

Linking Rural Women with Formal Financial Services

Research in Uganda highlights opportunities and challenges in leveraging village-based savings groups.

Project Overview

Over the course of a six-month pilot, Opportunity Uganda partnered with 10 NGOs to open group bank accounts for 185 existing savings and loan associations (representing approximately 3,700 people). Opportunity provided financial literacy training to 425 groups (representing approximately 8,500 people). After the pilot, the “group account” became a mainstream service. Six months later, 13 groups had taken loans from Opportunity Bank of Uganda. The vast majority of these group members are women.

Key Research Findings:

- **For Financial Inclusion:** Linking rural savings associations to banks can offer rural women a secure savings option and a way to access larger business loans, while maintaining the group solidarity that is vital for social transformation.
- **For Financial Institutions:** Village savings and loans associations represent a potentially efficient path for reaching under-served women clients, but more experience and analysis are needed before this product line can be declared sustainable.
- **For Global Learning:** Industry guidelines provided by our partner CARE International, a global leader serving rural savings groups, were appropriate for banks to follow but a few need to be adjusted based on the realities facing regulated savings and loans companies.

RESEARCH CONTEXT

In 2015, Opportunity in Uganda launched a new financial inclusion service with funding from Visa to reach ever more remote villages with loans and secure savings accounts. In Africa, many NGOs have helped rural communities to establish informal village savings and loan associations (VSLAs). Members (primarily low-income women) save with the group, keeping the cash in a locked metal box, which is then lent to their members who pay interest. At the end of the calendar year, all loans are paid, the accumulated savings – plus interest – is shared out, and the annual cycle begins again. As the groups grow, they need a safe place to keep their savings and they require more capital to loan larger amounts so their members can grow their businesses further, or make other important investments such as home reconstruction or advanced education for their children. VSLAs represent a potentially efficient path for banks to reach this large market of under-served women, but until recently, the bank offerings did not attract them.



THE PROJECT

Opportunity Bank of Uganda adapted its traditional Trust Group product to better meet the needs of VSLAs. Partnering with NGOs that organize and support VSLAs, Opportunity penetrated this new market, provided financial education related to banking services, and opened group accounts that mirror the rules of VSLAs, i.e. requiring three signatures for withdrawal.

CONTRIBUTION TO GLOBAL LEARNING

Most prior research on group-bank linkages was conducted by the NGOs serving these rural groups. This case study is a rare analysis from the perspective of a financial institution attempting to reach this population while simultaneously managing business objectives. The group saving and loan products are now a mainstream service for Opportunity in Uganda, and Opportunity has already begun sharing key lessons with the global community. For example, in March 2016 Opportunity was a leading voice for the bank perspective in discussions at an UN-sponsored event surrounding how to better link VSLAs with bank services. Opportunity is also in direct dialogue with CARE International.

KEY RESEARCH QUESTIONS AND INSIGHTS

Which clients are served by linking informal groups to banks? Opportunity found diverse clients in VSLAs that fell into three key segments: entrepreneurial, economically stable, and vulnerable women. Each segment demands different services first – loans and/or savings accounts through which to receive incentives. These include higher savings interest rates or micro-insurance products that are tied to positive savings behavior like frequent deposits and limited withdrawals.

- **Insight:** In group readiness assessments, it is important to identify the types of members (entrepreneurial, economically stable, or vulnerable). Opportunity's relationship officers are learning how to tailor the financial literacy training, marketing messages, and service offerings to meet the unique needs of each unique group.

What are additional marketing and outreach considerations for financial institutions? Opportunity's main and most effective marketing and outreach strategy was to build effective partnerships with the NGOs supporting VSLAs. These partnerships are critical to outreach, although labor-intensive to manage strategically and on-the-ground, particularly since financial institutions with a national footprint require multiple partnerships with a diverse range of NGOs and clients served in order to offer the group product in all areas.

- **Insight:** Typical marketing strategies such as radio programming in local languages or going door-to-door in market places are less effective in remote communities where individuals are often less trusting of outsiders, especially banks. Digital messaging may hold even less promise for VSLA clients (rural, female clients). Instead, personal introductions from NGOs that work intimately with VSLAs or referrals from other Opportunity Trust Group or Farmer Group clients are most effective.

What transactions can financial institutions expect? Group-bank transactions have a long start-up period because transactions are seasonal and it requires time to build trust between informal groups and formal financial institutions. So far, more groups have been keen to secure their savings with the bank, but interest in and readiness for loans is lower. Although uptake is slow, it should increase as linkages between the bank and groups mature and as Opportunity gains a reputation of serving VSLAs well.

- **Insight:** Financial institutions entering this market should be prepared for a long product maturity period. Once groups have opened accounts, banks should intensify engagement to stimulate transactions. The industry needs to track group-bank transactions and service delivery costs over time in order to analyze the business case completely.

What product adjustments are required to serve VSLAs? Opportunity adjusted existing products to meet the needs of VSLA members. Opportunity found that the industry guidelines provided by CARE International – a global leader serving VSLAs – were appropriate for financial institutions, but a few need to be adjusted based on the realities facing regulated financial institutions. For example, it is recommended that VSLAs should not be required to provide savings as loan security, but Opportunity requires security from all other groups and customers.

- **Insight:** This experience has stimulated constructive dialogue that should continue among NGOs and banks serving VSLAs around policies that will meet the needs of VSLAs while remaining aligned with regulatory and business demands faced by financial institutions.



This study shows Opportunity's strengths in:

- Innovation – testing new types of savings and loan products to reach rural, financially excluded women
- Responsiveness – adapting Trust Group methodology to serve different kinds of groups
- Women's empowerment – bridging the financial inclusion gap for rural, low-income women
- Partnership – engaging with global and community leaders supporting savings-led finance
- Global influence – leading the bank perspective at UN-sponsored dialogue around global guidance