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OPPORTUNITY SAVINGS SOLUTIONS: *Expanding formal financial services to rural savings and loan groups in Uganda, a case study*

OPPORTUNITY BANK OF UGANDA LIMITED

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

Funder: Visa





EXECUTIVE SUMMARY

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

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

OBUL'S VSLA PRODUCTS AND SERVICES

Based on guidance provided by CARE, OBUL adapted its existing group savings product and devised a group credit facility specifically for VSLAs. Both products follow principles in VSLA-Bank linkages developed by CARE to promote bank services that support and serve – rather than undermine – VSLAs. To summarize, through a group account, group leaders are able to transact with the bank on behalf of the group, based on resolutions signed by the entire group. At the moment, group leaders can transact at a branch or through an Opportunity Bank Mobile Van that circulates in rural areas to serve more remote communities. OBUL will introduce electronic transfer services once they are ready for roll-out (some are in a pilot phase as at publication) and once groups are more comfortable with the Bank. So far, OBUL's financial education has focused narrowly on the features and benefits of OBUL's bank services along with how to open and use a savings account. OBUL had also started loan orientation training for a set of more advanced VSLA groups. OBUL is introducing services and training gradually, as advised by experts in VSLA-Bank linkages. In six months, OBUL has

Principles of VSLA-Bank Linkages

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

(CARE International, 2012; OBUL Training, 2015)

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

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



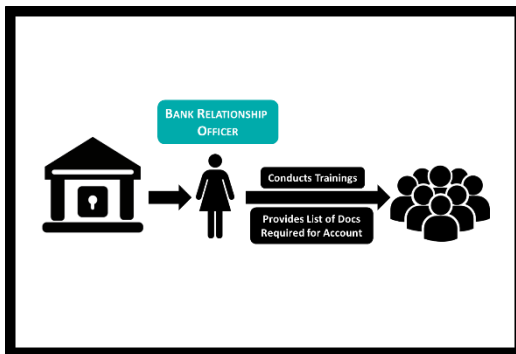
worked with 10 VSLA support partners and 14 of its 19 branches to open savings accounts for 164 groups, and linking an estimated 3,280 rural Ugandans to formal financial services.

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

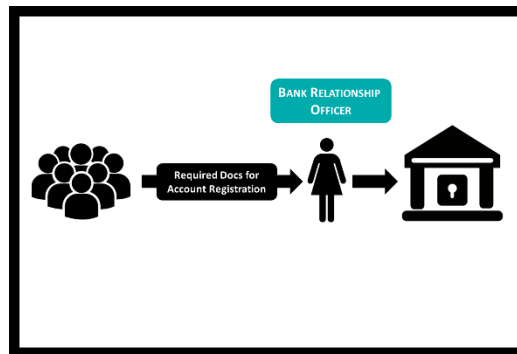
The **savings product** is a better product financially. There are no monthly fees, and there is interest of between 3% and 5% (per year) depending on the balance above UGX 100,000.

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

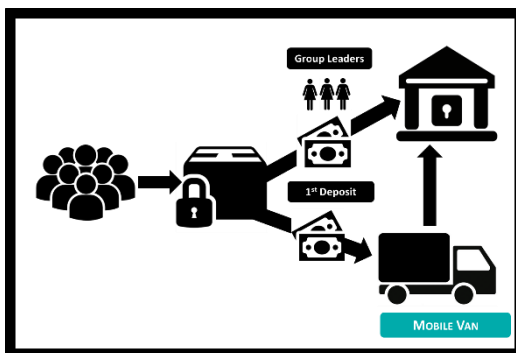
VSLA Savings Account Opening, Deposit Making, and Withdrawal



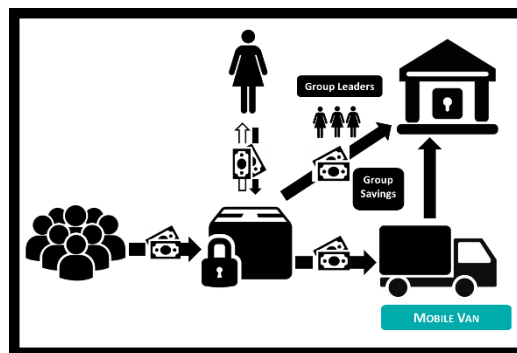
Opportunity assigns a Relationship Officer (RO) to the VSLA to conduct trainings and also provide the VSLA with the list of required documents to open a Group Savings Account



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



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



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



In the first six months, the main demand has been for savings – especially towards the end of the year when the VSLA funds are typically shared-out among members. Demand for loans was anticipated to rise in the first half 2016, when VSLA group funds are low. As of July 2016, a total of 13 VSLAs have received community group loans. The eligibility for receiving one of these loans is based on a VSLA's historic performance, as assessed using a scorecard provided by CARE. The loan amount is based on the amount the group last shared. Groups with high scores can borrow up to two times the amount of their last share-out, but groups with lower scores may only be able to borrow 50% of the amount of their last share-out. Contrary to practice recommended by CARE, OBUL is not able to take the risk at this point of uncollateralized lending and does require groups to put 20% of the loan value as a security deposit in the form of compulsory savings. This is one of only a few areas where OBUL is challenging current practices and recommendations.

2016 Progress Update

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

MARKETING AND OUTREACH - PARTNERSHIPS

The best and only avenue for banks to reach VSLAs is through partnerships with VSLA support organizations. Effective partnerships require mutual orientation and on-the-ground operations coordination because different VSLA support organizations work with different populations and have different objectives and rules. Based on the needs and readiness of their target population, an organization may focus on helping groups borrow, practically forbid borrowing, or focus equally on both savings and loans. Working through 10 partners has been a challenge, but it has also opened OBUL to a diverse population of VSLAs.

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

- VSLA partner staff member

WHICH TYPES OF VSLAS ARE BEING SERVED?

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

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



encourage savings and speed up the economic stabilization process. The bank offers a helpful mechanism through which the support organization can track savings deposited and deposit the matching grants.



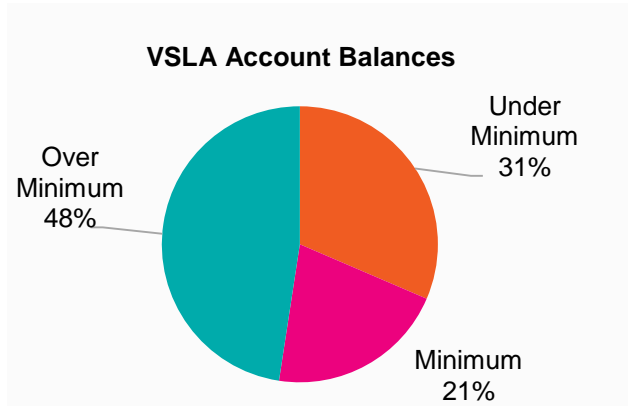
“Formerly, groups knew that banks exploit people, but after explaining to them the benefits on the group loan like the low interest and also the interest earning on the savings from the bank, the groups are now gaining confidence to collaborate with OBUL.”

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

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

WHAT TRANSACTIONS HAVE TAKEN PLACE?

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



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

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



VISA'S VISION FOR DIGITAL FINANCE

Visa enables money to move electronically, quickly, securely, and conveniently, in more than 200 countries and territories around the world. This reach and scale make Visa's network and services a powerful platform to advance financial inclusion. During the last several years, 300 million Visa accounts have been issued to previously underserved people around the world. Visa is working with our clients, governments, non-governmental organizations and a wide array of private sector organizations to provide another 500 million people with a digital payments account by 2020.

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