SAFI TECHNICAL BRIEF 1

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Village Savings and Loan Groups (VSLGs): An Effective Means of Promoting Financial Inclusion of the Poor

INTRODUCTION

The Sustainable Access to Financial Services for Investment (SAFI) project has been implemented since 2009 by CARE Rwanda in partnership with two international NGOs (Plan International and NPA) and four local NGOs (EER, ARTCF, AEE and DUTERIMBERE)[1] with funding from The MasterCard Foundation and the Canadian International Development Agency (CIDA). The CARE Rwanda VSL Technical Support Unit provides capacity-building inputs to those partners for the implementation of the VSL methodology.

The SAFI project's purpose is "...to enhance the livelihood security and financial literacy of at least 108,200 Village Savings and Loans Group (VSLG) members, 70% of whom are women, with at least 30% accessing formal financial services such as savings, credit, and insurance, in selected sectors of rural Rwanda". The SAFI project is enabling CARE and partners to take its savings-led model of complementary financial services to scale, to promote effective linkages with formal financial sector providers, and to increase the financial sector's ability to reach the poor with appropriate services (see summary statistics in Box 1). In this way the project is contributing to the second flagship program of the Rwandan Government's Economic Development and Poverty Reduction Strategy, the Vision 2020 *Umurenge* Program (VUP), which includes a component focused explicitly on the development of affordable and accessible financial services.

1 NPA is Norwegian People's Aid (NPA), EER is the Eglise Episcopale au Rwanda, ARTCF is the Association Rwandaise des Travailleurs Chrétiens Féminins, and AEE is African Evangelistic Enterprise.

Box 1: *Summary Statistics for SAFI Project VSLGs, January 2009 to December 2011*

- 4,818 VSLGs formed with 143,047 members of whom 78% are women
- Savings mobilized equals 2,125,870 USD
- Outstanding loan portfolio totals 2,084,278 USD
- Portfolio at risk is 0.5%
- Loan utilization rate is 77%
- 70% of members with active loans

During the SAFI project's implementation, a series of studies have been carried out to facilitate learning from the project's experience and achievements. The SAFI Technical Briefs series aims to provide a brief and accessible summary of the key learning points of these project documents to practitioners, policy-makers and the wider development community in Rwanda and beyond. This first brief in the three-part series focuses on the issue of financial inclusion,

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namely how the SAFI project has worked to reach the poorest and most marginalized, and the effectiveness of VSL as a methodology for promoting the access of those groups to financial services. The **Sources** and **Series** boxes at the end of the brief provide further references for readers who need more detailed information.

REACHING THE POOREST

The SAFI project operates across 15 districts in the Eastern, Northern and Western Provinces of Rwanda, and in 86 of the poorest sectors within those districts, as identified by the Government of Rwanda's (GoR) National Poverty Assessment. Within those sectors, the project adopted a participatory poverty targeting approach which started with the identification in consultation with leaders at the district level of the poorest cells and villages with the highest concentration of poor people. At village level, the project then used a combination of community consultations and a basic profiling tool to identify potential project participants from the lowest three categories of the official GoR characterization of poverty, namely the destitute, the poorest and the poor (see Box 2). The identification of the poorest as potential VSLG participants was carried out by CARE and partner field staff during the initial stages of project implementation, and by Village Agents, i.e. members of VSLGs trained by the project to support the formation of new VSLGs, during the later scale-up stage of project implementation.

Box 2: *The Government of Rwanda Ubudehe Poverty Categories*

Category of Household	Household Characteristics
Umutindi nyakujya (those in abject poverty)	Those who need to beg to survive. They have no land or livestock and lack shelter, adequate clothing and food. They fall sick often and have no access to medical care. Their children are malnourished and they cannot afford to send them to school.
Umutindi (the very poor)	The main difference between the umutindi and the *umutindi nyakujya* is that this group is physically capable of working on land owned by others, although they themselves have either no land or very small landholdings, and no livestock.
Umukene (the poor)	These households have some land and housing. They live on their own labor and produce, and though they have no savings, they can eat, even if the food is not very nutritious. However they do not have a surplus to sell in the market, their children do not always go to school and they often have no access to health care.
Umukene wifashije (the resourceful poor)	This group shares many of the characteristics of the *umukene* but, in addition, they have small ruminants and their children go to primary school.
Umukungu (the food rich)	This group has larger landholdings with fertile soil and enough to eat. They have livestock, often have paid jobs, and can access health care.
Umukire (the money rich)	This group has land and livestock, and often has salaried jobs. They have good housing, often own a vehicle, and have enough money to lend and to get credit from the bank. Many migrate to urban centres.

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The effectiveness of this approach for reaching the poorest is reflected in the findings of the SAFI project's baseline survey and the project's subsequent poverty outreach assessment. The baseline survey, which was carried out in December 2009 for a sample of 848 members of VSLGs across 11 districts of the project working area, found that the living conditions of the project participants were precarious and characterized by a combination of poor housing, negligible household asset-holdings, widespread food insecurity and poor dietary quality, very limited access to basic services such as clean water, electricity and healthcare, as well as limited engagement in income-generating activities and very limited access to financial services of any kind (Source 1).

The poverty outreach assessment carried out in September 2010 (Source 2) used a qualitative Participatory Wealth Ranking tool together with a quantitative household poverty assessment tool to systematically assess the relative poverty of VSLG members and non-members for a sample of 658 individuals (352 VSLG members and 306 non-members) across 8 districts. This assessment, which categorized the sample into 3 poverty groups (the very poor, the poor and the not poor[2]), found that VSLG members were more likely to come from the lower poverty groups (88.9% of VSLG members were either very poor or poor as against 82.3% of the general population), and less likely to come from the not poor group (11.1% of VSLG members as against 17.7% of the general population). In addition, retrospective data gathered during the end-of-project impact assessment (Source 3) using the Progress out of Poverty Index (PPI) tool shows that 63% of VSLG households lived below the national poverty line (against 54% of the Rwanda national), 77% below $1 a day (against 70% at national level) and 97% below $2 a day (against 90% at national level).

PROMOTING FINANCIAL LITERACY

The VSL methodology (see Box 3) promotes financial literacy by enabling poor people to gain experience and confidence in managing relatively small sums of money which nonetheless generate high yields on the savings invested, at very low operational costs. The methodology teaches people concepts of money and how to manage it wisely. It offers the opportunity to learn basic skills related to earning, spending, budgeting, saving, and borrowing. For youth, financial literacy can reduce their vulnerability to the many risks associated with the transition to adulthood, and enhance their skills in managing money as they enter the world of work or assume adult responsibilities. Financial literacy prepares people to anticipate life-cycle needs and deal with unexpected emergencies without assuming unnecessary debt. The SAFI project's financial education curriculum, which since December 2010 has formed part of the training provided to VSLGs, responds to the real needs of poor clients (Source 4).

2 The poverty groups identified in the SAFI project's poverty outreach assessment equate to the GoR poverty categorization as follows: the very poor group comprises both the umutindi *nyakujya* and *umutindi* categories; the poor group is equivalent to the umukene and umukene wifashije; while the non-poor group is equivalent to the umukungu and umukire categories.

Box 3: *How the VSL Methodology Works*

The VSL methodology involves the voluntary formation of groups of 20-30 self-selected participants who make regular savings contributions by purchasing shares to a loan fund from which any of the members can borrow. Loans are paid back with interest, causing the fund to grow. VSLGs may also create a social fund based on regular equal contributions by all members, which is kept separate from the loan fund, and which provides small but important grants to members in distress. All transactions are carried out at regular (i.e. weekly or fortnightly) meetings in front of members. The cycle of savings and lending is time-bound and does not last more than one year. At the end of the agreed period of 9 to 12 months, the accumulated savings and interest are shared out amongst the membership in proportion to the amount each member has saved over the course of the cycle. In this way the VSLGs, which are autonomous and self-managing, provide simple savings and loans facilities in communities that do not have access to formal financial services.

Project monitoring data show that since October 2009, 4,818 VSLGs have been formed, covering 143,047 members (i.e. 134% of target) of whom 78% are women, with ongoing demand for group formation from communities within the project working area (Source 5). The monitoring data also show that attendance and retention rates of members across all groups over the course of the VSLG cycle are high (97.5% and 99.3% respectively). A comparative analysis of baseline survey data with data from the end-of-project impact assessment for a sample of 30 VSLGs found that the long-term (i.e. two year +) retention rate for the groups sampled was lower at 76.0%. Drop-out for economic reasons or due to internal conflict was more widespread in some project intervention areas than in others, but there were no significant differences in the rates of drop-out by poverty category.

Regarding the activities of the groups established, project monitoring data show that the cumulative value of savings by all SAFI VSLGs to the end of December 2011 was USD $2,202,322 with an average savings value of USD $16 per member, while 70.6% of all members held active loans with an average value of USD$22 per member. Rates of return on savings across the portfolio since October 2009 have varied from 26% to 104%, and the average values of savings, investment and loan size per member have increased steadily over the course of project implementation, with a particularly notable increase since the introduction of financial literacy training in December 2010. The end-of-project impact assessment also shows that the percentages of VSL members accessing loans and conducting IGAs have increased significantly since the start of project implementation, along with the value of loans taken and investments made.

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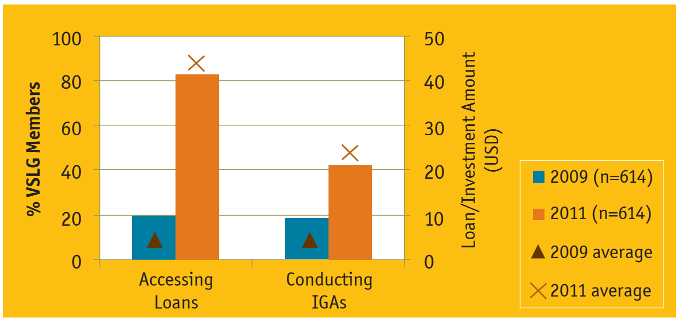
Figure 1: *Percentage of SAFI VSLG members reporting access to loans and engagement in IGA in project 2009 baseline and 2011 impact assessment with average amounts of reported loans/investments*



FACILITATING ACCESS TO FINANCIAL SERVICES

The national assessment of current levels of access to financial services in Rwanda (FinScope 2008) found that *"more than half of the adult population of Rwanda (52%) manages their lives without using any kind of financial products (formal or informal)"*. In this context, the development of sustainable linkages with formal financial institutions to ensure that VSLG members can access savings, loans and other services targeted to their needs has been a specific objective of the SAFI project. The project's work to facilitate the linkage of selected VSLGs to the formal financial services sector began in September 2010 by means of a pilot initiative with Vision Finance Company (VFC) based on the negotiation of tailored savings and loans products. A preliminary analysis in July 2011 of project monitoring data concerning the progress of this pilot initiative concluded that, despite some operational challenges, in most cases the linkages developed had been successful from the perspectives of both VSLG members and VFC (Source 5). By December 2011, linkages had been established for some 1,180 VSLGs (i.e. 24.5% of all groups formed) with five different MFIs (VFC, UMUTANGUHA, CLECAM, INGUNGA, and Urwego Opportunity Bank), and the cumulative value of savings by these linked groups had reached USD $ 76,093. Of these linked groups, over one quarter (26.1%, n=308) had taken loans to a cumulative value of USD$ 231,773.

ENHANCING LIVELIHOOD SECURITY

The SAFI baseline survey of July 2010 revealed a picture of widespread vulnerability and deprivation among VSLG members, most of whom come from the poorer sections of rural Rwandan society. Studies carried out by the SAFI project since the baseline provide encouraging evidence of VSLG members achieving enhanced livelihood security through their participation in the savings and loans activities of their groups. The learning assessment of the project's poverty targeting and financial inclusion approach (Source 6) presents a series of qualitative stories of change illustrating the ways in which VSLG members have been able to engage successfully in

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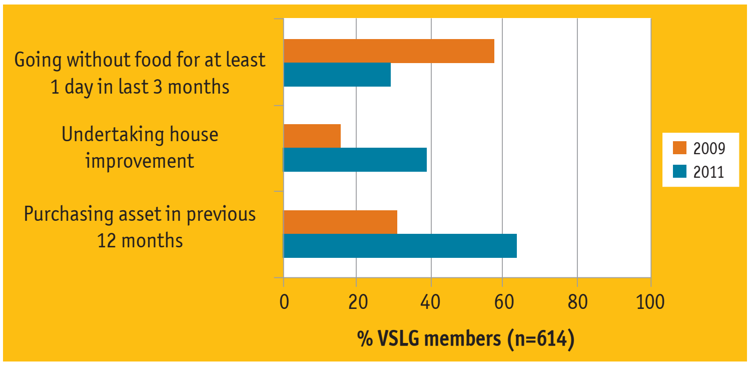
IGAs and to build their household asset-holdings, thereby leading to improvements in food security, housing, as well as strengthened social and human capital (confidence and capacity for effective money management and household decision-making). Survey data from the end-of-project impact assessment also show that VSLG members have achieved significant positive livelihood changes in terms of levels of engagement in IGAs, asset ownership, housing quality and food security (see Figure 2). Female VSLG members interviewed for the impact assessment also reported significantly increased self-esteem, contribution to household decision-making, and contribution to household expenditures.

Figure 2: *Comparison of SAFI project 2009 baseline and 2011 impact assessment for indicators of food security, housing quality and asset purchase reported by VSLG members*



KEY LEARNING POINTS

The SAFI project's experience of implementing CARE's VSL methodology in Rwanda, which has involved the purposeful targeting of people from the poorest sections of society, shows that:

- VSL group membership enables even the poorest people to save and develop basic financial management skills, which can then provide a foundation for them to access formal sector financial services for purposes of investment and income generation.
- By promoting enhanced livelihood security and reduced vulnerability to shocks VSL groups effectively also provide a micro-insurance scheme for the hard-to-reach rural poor, especially through the Social Fund.
- The aggregated savings and loans mobilized by VSL groups are economically significant. When VSL groups are linked to the formal financial sector, their contribution to the real economy can be captured in national statistics.
- There is widespread and growing demand from VSL group members for access to formal financial services for both savings and loans, with VSLGs proving to be highly reliable clients for those services. In this way VSL groups act as a 'stepping stone' to formal financial inclusion.

SOURCES

1. *SAFI Baseline Survey.* CARE Rwanda, August 2010.
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6. *SAFI Learning Document on Financial Linkages.* CARE Rwanda 2011.
7. *SAFI Learning Document on Poverty Targeting and Financial Inclusion.* CARE Rwanda 2011.

THE SERIES

1. *Village Savings and Loans (VSL) – An Effective Means of Promoting Financial Inclusion of the Poor.*
2. *Financial Linkages: The VSL Methodology as a stepping stone to the formal financial services sector.*
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For more information go to: http://www.care.org

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