

Unpacking Linkage

A First Look

CARE Canada, in partnership with The Mastercard Foundation, has carefully collected an in-depth data set from four years of POWER Africa (Promoting Opportunities for Women's Economic Empowerment Project) to learn about the role of linkage in the financial inclusion landscape.

This brief is a first look at linkage through the lens of this data from Rwanda and Côte d'Ivoire to better understand when linkage is effective, what the impact of linkage is, and to identify remaining questions.

The very concept of financial inclusion—that individuals and businesses have access to financial products and services that meet their needs—implies the importance of linkage. For the purposes of this brief, linkage is defined as the connection of Village Savings and Loan Associations (VSLAs) to Financial Service Providers (FSPs) for use of group savings account and/or group loan products. A successful linkage is one in which a VSLA is able to use formal financial products and services that meet their needs.

Linkage amplifies VSLA effects

The services that linkage provides access to are formal versions of fundamental VSLA functions. A healthy and high-functioning VSLA will increase savings and access to credit for members. It also improves microenterprise outcomes and strengthens women's empowerment--All with the intended goal of increasing members' financial well-being and, therefore, quality of life.

Gender dynamics matter

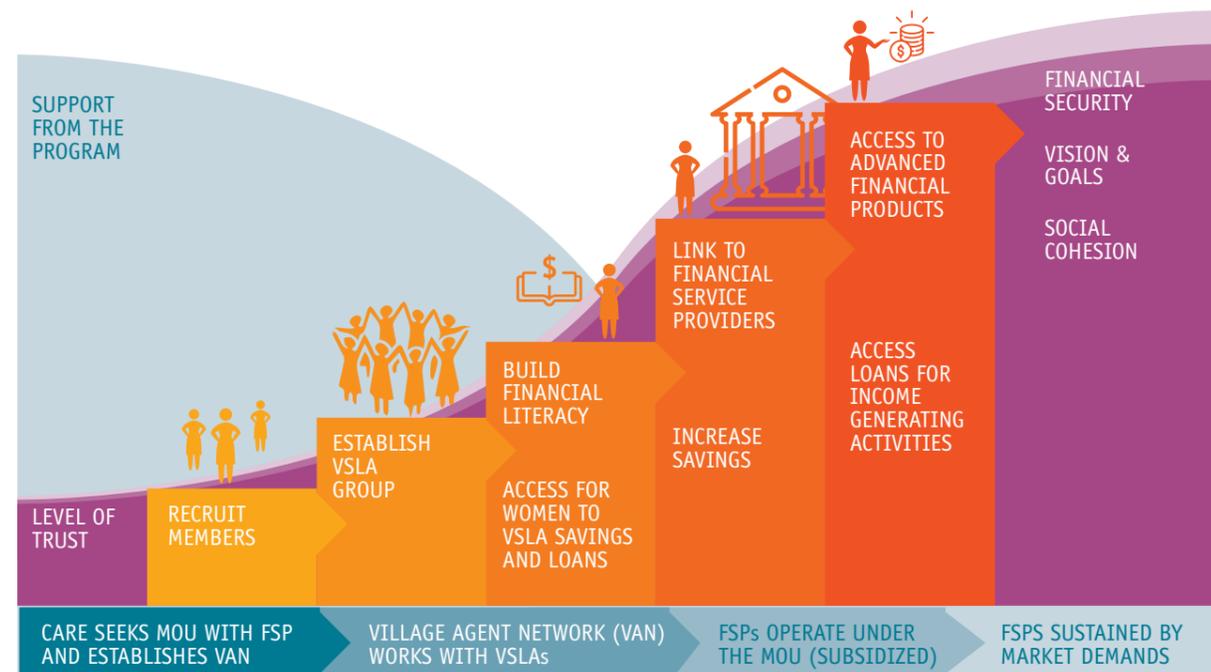
Certain gender dynamics can get in the way of this beneficial amplification. Beliefs about women's capacity for financial management, the optics of individual bank accounts for a woman before her husband has done so, access to key inputs and other issues can significantly hinder a woman's chance of benefiting from linkage. POWER Africa used gender-sensitive approaches such as joint decision-making modules embedded in financial training, women's support groups, gender committees at the community level, and male champions mitigate these challenges and multiply the impact of women's financial inclusion and linkage to an FSP.



Steps to financial inclusion

CARE promotes a stepped process to financial inclusion through linkage, which prioritizes financial safety and risk mitigation to the individual through simultaneous stepped support.

VSLAs establish a link and conduct business with an FSP of their choice (sometimes a CARE partner FSP, sometimes not) via one of three modes: (1) visiting a local branch, (2) using mobile money or e-wallet services, or (3) local agents visiting their community.



Why VSLAs seek out linkage

- ... Grow their savings, through earned interest
- ... Secure their savings
- ... Access larger loans for IGA investment

Barriers to Linkage for VSLAs

- ... Distance to an FSP
- ... Intimidation by non-client friendly processes
- ... High fees on products

Profile: Madame Coulibay



Madame Coulibay is a VSLA member in Abidjan, Côte d'Ivoire. Her group is linked to ADVANS, she also has an individual account.

Coulibay uses her bank and mobile money account to invest in her business on an ongoing basis in order to respond to changes in her local market. Prior to linkage she couldn't buy enough stock to satisfy her customers' demands. She would often run out of high selling products and would not be able to buy more until the following week. This would lose her customers.

Now, with her accounts, Coulibay says that she can buy more stock whenever she needs because her money is accessible anywhere. She's able to meet demand and build her customer base. This growth in her business means that she's often handling larger amounts of money than she's used to. She says that she can safely handle these larger transactions because she has both bank and mobile money accounts and feels that her income is secure.



Methodology

The data on which this brief is based is from program activities in Rwanda and Côte d'Ivoire which took place over four years from January 2014 to December 2017.

POWER Africa teams in Rwanda and Côte d'Ivoire collected a wide variety of both qualitative and quantitative data. The project followed 15 VSLA members and groups, conducting interviews every six months to understand changes in access to financial services and mobile money, household gender dynamics, and saving and credit trends. In addition to this, quantitative group health data was collected through MIS (management information system) from 3,729 groups in Rwanda and 2,394 groups in Côte d'Ivoire. This was combined with financial service provider data including 1,525 groups in Rwanda and 156 groups in Côte d'Ivoire to interrogate the impact of linkage for VSLAs. This was complemented by focus group discussions involving 8 groups in Rwanda and 8 groups in Côte d'Ivoire.

Acronyms

- FSP: Financial Service Provider
- IGA: Income generating activity
- MFI: Microfinance Institution
- MNO: Mobile Network Operator
- RoA: Return on Assets
- RoS: Return on Savings
- SACCOs: Savings and Credit Cooperatives
- U-SACCOs: Umurenge Savings and Credit Cooperatives (est. by Rwanda gov't.)
- VAN: Village Agent Network in Rwanda (called "coordinations" in Côte d'Ivoire)
- VSLA: Village Savings and Loan Association

Grounding Linkage in Context

The differences in the effect of linkage in Rwanda and Côte d'Ivoire are stark. While connecting VLSAs to FSPs did have an impact on savings and returns in both countries, other variables remain noticeably different. Dormancy rates, the group attendance and gender effects on returns, predictors of bank account balances, growth rate of savings and other trends vary substantially. These country-level differences beg further investigation into the motivation for and effects of linkage.

While national borders and different policy environments are easy divisions with which to parse data, other distinctions also provide clues as to how context affects linkage. For example, an urban/rural divide often coincides with other important factors such as access to basic and financial literacy, market access, gender norms, and the visioning for income generation that is so important to successfully using and benefitting from linkage.

Profile: Florance



Florance is a VSLA member in Kiziguro, Rwanda. Her group is linked to Urwego Opportunity Bank, she also has an individual account.

Florance is putting her group's financial literacy training into practice. She sets a budget for herself, explaining, "I asked my husband to stop sending money so that I can know my commitment limits." She has learned to identify profits and losses and now takes loans only for income generating activities--such as buying animals.

Implementing her new financial knowledge has led to her success. She is now able to pay for school fees and clothes for her children. She says she's also noticed a greater respect from her husband, as well as higher esteem from other women. Florance is so pleased with these

improvements that she promotes joining a VSLA to others.

Through linkage, she and her husband are seeking a loan to build a house on land they own. They plan to rent out the house when it's finished. She credits being a member of the VSLA with "the capacity to think big and work hard". Her increased confidence and skills at the VSLA level allow her to better leverage linkage.

Linkage has not been completely easy, her VSLA has delayed in repaying its bank loan. Florance says group leadership ignored some of the VSLA rules and gave loans when they should not have. Luckily, Florance was recently elected president of the group and is looking forward to helping turn things around.

Rwanda

A strategic investment in financial inclusion



Financial Inclusion Landscape

Rwanda has one of the highest levels of financial inclusion in East Africa. Their government's strategy has been largely successful in establishing at least one SACCO in each of its 416 sectors. All financial institutions within the country come under the supervision of the Central Bank and are subject to regulation. Mobile money platforms are relatively new to Rwanda and are not yet in wide use.¹

PROFIR Africa² in Rwanda

Groups linked to partner CARE FSPs had access to cheaper products and services compared to institutions like U-SACCOs, but U-SACCOs were often chosen by groups given their easier (geographic) accessibility for security of their money. Linkage partners in Rwanda included Vision Fund Rwanda, Umutanguha Finance, Wisigara Finance, Inkunga Finance, and Urwego Bank, Duterimbere and PAMF.



*Spontaneous linking to a non-partner FSP, and/or without training and facilitation from CARE

1. <http://finclusionlab.org/blog/rwanda-country-finding-its-path-financial-inclusion>

2. In Rwanda, the POWER Africa project went by the name PROFIR: Promoting Financial Inclusion in Rwanda

3. <http://www.worldbank.org/en/country/cotedivoire/publication/financial-services-in-cote-divoire-banks-set-aside-in-favor-of-mobile-money>



Côte d'Ivoire

Financial sector growth through mobile banking

Financial Inclusion Landscape

In Côte d'Ivoire, only one in eight people who save money chooses to deposit his or her savings in a bank or financial institution. Local banks are more plentiful than MFIs, but are centered in urban areas, as such the growth in the financial sector has been almost exclusively due to mobile technology, which is facilitated by an open regulatory environment.

POWER Africa in Côte d'Ivoire

Groups in Côte d'Ivoire are linked to PAMF (Aga Khan Foundation microfinance) or the MTN (a mobile network operator for money transfer) and ADVANS (MFI).



Linkage Outcomes and Impact

Linkage needs to be beneficial for households, VSLAs, and FSPs for it to be a desirable goal and a sustainable strategy for financial inclusion.

Women, linkage, and mobile access

Women are motivated to have an individual account because of the financial privacy it affords them. Mobile access was particularly desirable for its immediate access to funds and to reduce the time and travel costs of paying bills.

However, linkage, particularly through mobile, requires a certain level of literacy. Literacy rates are lower for women, especially in rural areas and can prove to be a barrier to realizing the benefits of linkage.

Even without mobile access, linkage represents greater access and control over finances with benefits beyond income. Having her own financial capacity to pay for expenses like medical costs has led to greater autonomy and decision-making, and health-seeking behaviors resulting in reduction of birth complications.

At first we didn't know that we could have our own mobile money accounts, but after we saw other group members using their mobile money and visiting the bank, we see that it is a positive thing. We have more confidence now, and we will open our own accounts. – VSLA member, Korhogo, Côte d'Ivoire

Households benefit from linkage

With savings to rely on members reported greater resilience in the face of health events, funeral expenses, and climate change impacts.

However, it was difficult to tease apart the benefits of linkage from the benefits of VSLA participation and the financial education and gender interventions that went along with VSLA membership.

Individual members benefit from linkage in the form of greater savings overall, however this effect is built on the initial bump to savings realized through VSLA participation. In fact, the growth in savings is a larger increase for the VSLA, compared to the increase realized through linkage. (For Rwanda, 75% for the VSLA, only 38% additional increase when linked; 100% and 40% respectively for Côte d'Ivoire.)

VSLAs benefit from linkage

For linked groups in both countries; Return on Savings (RoS) and Return on Assets (RoA) were significantly higher and grew faster. Linkage has a positive effect on VSLA financial returns, but why?

Safety: VSLA members feel confident in the security of their savings.

Interest: VSLA members are motivated to save as they understand their money is gaining interest and working for them.

Larger loans: Access to larger loan is a motivating factor both to save (for eligibility), as well as to invest in income generating activities.

Formality: A formal institution makes VSLA members "stand up straighter."

Linkage for Financial Service Providers

FSPs are subject to market forces; for scaling and sustainability, linkage needs to be profitable. The three largest partners; Umatanguha and Vision Fund in Rwanda, and ADVANS in Côte d'Ivoire, have not yet reached profitability despite annual growth rates in VSLA customers of up to 44%.

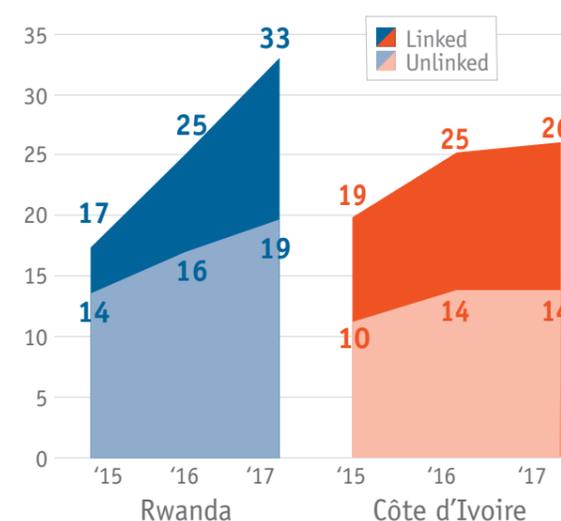
VSLA linked products require a high level of operational efficiency to reach profitability.

Only ADVANS has a clear path to profitability using mobile technology to lower operational expenses. The other FSPs, need to significantly lower their operating expense to income ratios (from between 70-80% to 60%) to realize profitability within a year.

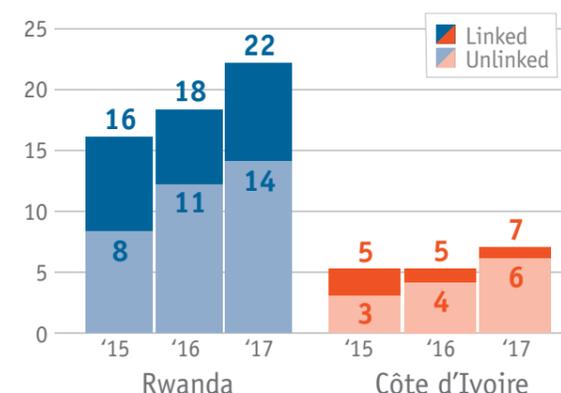
Adjustments to the credit to savings ratio, impacting the FSPs capital costs, also improves projected profitability.

In all three cases the VAN/Coordination, grown by the project, served an important role in client acquisition for the FSPs—both identifying and screening groups for linkage. The VAN/Coordination are stand alone entities which will continue, but without payment from the FSPs for this specific role, sustainability remains in question.

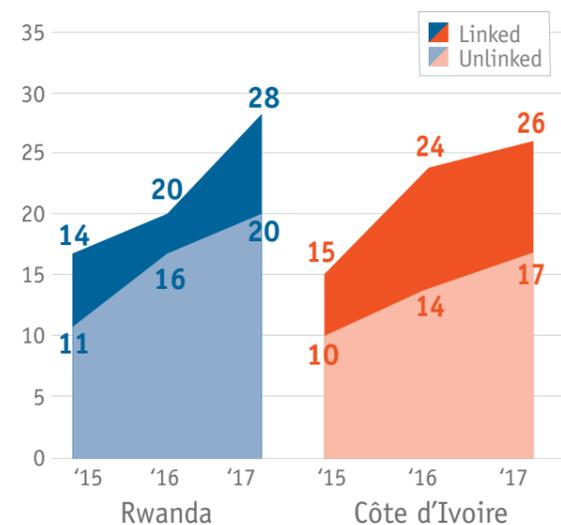
Return on Savings (%)
Linked vs Unlinked Groups



Savings per Member (\$)
Linked vs Unlinked Groups



Return on Assets (%)
Linked vs Unlinked Groups



Different roles in linkage

Household

- ... participates in VSLA
- ... builds savings for resilience
- ... takes and repays loans to invest in individual IGAs
- ... participates in and grows group IGA(s)

VAN/Coordination

- ... forms and trains VSLAs on financial literacy education
- ... recommends & vets VSLAs to FSPs for linkage
- ... provides refresher training and assistance as needed

VSLA

- ... pools savings
- ... makes collective decisions
- ... gives out loans to members
- ... forum for advice and decision-making
- ... links to FSP
- ... saves in FSP
- ... potentially, takes larger loans from FSP
- ... operates and grows group IGAs

Financial Service Provider

- ... often conducts outreach to link to VSLAs
- ... sometimes train VSLAs to use products and services
- ... MOU with CARE to develop group-friendly products

CARE

- ... vets FSPs
- ... signs MOUs with FSPs to explore business case of linkage
- ... codesigns FSP products for VSLAs
- ... trains VANs/Coordination to train VSLAs
- ... certifies VSLAs for linkage
- ... monitors VSLAs

What makes linkage effective?

Similar to realizing the benefits of VSLA membership, linkage requires a few key building blocks: trust among all parties (individuals, VSLAs, and FSPs), adequate financial knowledge, and social cohesion (within VSLAs and communities) in the form of stability and harmony.

Financial knowledge and entrepreneurship training contribute to an individual's success. Training not only lays a solid foundation by teaching concepts, but it also builds visioning and goal setting, which give purpose to and drive an individual's participation in both the VSLA and their use of FSP products. Specific understanding of FSP products also builds confidence and comfort for VSLA groups to use such products and interact with FSPs successfully.

Trust is essential

From identifying VSLA members to linking VSLAs to FSPs, trust is an important factor that is necessary to move along the stepped financial inclusion process.

Successful linkage requires that trust is built between:

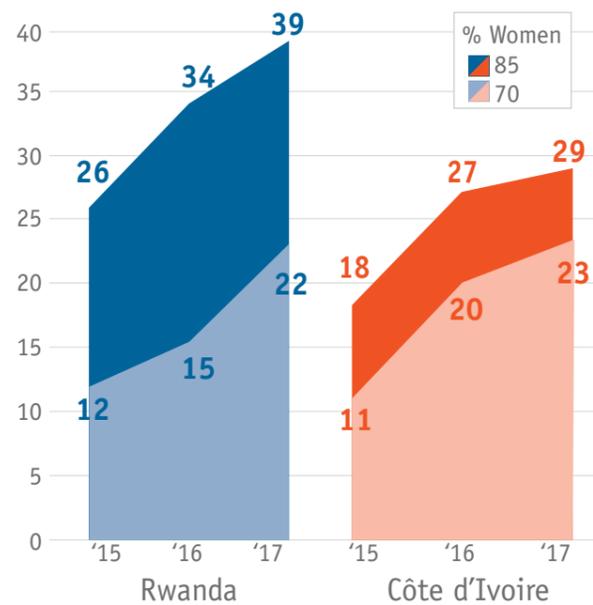
- **Individuals** of a household for joint financial decision-making.
- **Members of a VSLA** for guiding, teaching and backing one another.
- **VSLAs and financial institutions**, to be willing to deposit and lend money.

The group savings has increased since linkage as members are confident and trust the bank about security of their money. - VSLA, Kibari, Rwanda

Factors affecting linkage of VSLAs

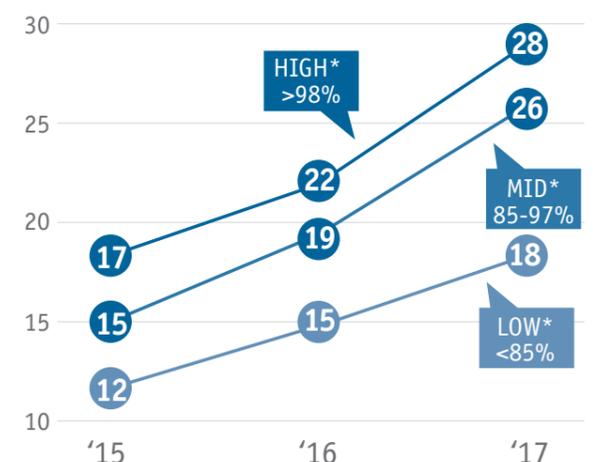
Gender: Across time and countries, savings groups with higher percentages of women are getting better economic performance from their investments.

Return on Savings(%)
by Gender Composition (85% women vs. 70%)



Attendance: From the data on Rwanda we can see that both groups with moderate (85%-97%) and high (98%+) attendance rates are doing well. Groups with low attendance rates do not do as well. This was true for Rwanda, but not statistically significant for Côte d'Ivoire where group norms are more relaxed.

Return on Savings (%)
by Rate of Attendance* (RWANDA)

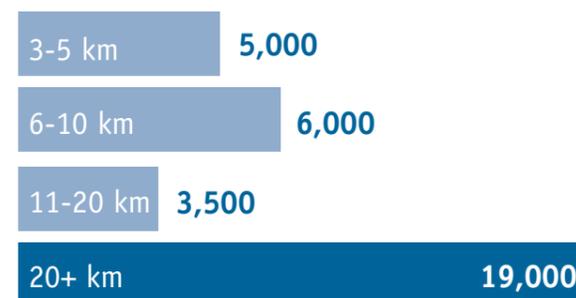


Distance: The distance of a VSLA to the FSP influences the use of FSP products. Traveling large distances with sizable amounts of cash is risky, takes time, and costs money—all of which result in distant (rural) groups using the products less frequently and as an “extra” to the existing VSLA procedures, not as an integral part of operation or substitute.

This becomes particularly evident when investigating the impact of mobile money access. When the distance to an FSP is great (20+km), having mobile access greatly increases group savings balances (and presumably usage).

High operation costs are associated with reaching deep rural areas, hurting the business case for linkage in these areas. Rural groups reported more frustration with FSP processes. When coupled with distance traveled, linkage was viewed less favorably.

Increase in Savings (Rwandan Francs RWF)
per Group for Each Additional Mobile User
by Distance (km) from FSP (RWANDA)



Financial Education: Financial education is critical as linkage is to amplify VSLA benefits. Women in VSLAs cited financial literacy as a major source of increased confidence, input in household decision making, and ability to utilize resources at hand for income generation. It also plays a positive role in setting and maintaining healthy group norms.

We are motivated to save more so that we can get a formal loan from ADVANS. This would be a dream for us. -VSLA member, Abidjan, Côte d'Ivoire

The group savings has increased since linkage as members are confident and trust the bank about security of their money. - VSLA, Kibari, Rwanda

My bank account secures my money and gives me privacy because only I can see how much is in my account - VSLA member, Korhogo, Côte d'Ivoire

Mobile money helps me to safely manage my business transactions during periods of high sales - VSLA member, Abidjan, Côte d'Ivoire

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Operationalizing Linkage: What's Next?

Linkage Building Blocks

Successful linkage relies on a strong foundation of trust, support, and vision built collectively across an array of actors. To set groups up for success CARE, FSPs, and Village Agent/Coordination networks must work closely with VSLAs to ensure each group has the following:

- **Strong group management practices**, including adherence to VSLA quality standards and group by-laws, norms, and processes for collective decision making.
- **Financial literacy training** to understand basic principles of budgets, savings and loans.
- **Business management and entrepreneurial skills**, along with a vision and ideas for individual and/or group income generating activities.
- **Gender committees** or other tools to address cultural norms and barriers to women's financial inclusion.
- **Access to markets and services** that both generate and require the need for greater amounts of capital.
- **Proximity to FSPs** or the ability to access FSPs through mobile money.
- **Uncomplicated, easy-to-understand processes** with helpful and responsive FSPs.

The common understanding of group members, the trust, the willingness, all that has a great impact on the performance of our group account. -VSLA member, Karongi, Rwanda

Group meetings encourage unity among women in the community. This helps us to access formal credit and to encourage each other's businesses - VSLA member, Korhogo, Côte d'Ivoire

I have to inform my husband about all my transactions because it is our culture to inform our partners and seek their advice; my husband is the chief of the family. We complement each other and develop together. - VSLA member, Kayonza, Rwanda

We choose to work with [FSP] because they don't need collateral and they are faster than other banks in providing loan. - VSLA member, Rwamagana, Rwanda



Benefits of linkage vs. preconditions

Theoretically, access to financial services and products helps people living in poverty to smooth out unpredictable income, protects against financial shocks, and access capital to improve overall financial standing. These reasons were motivating factors for individuals and groups to seek linkage, but they also just as easily acted as barriers to effective use of linkage.

Linkage is a step in the process of financial inclusion, but should only be a focus insofar as financial inclusion is useful and provides benefit. Great care needs to be taken to do no harm.

We think that our money is enough for members' loan, it is sufficient, our income generating activities are too small to need a significant capital. - VSLA member, Karongi, Rwanda

We go to the branch to make transaction. There are no other means to do so. No ATM and no mobile banking. We would prefer it to change, it impacts our time management. The fact that there is one branch has a great negative impact on how we make transactions – especially individual transactions. - VSLA member, Rubengera, Rwanda

The groups and individuals benefiting most from linkage were those who had enough money, enough market access, and enough vision to leverage the opportunity presented by linkage. Without these, rural groups (most often), could easily be burdened by the cost of transportation, loss of time, fees, and confusing transactions for access to an increase in capital they can't use and security for money they can't access efficiently. Great care needs to be taken to do no harm. Additionally, having more money and greater access to opportunity are the sought after impacts of linkage, not the pre-requisite.

Scope and sustainability

To scale and sustain linkages it needs to be market driven, requiring profitability for FSPs. Profitability is dependent on economies of scale with efficient deposit to loan and operating expense to income ratios. As it stands, the business case suggests FSPs need a higher level of operational efficiency than is currently common. Increasing VSLA savings would help profitability, current credit to savings ratios are unsustainable. The most promising adjustment is lower operating costs using mobile money for service provision, which also increases reach.

Summary

Linkage is defined as the connection of VSLAs to FSPs for use of group savings account and/or group loan products. The services that linkage provides access to are formal versions of the fundamental VSLA functions. As such, linkage acts as an amplifier of VSLA effects.

While connecting VSLAs to FSPs did have an impact on savings and returns in both countries, other variables remain noticeably different: dormancy rates, effect of gender composition, spontaneous linkage, and others.

Gender dynamics are influential in linkage. They can hinder VSLA members benefit from linkage. At the same time, groups with mostly female composition perform better with linkage than groups of mixed gender.

Urban vs. rural location of the VSLA often coincides with other factors such as access to basic and financial literacy, market access, gender norms, and the visioning for income generation that is so important to benefit from linkage. Unpacking these differences will require further investigation.

Many of the aspects that make a VSLA successful also make a linkage successful: trust, financial knowledge, and social cohesion. From identifying VSLA members to linking VSLAs to FSPs, trust is necessary.

Individual members benefit from linkage in the form of increased savings. Return on Savings (RoS) and Return on Assets (RoA) were significantly higher and grew faster with linkage. Group gender composition is one of the strongest predictors of a group's RoS trajectory.

VSLAs are less likely to benefit from linkage when:

- A group is less than 85% women
- Loans are not disbursed according to best VSLA practices
- Weak or no goal setting or vision
- Distance to financial services is too great
- FSPs are not responsive

Linkage needs to be market driven to be sustainable. Analysis suggests that VSLA linked products require a high level of operational efficiency to reach profitability. Mobile services offer a way to reduce expenses, paving the way for a profitable model of linkage.

Acknowledgements

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- + Mastercard Foundation

Project Description/Synopsis

The POWER Africa project (Promoting Opportunities for Women's Empowerment in Rural Africa) is a multi-country financial inclusion project implemented by CARE Canada in partnership with The Mastercard Foundation in Rwanda, Burundi, Ethiopia, and Côte d'Ivoire. The project aims to deepen access to financial services via linkage of mature VSLAs (Village Savings and Loan Associations) to formal Financial Service Providers (FSPs). The financial linkage of VSLA groups to FSPs is one of the POWER Africa project outcomes.

POWER Africa is a project of **CARE Canada**. More information can be found on our website: <http://care.ca/power-africa>

POWER Africa Learning Series: What's so special about adolescent girls? <https://power.care.ca/>