with the entire group, not just the leadership, and ensuring that every member understands their responsibility for the loan and approves of their savings group getting the loan. Also helpful is validating share-out documents with the actual passbooks where member shares are recorded, independently verifying the strength of the group (for example, with a partner NGO), and supervision by the branch manager.

Over-indebtedness

There is a risk that the group will borrow too much and be unable to repay. This would make the group worse off than before getting the loan. Responsible lending is the key to mitigating this risk. The guideline to lend no more than 50% of the previous cycle share-out and set a product limit of approximately $1,000-$1,500 will ensure that the loan amount is manageable. Members of the group who want more money than this can then apply, by their own decision, for an FSP loan.

What is Important to Savings Groups in Accessing Saving Accounts?

Savings Product Design

In the case of savings accounts, FSD [23]identified the following key product features which enable a group to operate a savings account with minimal interference to their operations:

FSD Uganda and Zambia savings account product features:
• No minimum amount to open an account • No minimum balance requirements • At least one free weekly withdrawal permitted per group • No charges on cash deposits • Minimal monthly charges ranging from zero to USD $0.50 • One free monthly bank statement

Saving Process

The CARE initiative with Barclays Uganda recommended additional adjustments to the banking process. Firstly, "due to a lack of experience with banking and low levels of literacy, groups often need additional assistance from bank staff to complete the account opening process; busy staff may lack the required time and incentive to help." As an example, Barclays Uganda responded by having dedicated staff to service savings groups that were measured on the number of savings group accounts opened. [24]

Interviews from the FSD study in Uganda and Zambia showed that groups wanted staff who were ready to serve savings groups and could give clear information about charges and account conditions. Banks with complicated fee structures or rules created an additional burden for savings groups. The group leaders felt that they had to use their own money to create a minimum account balance so that the savings group did not incur fees which would have reduced their share-out.

In Rwanda, a large proportion of savings groups hold an account at their local Savings and Credit Cooperative which is valued because it is close to the meeting place and there are no traveling costs (or risks) in getting to a distant bank. By contrast, some savings groups avoid working with mobile network operators because of the cash out fees, even though those costs are miniscule compared to the transport costs of going to a bank.

In conclusion, FSPs need to take steps to make their service accessible to savings groups, and savings groups would benefit from guidance on how to compare the costs and benefits of the products and services of different accounts and FSPs.

5. AREAS FOR FUTURE DISCOVERY

This report has shared numerous lessons learned in lending to savings groups and in offering saving accounts. There are, however, a number of challenges yet to be overcome, one of them being the need for a more efficient delivery to the groups. This chapter explores the challenges of reaching savings groups sustainably and describes what is already known about two potential solutions: working with agents and digitisation.

The Challenges of Reaching Savings Groups Sustainably

For FSPs, the business case for reaching savings groups sustainably proves to be a challenge. The average loan size (and therefore income) of a savings group is substantially smaller than a typical group solidarity loan or an individual loan. For example, a loan to a savings group is no more than US $1,500, whereas the amount disbursed to a community bank or solidarity group can be as much as US $20,000-$30,000. Reaching savings groups at scale requires a concentrated effort and commitment.

Savings groups linkage lending can be made more efficient by:

- Having a pipeline of 'ready' groups referred by the NGO supporting the savings group.
- Partnering with an NGO where there are a number of groups in the same location. It is not economic to lend to a single group that takes two hours to reach.
- Working with village agents who prepare groups through financial literacy education.

[23] 15 March 2018. FSD Uganda and FSD Zambia; Linking banking models applied in Uganda, pvii-viii.
[24] 21 April 2015, CARE, Barclays and Plan, Linking Saving Groups to Banks, p8.

- Utilising the savings records held by the group for the loan assessment, not doing time-consuming household cash flow assessments.

One of the most significant barriers to scale is that savings group linkage loans in VisionFund and other FSPs are managed via a branch network, and the branch operating area is typically limited (for VisionFund it is about 50km from the branch). Working via a branch network makes it difficult to reach groups located in more remote areas. Other trials linking savings group to formal financial institutions, encountered similar issues. As FSD in Uganda noted: "distance to the FSP is a significant barrier to improving access to financial services for the excluded communities".[25]

Two solutions that seem to address this difficulty are working with agents and digitisation of the transactions.

Working with Village Agents

The village agent is trained by the facilitating NGO and often compensated by the group or the savings group facilitating partner. Often, village agents start as savings group members and over time, emerge as leaders. They then mobilise other people in their community to form a savings group and do the initial training and coaching. As these village agents work closely with groups, they know which groups are interested in being linked. They can also prepare the groups to apply for a loan by facilitating financial literacy training, such as VisionFund's "Borrowing Wisely for Savings Groups" training. Working with agents enables MFIs to reach savings groups more sustainably.

MFIs need a mechanism to engage, train, manage and incentivise or remunerate agents. Preferably, this is done in cooperation with the partner. The partner can identify agents who either manage a larger number of groups, or to recruit key agents who can act as the MFI promoter and trainer for additional groups.

To work well with the partner's agents requires training by the FSP on the linkage loan product itself and also training-as-trainer to perform financial literacy training with the groups. Moreover, it is key that there is an agreement between the MFI and the agent which clearly describes the agent's role as promoter and trainer, but not involved in the credit process itself. In parallel, the MFIs loan officers need to be trained on the savings group linkage loan product, the cooperation with the agents and disciplined in keeping clear roles on how they interact and cooperate.

Another issue is the satisfactory remuneration of agents, to ensure they are motivated to do the work well. We have not yet found the optimum way to remunerate agents. Some facilitating NGOs have advised against creating disparity between paid agents and regular agents who are not paid by the MFI.

Incentives need to be carefully designed, based on the goal to link mature and ready groups to the MFI. UGAFODE[26] evaluated their experience of working with partners in savings group linkages in Uganda and found that for savings, it is essential to incentivise agents to only link groups that are interested in saving, or many dormant accounts will result. For credit, the incentive needs to encourage proper training of groups and referral but discourage agents from forcing or over-encouraging groups to borrow or manipulating the appraisal to make groups pass.

In conclusion, working with agents can contribute to reaching savings groups sustainably. Agent training, clarity with the MFI staff on each other's roles and adequate remuneration for agents are prerequisites. MFIs are recommended to start with a pilot to test these aspects.

Digitisation of Savings Groups

The other solution for more sustainable linkage of savings groups is digitisation. That is, where savings groups make their transactions through a mobile phone, linked with a mobile money provider, rather than with the cash box.[27] The groups can then be readily linked to an FSP through an interface of the mobile application and the FSP's IT system.

Moreover, once all group members are using mobile payments, the group can convert their paper-based record keeping book to a digital version, also known as 'e-recording'. This will require that at least one group member, for example the treasurer, to have access to a smart phone or computer with regular data connectivity.

Key Success Factors/Challenges When Digitising Savings Groups

[26] Mar 2018. UNCDF; MicroLead Series: Group Savings – from theory to practice: UGAFODE's Groupsave; p33
[27] Like FINCA Express in DRC or Tanzania

Digitisation comes with its own challenges which need to be overcome to ensure digitisation is a viable and practical way of linking with savings groups.

Overcome technical challenges
Technical problems with the mobile application and poor mobile connectivity and delays make linkage seem less attractive.[28] Network downtime can lead to other complications such as members leaving their PIN number with the agent so they can withdraw the money for them when the network returns, or the network charging a client twice for a transaction that has to be repeated. It is therefore essential that technical risks be identified upfront, and that good connectivity is a prerequisite to savings group digitisation. [29]

Train members in the mobile platform
The mobile platform is impersonal and so clients do not know who to go to if there is a problem. For example, groups in Rwanda using the mobile money application wanted a mobile money agent in their village who they could trust and who would always be there to guide them. The frequent turnover of agents made this problematic. RCPB overcame this challenge by having mobile money agents who were also the village agents of the savings groups. [30] Development of kiosks and engaging savings group members as agents was also described in the WELD project in Sierra Leone as a key success factor in adoption of digitisation by savings groups.

Mitigate the risk of fraud
Types of fraud include possible telephone scams, village agents who act as mobile money agents taking the group's savings, agents spying on the member's pin code, thieves posing as agents, members being encouraged by agents to give their pin code.[31]

The UNCDF report states that it is the responsibility of the financial service provider to have a digital code of conduct, to train and monitor groups to ensure that they are not disclosing their pin code (or breach security in other ways). Further, they recommend that the FSP includes in their contract with the mobile money provider that the agents adhere to a code of conduct and that the FSP monitors that this is fulfilled.

Work with MNOs to ensure sufficient agent liquidity
Lack of agent float has been cited as a problem in many of the countries in which VisionFund works and has recently been mentioned by savings groups in Zambia, Tanzania and Rwanda. RCPB and SOFIPE overcame this issue through a system of agents and super agents who buy bulk liquidity and effectively act like another back up float for the agents. The groups are also encouraged to inform their agents the week before a large withdrawal is needed.[32] A similar approach is being adopted by VisionFund Uganda whereby the branch assistant will inform the super agent of the disbursement date and amount of the savings group linkage loan and ask them to ensure their agents have sufficient liquidity.

Cost
A recurring issue is the cost of mobile transactions and willingness of the group to pay the fee. Often this can be mitigated by walking the group through the comparable transaction cost of going to the nearest bank. Some organisations have engaged the MNO to adjust the fee structure, so that savings groups are not paying disproportionately higher fees for withdrawing small amounts. This is not always possible and depends on the business case for the MNO – the benefit to the MNO of increasing their outreach and customer base, compared to the loss of potential income.

Conditions for successful implementation of digital solutions:

- Take time for IT development and end-user testing of a prototype solution before starting the roll-out of apps/solutions. This ensures that the needs of the savings groups are at the centre and that any technical errors are resolved first. Be aware of the operational changes and training required to welcome digital channels and be comfortable using or promoting them. This applies to savings group members but even more to FSP staff and village agents of the savings group promotors.

[28] 2018 FSD Uganda and FSD Zambia; Linking Banking models Applied in Uganda. p15.
[29] Feb 18, UNCDF; MicroLead Partner Case Study Series: Protecting Saving Groups Reached Through High Tech Channels: Guidance from the New Client Protection Principles for a Digital Savings Product; p19.
[30] Feb 18, UNCDF; UNCDF; MicroLead Partner Case Study Series: Protecting Saving Groups Reached Through High Tech Channels: Guidance from the New Client Protection Principles for a Digital Savings Product; p13.
[31] Feb 18, UNCDF; MicroLead Partner Case Study Series: Protecting Saving Groups Reached Through High Tech Channels: Guidance from the New Client Protection Principles for a Digital Savings Product; p22.
[32] Feb 18, UNCDF; MicroLead Partner Case Study Series: Protecting Saving Groups Reached Through High Tech Channels: Guidance from the New Client Protection Principles for a Digital Savings Product; p26.

- Clarify fees attached to the digital channels and ensure a positive business case for the savings group members. Encourage savings groups to evaluate the fees by comparing them to the time and money involved in travelling to an FSP.
- The mobile connectivity and agent network for mobile money should be of sufficient quality to support the digital channels.

Case Studies in Digitisation

The following pilots have been undertaken by World Vision, VisionFund and/or Triple Jump.

Rwanda – World Vision

World Vision and CARE Rwanda conducted a pilot among 20 savings groups using the mobile application 'Save' created by Exuus. The mobile application enabled groups to move from a cashbox and ledgers, to digital recording, and transactions through the mobile network operators.

What is working well:

- The MNO agreed to waive internal transaction fees so that member-to-member transactions were free.
- The groups highly valued the digital platform for the savings group as a means of increasing transparency and reducing fraud. This fear of theft seems to be borne out by the recent SEEP Network study that 6% of groups have experienced at least one theft and the average amount lost was significant (USD273).[33]
- The groups also liked the fact that the mobile application enabled internal loans to be approved outside of meetings by the group leaders, thereby enabling them to get money more quickly and reducing the impact of having to miss a group meeting.
- The groups see more relevance in digitising if there is a linkage to a FSPs.
- Lending to savings groups using a mobile application has huge potential for savings group linkage, since the MFI can reach groups which are much further from the branch.
- Detailed information about the groups' membership and transaction history is readily available as the basis for credit appraisal. This information includes the amount saved per member, their share-out, their membership retention rate, repayment rate on internal loans, etc. This information is verifiable because the transactions are through the mobile platform.
- Groups evaluate the MFI interest rate in terms of the cash-out fee from the MNO, plus the MFI interest rate. As a result, the group is looking for a lower-than-usual interest rate in order to off-set the cash-out fees charged by the MNO. Costs are exacerbated where the mobile agents have a small cash float so that the group members need to make many low-value withdrawals (which attracts a relatively high fee).

Challenges

- One group said that internal lending had decreased since the group went on the digital platform because members did not want to pay the MNO transaction costs.
  - Several members expressed fears about where their money was and did not fully trust that they would receive a share out at the end of the cycle.
  - Several groups stopped using the app because of the cash out fees and their concern that there was no interpersonal interaction, asking questions such as, 'can I trust the mobile money agent? I have no physical cash, so where is my money?'

Recommendations to overcome challenges

- Continuous follow up and training of groups to maintain trust. Training of agents who embrace the new technology.
- Linkage with an FSP is important as it helps groups see a purpose in digitising.

[33] 2018, SEEP Network. Learning Brief: An Empirical Risk Assessment of Savings Groups", Ashley Wheaton.

Zambia – World Vision and VisionFund

World Vision Zambia and VisionFund Zambia are developing saving accounts for savings groups accessible via mobile technology. To begin the process, an assessment was done with about 50 groups to understand their challenges and what kind of a product they thought would work for them. The next step was promotion of usage. World Vision Zambia and VisionFund Zambia are now working to integrate the digital recording of the groups with the VisionFund Zambia core banking system so that the groups can get linkage loans, if they wish. VisionFund Zambia has developed a three PIN code security feature on the mobile and core banking platforms to enable loan and share-out transactions from the group to individual borrowers. The technology will be piloted among 90 groups in three test areas.

What is working well

- One MNO has agreed to waive fees for member-to-member transactions on the mobile application.
- Another MNO has agreed to discount fees if there are increased transaction volumes.
- VisionFund is initially bearing the mobile money charges in order to stimulate usage.

Challenges

- Low mobile phone usage especially among women savers who are the majority in these groups.
- Mobile money charges.
- Proximity mapping revealed that most savings groups were more than 20km from a mobile money agent.
- Savings group members spend money on transport to access mobile money services with distances of up to 40 km or more.

Recommendations to overcome challenges

- The issue of price is cardinal. A business case needs to be developed to make it cheap for savings groups to be linked digitally to financial services, while also covering the mobile money fees sustainably.
- Early in the project, proximity mapping must be conducted to establish savings group locations relative to the footprint of mobile money agents.
- Once the locations are known, engage MNOs in the project with the objective of on-boarding mobile money agents in savings group locations
- Projects should test the digital solution with savings groups that are near mobile money agents before scale-up
- Product positioning is key with a clear strategy on how the product will be marketed
- Focus on digitising the "surplus funds" in the last two months of the cycle when S4T members are repaying their loans. This will ensure group fundamentals are maintained and ultimately the funds are secured. Most members still trust cash and moving to 100% digitisation must be gradual. Trust is enhanced as the digital solution together with a mobile money agent's presence (for cash-in and cash-outs), will enhance member-to-group, group-to-member transactions.

Sierra Leone Women Empowered for Leadership and Development (WELD) Project[34]

World Vision is one of four non-government organisations in Sierra Leone implementing the USAID funded WELD project. As part of this project, World Vision developed savings groups and then a pilot was conducted among savings groups in seven locations to enable groups to transact digitally. The pilot used a SIM card which is locked in the cashbox. When the group approves a transaction, then four appointed PIN holders (who each have a different PIN number) enter their PIN for transactions to go ahead (thereby mimicking the cashbox).

What is working well:

- The mobile network operator, Orange Sierra Leone, consulted with the savings group members to adapt the product to the needs of the savings groups in Sierra Leone. This helped Orange reduce the development process for the savings product to under six months.
- Each member can register their own mobile phone and get an SMS every time a transaction is made from the group account.
- Financial literacy training is offered to educate savings group members about money and finance, with a special focus on group and individual finances.
- Groups were assured of the security of their money because Orange Sierra Leone developed a new Subscriber Identity Module (SIM) card for the groups. The SIM card replaced the three locks on the cash box with a four-digit passcode. Orange also allowed savings group members to register their own mobile phones, and designated members receive a short message service (SMS) every time a transaction is made from the group account.
- WELD contracted InvestED now known as Mosabi to deliver video and interactive media training using their mobile learning platform. As a group completes the course, a credit score is built and they are linked to an MFI partner, Salone Micro-Finance Trust (SMT), for loan approval.

Challenges

- Mobile network operator (MNO) staff were not used to the savings groups' methodology and working with NGOs, and at the same time, NGO project staff also lacked experience of mobile money.
- There were challenges verifying the identity of group members – this was later overcome by allowing verification by the village leader.
- Resistance of members to depositing the initial amount in their savings group which was needed to set up the account with the mobile network operator (MNO).
- The spread of mobile phone scams was a major concern raised by the pilot savings group members and WELD staff. More specifically, the issues with fake rewards, trojans and phone and texts that mimic telephone identifier codes were of concern as well as the risk of people seeing the secret PIN code being entered and memorising it.

Recommendations to overcome challenges

- To sustainably introduce e-wallets among savings groups, there needs to be a focus on increasing financial literacy and awareness of the benefits of e-wallet and mobile money, particularly in rural areas. A better understanding of the technology will help clients develop trust in the system and make them more comfortable with sending and receiving funds via their mobile phones.
- Digitisation of savings groups must address the group rather than the individual members and ensure the preservation of trust, transparency and security features integral to the savings group model.

[34] This information was sourced from the article by Tom Roberts, Mark Mutai (WELD project) and Patrick Kamara (Orange Sierra Leone), "Cash Box to Electronic-Wallet: Digitizing the Saving Group Cash Box in Sierra Leone".

Uganda Pilot Digitising Stromme's CMMF Savings Group

Through Triple Jump, Stromme NGO in Uganda is testing this approach with six groups using True African Merchant Payments and IMARA solution. This pilot enables groups to send savings from their box to their SACCO account, using USSD menu (True African PayLeo is the technology, working with both MTN and Airtel Money).

It takes a lot of time and effort for the technology partner to truly understand the needs of the savings groups and define the services from the end-client perspective:

- Good training is required to enable savings groups to be comfortable and equipped to use the USSD menu.
- MNOs need to clarify the amount to be paid in the fee – often the amount to be paid is not known upfront and only becomes clear once it is deducted, which is disempowering for groups.
- Groups that live close to the branch consider the fee of digital payment too high (compared to their travel costs).
- SACCO staff need to be given clear information about the benefits of the new channel so they can promote and explain it. They are the point of contact with the group, and their role is to activate the mobile money usage and solve teething problems.
- The SACCO has a process of change management to integrate the MNO with its MIS system, so that payments can be made real time and reports accessed online.

6. LET'S GET STARTED!

The following steps are recommended for FSPs who want to provide financial services linked with savings groups. Investors have a key role in supporting FSPs in these steps.

1. **Form product team**
   Identify a product champion who will lead the product team and guide the process. Gather together a small product team, engaging key people from operations, management, marketing and partnerships. Define the roles of each and how the group will work.

2. **Conduct market research**
   Find out who the savings group facilitating partners are, their methodology, how many groups they support (actively and cumulatively) and where the groups are located. Conduct focus group discussions with savings groups and find out what they need in terms of product features and product process. See the VisionFund Innovations website for a sample FGD guide.

3. **Establish the business case**
   Identify the potential for the product in terms of scale and sustainability. How many groups can be reached? At what cost? What is the potential income? Can the product break even and contribute to overhead?

4. **Design the product and pilot**
   Taking into account the recommendations in Section 3 of this report, design your product prototype.

   Also establish the parameters or Key Performance Indicators (KPIs) of the pilot including:
   - Number of groups reached
   - Portfolio limits
   - Target portfolio quality

   Decide how success will be measured and what else is being tested (for example, the business process, working with agents, how to partner effectively, savings group satisfaction with the product). Also document the key risks of the pilot and how they are being mitigated, the pilot plan, timeline and evaluation date.

5. **Engage partners**
   Discuss with potential partners what the FSP can offer in terms of product and delivery mechanism (e.g. whether via a branch network, partner banks or mobile). Find out whether the partner can support with pre-screening information and data about savings groups they facilitate, such as group formation date, membership retention rate, write off rate and share-out amount. Also find out whether the partner recommends working with the village agents and how many groups each agent typically supports. If each agent only works with a small number of groups, discuss whether it would be possible to identify some key agents who could train a larger number of groups. Prioritise selection of women agents and avoid making literacy a barrier to entry.

6. **Prepare for pilot**
   Select the pilot branches, based on the partner areas of operation, readiness of the branches and those with the most potential to pilot. (See VisionFund's Guidelines on Piloting on the VisionFund Innovations website). Sign MoUs with partners outlining roles and responsibilities and the goals of the pilot. Engage and train village agents who are willing to become trainers for the financial literacy training of groups. Sign agreements with village agents which specify remuneration, training, and roles. Train FSP staff in the product and process and their roles vis-à-vis the village agents.

7. **Pilot the product**
   Implement the pilot, with close monitoring by the product team. Clarify and adjust the product as needed during the pilot. Monitor both the FSP staff as and the involved agents of the partners.

8. **Evaluate the pilot**
   Referring to the measures of pilot success, prepare a short focus group discussion guide to talk to savings group members about their satisfaction with the product and process. Evaluate financial and other indicators. Document the pilot results and lessons learned. Discuss as a product team what product and process adjustments to make and whether to recommend rollout, which is then a decision for the MFI management.

7. CONCLUSION

Linkage loans for savings groups offer value, both to group members, and to financial institutions. There are risks associated with the product, but these can be mitigated if the product is set up and delivered according to the core guidelines outlined in this report.

The key success factors in linkage loans are working first with a partner, having a well-defined product and process which staff are trained in, lending to cohesive, mature groups, not lending too much, and having a pathway for members needing larger loan sizes.

Savings groups see benefits in opening saving accounts including security of their money and interest payable. However, saving accounts can also be expensive for groups to operate unless the FSP can adjust their account conditions to suit the cash flow of the savings group. Saving via mobile money is increasingly accessible in many countries and offers a safe way for groups to transact. Significant training and support are needed to equip members to save via mobile money. The cash-out fee continues to be a disincentive to transacting on a digital platform, unless other benefits (such as FSP linkage) outweigh the costs.

The main challenge in savings group linkage lending is that offering loans through a regular MFI branch network limits the MFI's ability reach groups in remote locations. Small loan sizes and the remoteness of groups also makes financial sustainability of the product difficult. However, our initial experience is that there are many trained and capable agents who would be willing to have a role in promotion, screening and financial literacy training, and preparation, for a reasonable incentive. The opportunity for groups to work digitally is also increasing. Although there are many issues yet to be worked out, digitisation is a game-changer in financial inclusion of savings groups because of the availability of easily verifiable information about the group and because of the ease of disbursement and repayment.