A cross-country desk review of community-based financial institutions in Eastern and Southern Africa
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**Executive summary**

The Rural Finance Knowledge Management Programme (KMP) has undertaken this multi-country desk review and assessment of community-based financial institutions (CBFIs)—with a particular focus on small community-based, time-bound savings groups (SGs)—to explore existing practices by agencies promoting CBFIs and SGs considering the areas (geographic) where they operate and the people they serve. The focus of this paper is on IFAD-funded programmes in six countries: Lesotho, Malawi, Mozambique, Uganda, Tanzania and Zambia. Attention has also been given to other programmes promoting similar models of time-bound savings groups.

Each of these countries offers unique insights on particular aspects of the informal financial sector and savings groups practices. The paper covers the origins and context of the informal financial sector in the African continent. It also examines the operational features of existing SGs through different models. It further highlights the state of financial inclusion, with particular focus on FinScope surveys in the countries assessed. Although at different levels, these surveys reveal that there are common challenges in promoting financial inclusion among rural households in sub-Saharan African countries.

Among its findings, the review highlights the critical role mobile money platforms play in enhancing financial inclusion in Africa in areas where the formal financial sector is not able to reach due to infrastructural and operational challenges.

The paper provides six recommendations:

- Linking CBFIs (SGs) to the formal financial sector requires that some factors be fulfilled.
- Aggregating CBFIs (SGs) so that they can access better services and effective market linkages
- The need for formal financial institutions to understand the informal financial sector in order to better design products with features that add value to the users of informal financial services
- Enhancing the mobile money infrastructure to expand financial inclusion among the unbanked
- Establishing and supporting meso-level structures such as SaveNET in Zambia and the ASCA forum in Mozambique
- Linking the informal financial sector with other government and NGO programmes that provide additional financial and non-financial services such as adult literacy programmes.
# Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ASCA</td>
<td>accumulating savings and credit association</td>
</tr>
<tr>
<td>BOM</td>
<td>Bank of Mozambique</td>
</tr>
<tr>
<td>CARE</td>
<td>Corporate Assistance and Relief Everywhere</td>
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<tr>
<td>CBF</td>
<td>community-based facilitator</td>
</tr>
<tr>
<td>CBFI</td>
<td>community-based financial institutions</td>
</tr>
<tr>
<td>CRS</td>
<td>Catholic Relief Services</td>
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<tr>
<td>FARE</td>
<td>Fundo de Apoio à Reabilitação Económica</td>
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<tr>
<td>FSDZ</td>
<td>Financial Sector Deepening Zambia</td>
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<tr>
<td>FSTAP</td>
<td>Financial Sector Technical Assistance Programme</td>
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<tr>
<td>HDI</td>
<td>human development index</td>
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<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>KZF</td>
<td>Keepers Zambia Foundation</td>
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<tr>
<td>MFI</td>
<td>microfinance institution</td>
</tr>
<tr>
<td>OIBM</td>
<td>Opportunity International Bank of Malawi</td>
</tr>
<tr>
<td>REES</td>
<td>Rural Economic Expansion Services Ltd</td>
</tr>
<tr>
<td>RFP</td>
<td>rural finance programme</td>
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<tr>
<td>RFPS</td>
<td>Rural Finance Programme and Strategy</td>
</tr>
<tr>
<td>RFSP</td>
<td>rural finance support programme</td>
</tr>
<tr>
<td>ROSCA</td>
<td>rotating savings and credit associations</td>
</tr>
<tr>
<td>RUFEP</td>
<td>Rural Finance Expansion Programme</td>
</tr>
<tr>
<td>RUFIP</td>
<td>Rural Finance Intermediation Programme</td>
</tr>
<tr>
<td>SACCO</td>
<td>savings and credit cooperatives</td>
</tr>
<tr>
<td>SaveNET</td>
<td>savings-led microfinance network</td>
</tr>
</tbody>
</table>
Introduction

Financial inclusion in Sub-Saharan Africa has remained a challenge. Over three quarters of the adult population in Sub-Saharan Africa is still unable to access formal financial services in spite of expansion of microfinance and banking institutions across the continent. Expanding financial inclusion in the rural areas, however, remains the biggest challenge for promoters of rural financial services. Studies and surveys reveal that exclusion is highest in rural areas, and aggravated among female folk who have also been excluded from other services such as education and hence high illiteracy levels, making them unable to interact with the formal financial sector.

This study acknowledges the challenges of delivering financial services to rural Sub-Saharan Africa, but considers the strategies used by rural populations to address financial exclusion by the formal sector. The unit of analysis for this study is the community-based financial institution (CBFI) with a particular focus on small community-based, time-bound savings groups (SGs) model and its variant forms and brands promoted by donor agencies and government programmes.

The assessment considers the unique position that CBFIss, through savings groups structures, have in offering financial services to unbanked populations in rural Africa. It explains why CBFIss have thrived in remote rural areas where formal financial sector institutions have failed to reach. The assessment also draws lessons that can be applied in the formal sector and used to structure linkages with the informal financial sector. In spite of the limitations in getting detailed management information system (MIS) information by SG practitioners, most aspects examined in this paper are in accordance with the terms of reference of the study (appendix 1).

Each country offers a unique perspective on the informal financial sector; the assessment is affected by the nature, depth and quality of the reports submitted by IFAD-funded partners that was requested for this assignment. Reports from Lesotho, Malawi, Mozambique and Zambia provide comprehensive highlights on the informal financial sector in those countries and IFAD-funded programmes have well-documented evaluation reports and structured reporting on the progress of these programmes. The analysis of SG structures for these country programmes is more detailed due to the availability of MIS information. However, the paper also analyses IFAD-funded programmes in Uganda and Tanzania with a snapshot of SG programmes in those countries.

The study refers extensively to FinScope financial inclusion surveys for each of the countries and the narrative hinges on the results highlighted on the state of each of the countries’ financial inclusion. FinScope surveys were first developed by FinMark Trust in South Africa with the first pilot conducted in 2002. The principal objective of the surveys is to measure and profile the levels of access to and uptake of financial services in a particular country, across income ranges and other demographics (FinMark, 2014).
Background to the Study

Rural Finance in Eastern and Southern Africa

A large percentage of the population in the eastern and southern Africa (ESA) region is resident in rural areas and its economic mainstay is agriculture. These remote areas are characterized by poor roads, poor access to basic services such as healthcare, lack of electricity, and scarce public transport making costs of transport high (Hamadziripi, 2008). This situation is compounded by poor access to formal and semi-formal financial services, and information asymmetry on demand and supply of rural and agriculture financial services (nature and type of products). The ESA region also struggles with policy and regulatory issues, such as caps on interest rates, and inappropriate financial products and services for smallholder farmers who also lack access to markets (FinMark Trust, 2012) combined with institutional management quality issues (CSFI, 2009). Rural areas are also characterized by high seasonal unemployment and under-employment rates. This affects household incomes and makes it difficult for financial service providers (FSPs) to structure their products for areas with a low population density making operational costs prohibitive. These constraints to accessing FSPs have made it necessary for rural households to depend on community-based financial services (CBFIs), which pervade Africa’s rural financial landscape.
Country scenarios

Lesotho
The Kingdom of Lesotho is a small, mountainous country wholly surrounded by South Africa. It is a least-developed, food-deficit country, ranking 158 out of 186 countries in the United Nations Development Programme Human Development Index (UNDP HDI) (2013). Approximately 48% of Lesotho’s 1.9 million population live below the poverty line; 69% of the population lives in rural areas.

According to FinScope Survey Lesotho (2011), 19% of Basotho adults are financially included, attributing this to the high use of funeral-related products such as burial societies. Other similar covers include funeral insurance, which, according to the study, covers 81% of people in the informal sector. Lesotho also has a high percentage of its population (62%) using informal financing mechanisms.

The percentage of adults in rural areas who are excluded stands at 20.4% compared to urban adults at 16.3%. The percentage of male who are financially excluded stands at 23.4 compared to females at 16.4. The study further revealed that residents in the mountains have the highest level of financial exclusion at 28.8% compared to other ecological zones of Lesotho.

Non-financial institutions and NGOs, such as the Catholic Relief Services (CRS) (under the IFAD RUFIP programme), have attempted to fill this gap and increase access to financial services by implementing CBFI models. These are known locally as rural savings and credit groups and are registered under the Societies Act of 1966.

Malawi
Ranked 170 out of 186 countries on the UNDP HDI (2013), Malawi is one of Africa’s poorest countries. Almost 74% of its population live on less than US$1.25 per day; 39% lives below the poverty line. With 139 people per km², Malawi has one of the highest population densities in Africa (FinMark Trust, 2012). FinMark also notes that much of Malawi’s population is concentrated in rural areas (84.6%), a situation that inhibits provision of formal financial services due to high levels of rural poverty and illiteracy and poor infrastructure. The study further highlights that a number of supply-side constraints aggravate the problem of financial inclusion in Malawi. These include limited incentives for financial institutions to scale-up rural financial services, poor risk mitigation due to lack of contract-enforcing mechanisms, and weak value chain financing as a result of poor links between the formal and informal sectors, including smallholder farmers. Another report also identified lack of identification documents as a challenge to offering financial services to rural residents of Malawi (African Diagnostic, 2009). According to a 2008 FinScope report, 58% of adults in Malawi were unbanked, while another FinScope report (2012) revealed that only 3% had insurance cover. The challenges of rural finance highlighted in these reports underscore the critical role CBFI models play in expanding financial services to rural households in Africa. Further, inappropriate direct involvement by government in microfinance activities creates unfair competition in the market. The government of Malawi owns the two major microfinance institutions that are subsidized.
Mozambique

Mozambique is one of the world’s poorest countries and is ranked 185 out of 186 countries in the UNDP HDI (2013) report: 81.6% of the population lives on less than US$2 a day. The literacy rate is 44% against a sub-Saharan average of 62%. Many rural areas also have no access to financial services (BTI, 2012). According to a FinScope study (2008), Mozambique has the highest number of unbanked adults (78%) in sub-Saharan Africa.

Mozambique’s political elite is heavily involved in public and private businesses. The president and the ruling party FRELIMO have heavy stakes in the mobile phone business, for instance. The largest company, M-Cell, belongs to the government and it also has stakes in MoviTel. The president is the main shareholder of Vodacom, the second biggest cell phone company in Mozambique. Findings from the BTI report (2012) concur with those of a FinScope study (2008) stating that direct government involvement in providing financial services acts as a major constraint to the development of the microfinance sector in Mozambique due to unfair competition, weak institutional capacity and a precedent of poor repayment rates. This situation resulted from weak contract enforcement and property rights that discourage investment by private investors in the formal financial sector.

Despite the challenges, the government of Mozambique in partnership with the World Bank and IFAD is pursuing efforts to develop the financial sector. The World Bank works with the Ministry of Finance through the Financial Sector Technical Assistance Program (FSTAP) while IFAD works with the Ministry of Planning and Development through the Rural Finance Support Program (Nathan Associates, 2012). Microfinance services to rural Mozambique are slowly expanding as the MFI sector is still at an early stage in its development. Nathan Associates (2012) also notes that CBFIs such as village savings and loan associations are better placed to offer basic financial services in remote rural areas where other financial service providers, including MFIs, cannot reach. The country has not yet fully exploited the potential for mobile banking (m-banking) to increase access in remote rural areas.

Tanzania

Tanzania is ranked 152 out of 186 countries in the UNDP HDI (2013) report. A FinScope Tanzania (2013) study indicated that 26.8% of the mainland adult population was financially excluded. Zanzibar had a higher percentage of its population excluded at 45.9%. Compared to a similar study in 2009, financial inclusion had increased. In 2009, 55.3% of the mainland population and 59.3% of Zanzibar’s population was financially excluded. FinScope Tanzania (2013) noted a significant increase in the number of people using non-bank formal products (products not in the formal banking system) largely through mobile platforms. The report also shows that financial exclusion in rural areas was higher compared to urban areas. In mainland Tanzania financial exclusion in urban areas was 13.7% compared to 34.4% in rural areas. In addition, Tanzania’s female population was more excluded financially (31.6%) than their male counterparts (22.7%).

Uganda

Uganda is ranked 161 out of 186 countries in the UNDP HDI (2013) report. Uganda has a population of about 34.1 million (2012 population projection) with 16.7 million adults (FinScope Uganda, 2013) of which 86% live in rural areas. According to Uganda’s Vision
2040, barriers to financial services are some of the aspects affecting the competitiveness of the Ugandan economy. Low levels of household incomes affect household savings and investment levels (FinScope Uganda, 2013). The FinScope survey also revealed that 15% of Ugandans were financially excluded. This was a significant improvement from 30% in 2009. The report attributes most of this change to increased use of mobile money transfer services given that mobile phone money falls under the category of non-bank formal financial institutions. The mere usage of mobile money transfer services, however, is a necessary but not sufficient condition for financial inclusion. The FinScope Uganda (2013) survey also revealed that the gender gap in financial inclusion between 2009 and 2013 had been closed since women were likely to be excluded as their male counterparts in 2013. The survey further revealed that youth and elderly persons were more likely to be financially excluded compared to other social categories.

According to Uganda’s Vision 2040, the financial services sector in the country faces a number of challenges. Most small and medium-size enterprises depend on the informal financial sector for financing where there is no long-term finance to promote economic growth. A poor savings culture coupled with weak financial services infrastructure also inhibit growth of development finance in rural areas of Uganda. The paper highlights a number of sector-wide (supply-side and demand-side) strategies that will promote the growth and development of Uganda’s financial sector.

**Zambia**

Zambia is one of the least developed countries in the world, ranked 163 out of 186 countries in the UNDP HDI (2013) report: 60% of the Zambian population and 79% of rural households are classified as poor. Despite strong macro-economic growth due to the mining sector (primarily copper), the country faces significant income disparities with national poverty levels remaining relatively stagnant. Approximately 70% of Zambia’s households are involved in agriculture or aquaculture. Farming activities and self-employment are the two highest income earners for Zambian households. However, investments in many of these productive activities are constrained by lack of access to financial services where approximately 62.7% of the adult population is financially excluded (FinScope, 2009). The percentage of financially excluded is higher among the rural population (66%) compared to their urban counterparts (58%).

Improvements in the country’s financial infrastructure continue to be uneven with few opportunities for including the very poor and rural households. Access to finance is affected by a number of factors including limited outreach of banks and non-bank financial institutions, and gaps in policies and regulations governing the financial sector. While a World Bank report (CGAP, 2009) explains that physical distance to banks and other financial institutions serves as a primary barrier to financial inclusion, a FinScope report (FinScope Zambia, 2009) questions this commonly-cited reason for poor financial inclusion, citing that almost 20% of urban adults, for whom physical accessibility does not pose a challenge, still rely on informal financial services. Issues related to income and affordability serve as the greatest barriers to financial inclusion, yet accessibility, usage and eligibility are also barriers (FinScope Zambia, 2009). For example, the World Bank report (CGAP, 2009) indicates that 17% of the adult population does not have official identification documents, and thus cannot interact with formal financial service providers.
Zambia’s 2006 survey for monitoring living conditions found that women are less likely to be employed than men, and also less likely to engage with the formal financial sector. A World Bank economist, Jose de Luna Martinez (2006), noted that only 8% of Zambians had a bank account and a mere 50,000 clients in Zambia accessed microfinance services. The vast majority of Zambians are not accessing formal financial services.

Positive initiatives have been noted in the development of rural and agricultural finance in Zambia. These include:

- a new Rural finance policy and strategy was approved in 2013
- the Banking and Financial Services Act was amended to allow branchless banking, and e-money and payment systems
- the Insurance Act was amended to provide for micro-insurance
- the National financial education strategy was rolled out
- more networking and deepening of CBFIs.

Table 1 summarizes the state of financial inclusion, according FinScope surveys for the countries under this review.

<table>
<thead>
<tr>
<th>Country, Year of survey</th>
<th>Banked (%)</th>
<th>Formal other (non-banked products) (%)</th>
<th>Informally served (%)</th>
<th>Not served (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lesotho 2011</td>
<td>38</td>
<td>23</td>
<td>20</td>
<td>19</td>
</tr>
<tr>
<td>Uganda 2013</td>
<td>20</td>
<td>34</td>
<td>31</td>
<td>15</td>
</tr>
<tr>
<td>Malawi 2008</td>
<td>19</td>
<td>70</td>
<td>19</td>
<td>55</td>
</tr>
<tr>
<td>Tanzania 2009</td>
<td>12</td>
<td>40</td>
<td>28</td>
<td>56</td>
</tr>
<tr>
<td>Zambia 2009</td>
<td>14</td>
<td>90</td>
<td>14</td>
<td>63</td>
</tr>
<tr>
<td>Mozambique 2009</td>
<td>12</td>
<td>10</td>
<td>90</td>
<td>78</td>
</tr>
</tbody>
</table>

Source: FinScope surveys
Overview of community-based financial institutions models

Evolution, Nature, Characteristics of Community-based Financial Institutions

Community-based financial institutions (CBFIs), also known as informal financial institutions, come in many forms and are as old as history. The oldest forms are rotating savings and credit associations (ROSCAs) and accumulating savings and credit associations (ASCAs). Due to the challenges faced by financial service providers, practitioners have gone back to promoting these traditional CBI models (savings groups) that pervade Africa’s rural financial landscape. These CBI models are often user-owned and managed, are common among rural households in Africa and address household cash flow management in the absence of institutional finance.

While some models remain informal, some have legal structures and are registered with different authorities, such as the savings and credit cooperative societies (SACCOs) and financial services associations (Duursma, 2004). In the past 20 years, many models have been conceptualized along the traditional CBI models. These models have borrowed characteristics of ROSCAs and ASCAs, while others have modified these CBFIs to become models serving particular themes of promoting agencies. Low (1995) notes that scholars took note of ROSCAs as early as the 1960s in West Africa among the Ibo of Nigeria. Low also notes that donor agencies and economists took note of the role ROSCAs played in Africa’s informal economies. The author notes that while some ROSCAs failed many expanded their services attracting donor agencies and scholars who documented and promoted the best practices giving rise to many CBI models promoted by different agencies today (Low, 1995). Low notes two categories of people who have documented CBFIs: those interested in rural finance and anthropologists, who, while conducting studies in different areas, bump into these rural finance schemes.

Siebel (2001) provides a more detailed description of the growth and evolution of CBFIs. The author’s study on group work in Liberia led him to discover informal finance schemes among communities under observation. At first, these groups were organized around individual contributions ranging from labour, foodstuff to money. These were accumulated and given to one person at a time until the whole cycle was finished. The same routine will normally occur in subsequent cycles. However, with time these groups increasingly focused on monetary contributions, becoming informal finance schemes that are efficient in financial intermediation due to the low transaction costs. The author further notes that CBFIs, particularly the ROSCA model, date back to the 16th century among the Yoruba community of West Africa, whose slaves carried it to the Caribbean islands. ROSCAs have been given vernacular terms by different communities around the world. Due to challenges in accessing finances in Africa, many adults know someone or directly participate in a form of CBI.

Siebel (2001) provides a trajectory of evolutionary trends of CBFIs from labour to credit. The author provides five typologies of the CBI transition:
In eastern and southern Africa informal financial institutions are predominant and run alongside formal financial sector structures. Similar to West Africa, these structures go by many names: Chilimba (Zambia), Chilemba (Uganda), Chiperegani (Malawi), Chama (Kenya and Tanzania), Ungalebo/Stokvel (South Africa), and Xitiques (Mozambique). Allen & Paneta (2010) confirm that these ROSCAs are a long-standing African tradition and are the bases and foundation for savings groups models being promoted by various NGOs today. Due to their (ROSCAs) limitations, money often not being available when needed, the savings groups models such as village savings and loan associations (VSLAs) improve on ROSCAs strengths by introducing greater flexibility and access to funds at any point in the group meetings. Further, savings groups complement and provide the foundation for today’s institutional microfinance institutions (MFIs). These MFIs borrow a lot from the traditional savings schemes (ROSCAs and VSLAs) in terms of social capital and group practices. Besides, these institutions operate side-by-side with savings groups in the current financial landscape belabouring the fact that the latter still serve a market niche that remains unreached or underserved by formal FSPs. Donor agencies recognize the importance of savings group models in reaching unbanked remote rural households and hence programmes with a focus on financial inclusion using savings groups models have increased.

### Table 2. Key features of small community-based, time-bound savings groups

<table>
<thead>
<tr>
<th>Membership</th>
<th>Homogenous members typically must have regular income flow to fully participate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulation</td>
<td>Unregistered, informal groups</td>
</tr>
<tr>
<td>Products and services</td>
<td>When each member has received the loan and repaid it, the group may disband or start a new cycle with the same or with new members. Length of the cycle seldom exceeds one year.</td>
</tr>
</tbody>
</table>

**Savings**

Compulsory (savings fund the loan which is made available to each member in turn)

Do not receive interest

All members contribute a multiple of the same set amount at fixed intervals

Contributions are made regularly (during weekly or monthly meetings)

Accumulation may be conducted for first few meetings before distributing any funds in order to establish the credit fund

**Credit**

Fixed amount and term (equal to the total sum of members’ savings) distributed to each member in turn

Each member receives the loan only once unless they have contributed more than one multiple of savings
| Products and services contd. | The order of loan recipients is chosen according to either consensus on member need, by drawing lots, or through a bidding process. No interest paid on loans. |
| Management | Autonomous. Easier for non-literate people to manage since non-accumulating. |
| Geographic coverage | Africa (especially West Africa), Asia, Latin America and Caribbean. |

**Village Savings and Loan Associations (VSLAs)**

| Membership | Homogenous members typically must have regular income flow to fully participate. |
| Regulation | Unregistered, informal groups. |
| Products and services | The length of the cycle of a VSLA is typically one year, by which time all loans must be repaid and all savings redistributed together with their share of interest. This distribution is sometimes called *action audit*. After this redistribution, existing members can then leave or new members can join the group. The group then starts afresh. (Please note that this description is of the traditional VSLA model, VSLAs are increasingly being encouraged not to disband.) |

- **Products and services contd.**
  - **Savings**
    - Compulsory (savings are pooled and on lent to group members).
    - Deposits are weekly, bi-weekly, or monthly, with all members saving multiples of the same amount.
    - VSLAs distribute all savings together with the share of interest back to members at the end of the cycle. The interest is usually distributed in proportion to the amount saved.
  - **Credit**
    - Collect loan repayments and disburse loans at regular intervals; weekly, bi-weekly, or monthly meetings.
    - Pay interest on loans: The loan terms are typically short (1–3 months) and the interest, which is decided by the members, can be very high.
    - All loans must be repaid by the end of the cycle.

| Management | Autonomous. Easier for non-literate people to manage since non-accumulating, even though some level of regular external support is often necessary. |
| Other | Self-contained at the village level -- no linkages with banks and no formation into federations with VSLAs from other villages as with other CBFO models. |
| Geographic coverage | Africa, Haiti, India. |

Village banks are similar to VSLAs except that they aim to continue operating instead of disbanding at the end of a cycle. In some cases the sponsoring NGOs will lend VSLAs funds.

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Country Programme Analyses

Introduction
This section provides information on the six country programmes by looking at the scope of various IFAD-funded rural finance programmes, and project strategies being used by select partners. The main focus is on the unique approaches IFAD partners and other projects are promoting to promote financial services in rural areas. A standard overview (in boxes) is provided for each country and covers (selected) previous and current IFAD-funded programmes, their components, partners and strategies. Furthermore, the section also looks at different CBFI models in each country with particular focus on savings groups. Each country analysis therefore provides unique insights for each model and promising practices by implementing partners. Some countries (Lesotho, Malawi, Mozambique and Zambia) have more detailed information on CBFI methodologies and bank linkage initiatives largely due to the availability of partner reports at the time of the desk review. Other country analyses (Tanzania and Uganda) provide brief overviews of savings groups practices.

The section does not provide a standard structure nor is it exhaustive as many other CBFI promoters and IFAD programmes are not covered. Nevertheless, the analyses provide unique insights to each country programme whose details are to be used for further reviews or research. Detailed information can be found in the Bibliography.

In brief, each country analysis focuses on unique CBFI aspects as summarized below.

Lesotho
An overview is provided of IFAD-funded Rural Financial Intermediation Programme (RUFIP). The report examines CRS (Catholic Relief Services) savings and internal lending communities (SILC) methodology as a community-based approach to address financial inclusion of marginalized populations. The analysis also highlights the importance of outreach mapping by donor organizations and implementing partners before they roll new projects. An example of outreach mapping is provided where RUFIP worked with CARE and CRS in Lesotho to address cases of overlapping and duplication of effort. CRS had to redeploy its field staff in areas where CARE had no presence. The section further shows a case of a project designed to address bank linkages from project conceptualization stage. CRS is working with Lesotho Post Bank to structure linkages between SILC groups and Post Bank as highlighted in the project document. This is still in the formative stages and results are yet to be documented.

Malawi
An overview is provided of the IFAD-funded Rural Livelihood Support. The analysis looks at a unique CBFI model—the Village Development Committees (VDCs). The section also provides a case of successful bank linkages where VDCs were linked with Opportunity International Bank of Malawi. The analysis also captures in detail the challenges experienced by VDCs and provides cases of promising practices that formal sector partners can use when structuring links with the informal financial sector.
**Mozambique**

An overview is provided of the Rural Financial Support Programme and the Rural Financial Intermediation Support Programme. A detailed analysis is provided of CBFIs methodologies—rural financial associations and ASCAs—in use in Mozambique. Interesting aspects are highlighted such as cases of bank linkages with ASCAs, micro-insurance service provision, and mobile banking opportunities for ASCAs. The Mozambique analysis further looks at outreach of ASCAs and factors such as cost per member that are critical to the sustainability of rural finance programmes.

**Tanzania**

An overview is provided of various IFAD-funded programmes. These include Rural Financial Services Programme; Agricultural Marketing Systems Development Programme; and Market Infrastructure, Value Addition and Rural Finance Programme. An overview is also provided of savings groups programmes in Tanzania such as CARE’s VSLA programmes.

**Uganda**

An overview is provided of IFAD-funded Rural Financial Services Programmes and Project for Financial Inclusion in Rural Areas (PROFIRA). A general overview of savings groups programmes in Uganda is also provided. These include CRS’ SILC programmes and CARE’s VSLA model.

**Zambia**

An overview of the Rural Finance Programme and Rural Finance Expansion Programme is provided. The Zambia analysis gives an overview of savings groups promoters in Zambia and the importance of coordination among promoters through an organization that facilitates networking—SaveNET. The section also looks at the role played by savings groups promoters in addressing the challenge of financial inclusion in remote rural areas. It highlights participation in these groups by gender and looks at the regulatory and policy environment that supports the expansion of these CBFIs models.
Lesotho

Rural Financial Intermediation Programme (RUFIP)

Overview
RUFIP is a US$10.7 million programme whose focus is improved access to financial services by developing member-based institutions, extending the outreach of formal networks and creating linkages with informal institutions. RUFIP will support grassroots member-based institutions such as financial cooperatives, rural savings and credit groups and other types of informal groups.

Development Goal and Programme Objective
The overall goal of the programme is to alleviate poverty, increase income and contribute to overall economic development. The programme objective is to enhance, on a sustainable basis, access by the rural poor to efficient financial services.

Beneficiaries
Poor households with the capacity for engaging in income-generating activities will be the first to benefit from the programme through improved investment in productive activities and enhanced savings accumulation. Sources of potential income include marketable surpluses from agricultural or livestock activities, remittances and occasional employment. Very poor people with low incomes will also benefit because they will be able to gradually accumulate savings in a secured place.

Components of RUFIP
Component 1: Development of member-based financial institutions
Component 2: Development of formal financial institutions for rural outreach
Component 3: Development of an enabling environment
Component 4: Programme coordination.

Coordination and partners
The programme is coordinated under the Ministry of Finance and Development Planning. The key implementing partners are the Central Bank of Lesotho, the Lesotho Postbank and the Department of Cooperatives of the Ministry of Trade and Industry, Cooperatives and Marketing.

A Case of Savings and internal lending communities methodology: A CBFI promoted by Catholic Relief Services, Lesotho

Catholic Relief Services (CRS) implements savings and internal lending communities (SILCs) as its savings group model. A SILC is a savings group of between 15 and 30 members who set their own constitution to guide their savings and loan activities. SILCs are user-owned and user-managed and their loan fund is entirely made up of member savings. SILCs are time-bound and operate in cycles. At the end of the 9- to 12-month savings and loans cycle, SILCs share the accumulated savings and interest earned, according to individual member savings. Throughout the cycle of savings, field agents provide dedicated support to SILCs to ensure quality of savings and lending practices according to each group’s established rules.
CRS implements SILC in Lesotho as one of four components of RUFIP phase II, a follow up of RUFIP I. CRS operates among poor households within Leribe, Maseru and Mohale’s Hoek districts.

**Table 3. CRS Lesotho areas of operation – RUFIP programme (CRS Lesotho quarterly report 2014)**

<table>
<thead>
<tr>
<th>District</th>
<th>Community Council</th>
<th>No. of supervisors</th>
<th>No. of field agents</th>
<th>Planned no. of groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maseru City</td>
<td>Maseru City Council</td>
<td>2</td>
<td>0</td>
<td>51</td>
</tr>
<tr>
<td>Leribe</td>
<td>Manka, Hleoheng, Maputsoe urban</td>
<td>3</td>
<td>9</td>
<td>122</td>
</tr>
<tr>
<td>Maseru/Semonkong</td>
<td>Makhoalipana, Tse’hekeng</td>
<td>2</td>
<td>4</td>
<td>51</td>
</tr>
<tr>
<td>Mohale’s Hoek</td>
<td>Mashaleng, Thaba mokhele, Mohale’s Hoek urban</td>
<td>3</td>
<td>9</td>
<td>154</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>10</td>
<td>22</td>
<td>378</td>
</tr>
</tbody>
</table>

**Outreach April 2014**

During the reporting period, new SILC groups were formed, previous Lesotho SILC I groups within Maseru and Leribe were identified: some were inactive or on the brink of collapse and were revived. Table 4 shows newly formed, identified and revived number of groups by district.

**Table 4. CRS total RUFIP outreach, April 2014**

<table>
<thead>
<tr>
<th>District</th>
<th>Total number of groups assisted by project to date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of groups</td>
</tr>
<tr>
<td></td>
<td>Target groups</td>
</tr>
<tr>
<td>Maseru City</td>
<td>51</td>
</tr>
<tr>
<td>Leribe</td>
<td>122</td>
</tr>
<tr>
<td>Maseru / Semonkong</td>
<td>51</td>
</tr>
<tr>
<td>Mohale’s Hoek</td>
<td>154</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>378</td>
</tr>
</tbody>
</table>

**Outreach mapping under RUFIP**

CRS has reported on a case of outreach mapping initiated by RUFIP staff. This mapping addressed overlapping and duplication of effort by RUFIP partners implementing SGs in project areas. As a result, CRS delayed deploying its field staff to Semonkong with RUFIP approval, so that CRS could move the area of operation to Quthing district where CARE was implementing the same project. RUFIP also approved increasing the number of groups in Leribe and decreasing them in Mohale’s Hoek because CARE was also implementing the same programme in Seliane, an area within Mohale’s Hoek. CRS also shifted one field supervisor to Leribe in the Peka area. In another case implementing partners working with other CBFIs from RUFIP I needed capacity strengthening. In Maseru city, CRS identified
some of its old SILC groups that were inactive in RUFIP 1 to strengthen their capacity. This approach has an implication on cost per member as it inflates the costs of operations; the activity budget caters for capacity strengthening for SGs in RUFIP 1.

**Bank Linkages**

CRS Lesotho SILC methodology is one of the good examples where promoters plan for links with the formal sector from the project design stage when partners plan and budget for activities that promote links including initiating relationships with the formal sector at the proposal design stage. This ensures success as the right message is passed across to CBFI (savings groups) and positions them for future contractual relationships with the formal sector. CRS has also been engaging the formal sector by initiating talks with Lesotho Postbank to introduce mature and graduated SILC groups to access loans. CRS will pilot this new initiative in order to advance the potential of the mature SILC groups in the regions of Maseru and Leribe by working to facilitate formal linkages with Lesotho Postbank.

Initial conversations with these groups identified a lack of knowledge and inability of the groups to work directly with the formal sector (Lesotho Postbank). CRS will work with Postbank to identify the most appropriate methods for CBFI (savings groups) to access services. This approach will focus on mature groups that have already proved effective, efficient, sustainable and cohesive and want to grow and scale-up. CRS has identified a number of pilot groups where interventions will focus on building competencies, favourable terms and relationships to facilitate access to Postbank’s financial services. The pilot targets peri-urban and urban areas of Leribe and Maseru, where there is coverage by formal financial services as it will be easy to prove the concept where there is already a critical mass and infrastructure.

CRS also proposes to pilot linkages between formal microfinance services and the mature SILC groups. This is in line with RUFIP 2, which aims to facilitate formal financial institutions, particularly the Lesotho Postbank, outreach to rural areas. By strengthening business skills, understanding of formal credit requirements and conditions of SILC groups, the project will reduce the risk of credit arrears and increase the repayment capacity of potential clients thereby making SILCs good clients for MFIs.

**Linkages between Graduated SILC Groups and Formal Financial Institutions**

SILC groups usually operate independently from formal financial institutions and establishing this type of linkage is not traditionally part of CRS strategy. However, CRS Lesotho is piloting possible links between graduated SILC groups in the peri-urban areas, which have better business development potential, and existing formal financial service providers, particularly Lesotho Postbank. This pilot will provide CRS with valuable lessons to contribute to RUFIP’s programme component of facilitating rural outreach by formal financial institutions. These lessons can contribute to the 27 CRS country programmes with more than 1.2 million SILC members in Africa that currently implement SILC. These lessons can also have an impact on the savings-led microfinance industry on best practices for linking CBFI (savings groups) to the formal financial sector.

To test this initiative, CRS Lesotho and its partner Caritas Lesotho will implement three main activities:
- Strengthen business identification and development of skills among SILC groups, especially mature groups
- Train graduated SILC groups on external credit requirements and conditions, as well as on responsibilities and risks associated with external credit.
- Facilitate discussions and negotiations with Lesotho Postbank to examine favourable lending and terms of access for eligible SILC groups. This may involve piloting contractual mechanisms, terms of collateral, interest, and repayment within the context of a member-based SILC group. Targeted graduated SILC groups will be located in the peri-urban and urban areas of Maseru and Leribe districts.

Collaboration between CRS and Lesotho Postbank means they will design and implement the proposed training activities together to ensure proper use of synergies. Alternatives for individual credit and for group credit will be discussed.

To ensure the development of a successful programme and model for intervention, CRS is investigating multiple international models where savings groups interact with the formal sector. The first quarter of the project was reserved for research on models of linking informal savings groups with formal institutions and investigating how they can be adapted in the local context. Quarter 2 focused on the operationalizing such linkages by initiating relationships with Postbank to determine the most appropriate approaches for the bank to work with mature SILC groups in Maseru and Leribe areas. The project set aside the first year to develop this relationship, prepare and train SILC groups on how to enter the formal financial sector and to develop additional business development materials. Individual groups or group members lack knowledge and confidence to negotiate directly with banks or the formal sector. CRS and Caritas will begin dialogue with Postbank to negotiate on behalf of the SILC groups and forge an agreement/partnership on how SILC participants or groups can access the formal financial sector. Combining our research findings and our focus group discussions with SILC group members, CRS and Caritas will present multiple options to Postbank and discuss feasibility. This initiative has potential to succeed because CRS and Postbank have a shared goal to increase access for the people of Lesotho to formal saving and lending.

Finally, it is important for CBFIs promoters and formal financial institutions to note that CBFIs to a large extent are able to meet their financial needs without links to MFIs or banks. CBFIs also operate in remote areas (geographic and social) where banks and institutional MFIs do not exist. Therefore, before links with the formal financial sector are made, there must be sufficient market demand. Creating CBFIs on a massive scale would provide an incentive for formal financial institutions and a business case to enter more remote rural areas with appropriate financial products that protect the integrity and self-regulating aspects of CBFIs.
Malawi

Rural Livelihoods Support Programme

Overview
The Rural Livelihoods Support Programme (RLSP) is a nine-year programme being co-financed by Government of Malawi and IFAD. The total programme cost is $16.5 million of which $1.2 million is the government’s contribution and beneficiary contribution of $0.5 million with the balance of $14.8 million as IFAD loan. The loan agreement was signed on 13 November 2003 and was declared effective on 30 August 2004 with completion date of 30 September 2013.

Objectives
The aim of the programme is to improve villagers’ access to resources such as land, water, farm inputs and farming services, and to ensure more efficient use of these resources. It is designed to:
- empower villagers to organize themselves and their production in a more effective way
- improve the way service providers respond to villagers’ needs
- reduce the hunger gap and improve dietary and nutritional status by investing in production and income-generating activities
- help keep villagers better informed about market and agricultural information.

Beneficiaries
The programme is operating in some selected villages and the target population is estimated to be 10,000 households in Nsanje, 16,000–20,000 households in Thyolo, and 10,000 households in Chiradzulu. The targeted households cover between 160,000–180,000 people representing about 21% of the total population in the districts over the 9-year programme period.

The village invest component of RLSP had been running a local revolving fund in two categories: (i) the local initiative fund which included crop and livestock development, natural resources management and environmental conservation, and (ii) the village investment fund which included small-scale business loans, infrastructure and water supply. Village development committees managed the funds but it was later observed that their capacity to manage the funds was not sufficient.

Components of RLSP
Component 1: Human capital investment
Component 2: Village investment
Component 3: Programme management.

Coordination and partners
The programme facilitation unit offices are located in Blantyre; the lead implementing agency is the Ministry of Local Government and Rural Development. The programme is directly supervised by IFAD through periodic supervision missions. The programme is being financed under the IFAD flexible lending mechanism (FLM). The FLM requires that a programme achieve agreed milestones prior to accessing funds for the next funding cycle.
Village Development Committees—a CBFI approach to increase rural finance in Malawi

**Rationale for using Village Development Committees as a CBFI approach**

Allen (2009) notes that rural Africa poses a challenge for MFIs to be operationally and financially sustainable due to low average loan sizes, low and depressed household incomes and infrastructural challenges in rural marketplaces. FinMark Trust (2013) concurs with Allen and further notes that efforts to expand rural finance in sub-Saharan Africa face a number of challenges including high operational costs, poor infrastructure, low population density and seasonal cash flow affected by the farming seasons. Other authors have highlighted similar challenges and justify the existence of CBFIs in addressing these challenges (Duursma, 2004; Hamadziripi, 2008).

RLSP is promoting Village Development Committees (VDCs) as a CBFI model to address financial inclusion in rural Malawi. RLSP is one of many IFAD programmes in Africa that have emerged to expand outreach to rural populations at very low cost, focusing largely on autonomous, small-scale CBFIs. The aim is to promote sustainable approaches to rural finance. Other authors note that the use of CBFIs, such as VDCs, to expand rural finance has the advantage of retaining resources within the rural economy and not producing transfers to pay the cost of running distant head offices (IFAD, 2011).

**Management and Operational features of VDCs**

Marshall and Nell (1999) point out that revolving loan funds at village level are a financial option to credit management where formal sector financial institutions are not available. The RSLP choice of VDCs to manage the loan was driven by the fact that these are well-recognized structures that are user-owned and user-managed by local people themselves within Malawi’s Local Government Decentralization Framework (IFAD, 2011).

VDCs are voluntary committees with three-year terms. Their primary responsibility in managing these loans is to mobilize communities to form small-scale business loan groups. These groups are organized through a participatory rural appraisal process where poor people are identified to benefit from the revolving loan fund. Through the revolving funds, VDCs provide loans to groups of 10–15 persons to establish small-scale businesses. VDCs also appraise the targeted beneficiaries, manage loan repayments and follow-up on loan defaulters.

VDCs have a loan account where funds are administered. RLSP has been providing seed capital to the VDCs while the VDCs mobilize the initial savings from the identified clients. As the loan portfolio increases through loan repayments, VDCs are mandated to form new loan groups within their structures. Furthermore, VDCs have responsibility to ensure that the loan groups graduate to local SACCOs.

However, the seasonality of the rural economy, i.e. agricultural products, affects loan performance, which is higher during the harvesting period compared to the planting period. VDC loan beneficiaries in Malawi were largely involved in agricultural products such as banana, beans, groundnut, livestock and livestock products. This meant that financial performance of VDCs was dependent on farmers’ seasonal income (IFAD, 2011).
Linkages between VDCs and MFIs

The growth of the loan portfolio due to increased number of business groups, interest income and external capital injection led to management challenges among the VDCs. These included record keeping, management of the loan portfolio and other governance issues. To address growth challenges among VDCs, in 2007 the programme conceptualized linking VDCs to a well-established MFI, Opportunity International Bank of Malawi (OIBM). Also, all VDCs were linked to SACCOs that combined had a total portfolio of MK 18 million in savings and shares.

The revolving funds required advanced management skills that VDCs did not have. VDC positions had three-year term limits and continuous capacity building was needed for new VDC office bearers, a strategy that was not sustainable. It was therefore imperative that the VDCs be linked to sustainable MFIs.

A formal sector partner was to provide specified financial services in the impact area including managing the revolving funds, mobilizing savings, increased outreach to RLSP and other communities, and ensuring sustainability of these initiatives beyond the RLSP implementation period. OIBM’s proposal was successful and the bank entered into an agreement with the programme on 12 October 2010 (IFAD, 2011).

Examining the relationship between OIBM and VDC Loans

Although the relationship between OIBM and VDCs started late in the programme, this relationship brought in several advantages to VDCs including:

- Larger loans being disbursed than previously in VDCs
- Development of new products and services such as financial education targeting the youth
- Provision of financial education (business management)
- Operation of mobile banking using vans and designated routes in the villages
- Introduction of a credit guarantee scheme (VDC guarantee) to encourage relationship between VDCs and OIBM.
- Introduction of circle facilitators for MFI loans to enhance literacy and numeracy skills among potential VDC members.

OIBM has experienced challenges in providing services to VDCs due to the rural nature and scope of the services needed by VDC clients. These include:

- During the growing season household incomes fall and this affects loan repayments, leading to arrears.
- To increase rural access, OIBM is providing mobile banking vans. However, this is a challenge during rainy seasons, especially in Chiradzulu and Thyolo districts, leading to lower enrolment of new clients. An OIBM reports notes that in some areas of Chiradzulu district the van has completely stopped offering services. This has for example led to difficulties in deposits and inconsistencies in loan repayments. In Thekerani district many of the groups are in payment arrears. OIBM attributes this to a lack of access to banking services when the van stopped moving.
The OIBM and VDC relationship came as an afterthought this came with its own challenges. OIBM was engaged during the last phase of the programme, a bit too late to initiate a professional microfinance culture among VDC clients. Reports note poor financial management practices (poor loan recovery) among VDC clients that were not easy to turnaround. It also took time for OIBM to gain the confidence of communities in areas of operation.

OIBM officers were poorly oriented on RLSP. This made it hard for operations to pick up as required. This created communication gaps between staff and potential clients.

To address these challenges, OIBM has continued to provide transformational banking services in its operations including opening a branch in Thekerani district thus reducing the burden of travel, and introducing a mobile van in Thyolo. The bank has also continued to offer sensitization and financial education sessions in communities to make them understand its operations.

**Mozambique**

**Rural Finance Support Programme (RFSP)/Rural Finance Intermediation Support Project (RUFISP)**

**Overview**
The Rural Finance Support Programme (RFSP)/Rural Finance Intermediation Support Project (RUFISP) is a US$ 34.3 million programme funded jointly by IFAD (US$ 9.5), African Development Bank (US$ 16.3 Loan and 5,446,000 grant) and the Government of Mozambique (US$ 3.1 million including beneficiary contribution).

**Goal and Objectives**
The primary goal of RFSP/RUFISP is to contribute to economic growth and poverty alleviation by improving the livelihoods of rural households, and the viability of enterprises in rural areas of Mozambique. The objectives are to: a) improve the sustainable access to financial services by individuals, groups and enterprises in rural areas; and b) create a positive and conducive institutional and policy environment for the development and sustainable provision of rural financial services.

**Beneficiaries**
The programme targeted an estimated 124,000 low- and middle-income households who included subsistence farmers, farmers on outgrower schemes and cash crop farmers with small holdings adjacent to peri-urban areas; village traders with minimal resources to somewhat better-off town-based traders; and from artisanal fishermen who make a subsistence living working as crew members to individuals who own two or three boats.

**Components of RFSP/RUFISP**
Component 1: Policy, Legislative and Institutional Support
Component 2: Innovation and Outreach Facility (IOF)
Component 4: Support for Community-Based Financial Institutions (CBFI)
Component 5: Programme Management Unit (PMU).
**Coordination and partners**
The overall programme was under the leadership of the Ministry of Planning and Finance with relevant line ministries such as the Ministry of Agriculture and Rural Development, the Ministry of Industry and Commerce, and the Ministry of Fisheries, directly involved in implementation and oversight. Institutionally, the core of the programme was Economic Development Support Fund (FARE), the legal entity mandated to promote rural finance.

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**Accumulating Savings and Credit Associations—a CBFI approach to increasing rural finance in Mozambique**

One of the objectives of RFSP is to achieve improved access to financial services on a sustainable basis for the economically active but poor population engaged in rural micro-enterprises and a broad cross-section of the population in rural areas of Mozambique.

In Mozambique, CBFI service providers apply either of two popular CBFI methodologies: accumulating savings and credit associations (ASCAs) and rural financial associations (RFAs), which are variants of SACCOs. RFAs apply two approaches:

- Co-federation of the associations model used by IRAM (Institut de Recherche et d’Application des Méthodes de Développement) /CCOM (Caixa Comunitária de Microfinanças)
- Independent umbrella associations used by UNACREDIT (an NGO operating in Mozambique) and in other individual ones legalized by Bank of Mozambique.

ASCAs in Mozambique are implemented through two popular methodologies:

- VLSA methodology by CARE Mozambique (ACPE) and other NGOs
- Traditional ASCAs that are used by most service providers.

Mozambique reports that there is a trajectory for CBFI’s to grow or link with SACCOs and MFIs and provides many examples such as where ADEM’s ASCAs federated to form MACEQUECE SACCO in Manica province and ADEL groups federated to form CERÁMICA SACCO in Sofala province. These SACCOs are in the process of being legalized. The growth of ASCAs into SACCOs may provide relief in liquidity management, but lower-level CBFI’s such as ASCAs lose their autonomy as members get lost in larger SACCO structures as opposed to the small groups they were used to manage.

There are about 34 CBFI service providers in Mozambique who are involved in the promotion of ASCAs. These are supported by a number of donors, such as FARE/RFSP, DANIDA, IFAD, DED, CARE, OXFAM NOVIB, USAID, Ford Foundation, Kellog Foundation, Aga Khan Foundation, and the Government of Mozambique.

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**RFSP Programme in Mozambique and the ASCA model**

From December 2013 to mid-March 2014, RFSP conducted a mapping exercise aimed at updating data on ASCAs in Mozambique. The goal of the exercise was to gather the following data:

- service providers promoting the ASCA methodology
Rural Finance Associations (RFA) Methodology in Mozambique: IRAM/CCOM and UNACREDIT

The Rural Finance Association (RFA) methodology was first introduced in Mozambique in 1998 with the creation of the Caixa Comunitária de Crédito e Poupança (CCCP) in Maputo City by a French consultancy company IRAM (Institut de Recherche et d’Application des Méthodes de Développement).

In 1993 IRAM undertook a comprehensive series of studies in preparation for its CCCP project. In 1997, IRAM launched its CCCP programme in Maputo and Chokwe on behalf of the Bank of Mozambique (BoM) using a village bank type methodology of associations of solidarity groups called caixas comunitárias. CCCP borrowed money from IRAM and then made retail loans to ‘solidarity groups’ of five people that are collectively responsible for the loans. Later it expanded to Maputo Province, Gaza and Cabo Delgado. The CCCP now operates under the name Caixa Comunitária de Microfinanças (CCOM). The project operates along the lines of the ‘village banking model’ where it creates local associations who have ‘ownership’ of their activities. The associations are empowered to decide on credit concession and are at the same time responsible for their repayment. Village banks normally depend on externally sourced credit funds.

UNACREDIT was formed when 13 of 36 of the CCOM associations in Maputo split off to create a new RFA.

Main constraints of the RFA Methodology

- **Weak internal capacity**: Poor record keeping and loan management skills among group members.
- **Management problems**: Group leaders are likely to be influential members of the community but lack strong financial management skills. This is compounded by the fact that such leaders may not step out of office easily.
- **Reliance on external technical assistance** that creates dependency to external agencies.

Source: Fion de Vletter 2006 and FinMark Trust Mozambique (2012)
- training needs
- lessons learned and challenges.

Table 5 presents a summary of the results.

### Table 5. RFSP outreach mapping results for CBFIs in Mozambique

<table>
<thead>
<tr>
<th>Item</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASCAs</td>
<td>12,481</td>
</tr>
<tr>
<td>Members</td>
<td>227,979</td>
</tr>
<tr>
<td>Female</td>
<td>63%</td>
</tr>
<tr>
<td>Active members</td>
<td>76,201</td>
</tr>
<tr>
<td>Accumulated savings (USD)</td>
<td>11,709,051</td>
</tr>
<tr>
<td>Current savings (USD)</td>
<td>7,780,224</td>
</tr>
<tr>
<td>Interest earned on savings (USD)</td>
<td>2,358,165 (ROS: 30%)</td>
</tr>
<tr>
<td>Outstanding loan portfolio</td>
<td>4,525,707</td>
</tr>
<tr>
<td>Social fund (USD)</td>
<td>818,845</td>
</tr>
</tbody>
</table>

**Experience of RFSP in Implementation of ASCAs**

RFSP implemented ASCAs through local service providers on contracts that ranged from 17 months to 3.5 years. The service providers implemented ASCAs in 20 districts in 5 provinces of Mozambique (Table 6).

### Table 6. Localization of service providers and duration of contracts

<table>
<thead>
<tr>
<th>Zone</th>
<th>Service provider</th>
<th>Province</th>
<th>Start of contract</th>
<th>End of Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OPHAVELA II</td>
<td>Niassa (Cuamba, Madimba, Mecanhelas)</td>
<td>07.08.2012</td>
<td>31.12.2013</td>
</tr>
<tr>
<td></td>
<td>ADEM</td>
<td>Manica (Barue, Gondola, Susundenga)</td>
<td>13.03.2010</td>
<td>31.07.2013</td>
</tr>
<tr>
<td>Centre</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South</td>
<td>KUKULA</td>
<td>Inhambane (Inharrime, Massinga, Murrombene, Homoine)</td>
<td>07.08.2012</td>
<td>31.12.2013</td>
</tr>
</tbody>
</table>

As at December 2013, RFSP in partnership with ADEM, OPHAVELA I, OPHAVELA II and KUKULA created 1,937 ASCAs with 33,952 members (of which 58% female) in 20 districts in 5 provinces.

Table 7 shows the evolution of ASCAs under the RFSP CBFI component starting from 2009 to December 2013.

Figure 1 shows the trends in growth of the ASCAs throughout that period. Figure 1 shows that there was a slow start in the growth of ASCAs in 2009, but from 2012 there was a strong growth in ASCA membership. This may imply that service providers were recruiting ASCAs with higher average membership than in previous cycles or the number of groups increased.
Table 7. Mozambique RFSP ASCAs outreach status, December 2013

<table>
<thead>
<tr>
<th>Group</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASCAs</td>
<td>103</td>
<td>278</td>
<td>420</td>
<td>317</td>
<td>819</td>
<td>1,937</td>
</tr>
<tr>
<td>Members</td>
<td>1,579</td>
<td>4,413</td>
<td>6,937</td>
<td>5,689</td>
<td>15,334</td>
<td>33,952</td>
</tr>
<tr>
<td>Av. membership</td>
<td>15.3</td>
<td>15.9</td>
<td>16.5</td>
<td>17.9</td>
<td>18.7</td>
<td>17.5</td>
</tr>
<tr>
<td>Women</td>
<td>877</td>
<td>2,257</td>
<td>3,817</td>
<td>3,354</td>
<td>9,302</td>
<td>19,607</td>
</tr>
<tr>
<td>Men</td>
<td>702</td>
<td>2,156</td>
<td>3,120</td>
<td>2,335</td>
<td>6,032</td>
<td>14,345</td>
</tr>
</tbody>
</table>

Figure 2 examines the growth rate of groups and average membership of ASCAs to determine the factor(s) responsible for the growth in numbers.

Figure 2 shows that the growth in numbers is due to the number of groups and not to larger groups being recruited. This is because the average members per group in the ASCAs remained stable but there is a sharp rise and fall in the number of groups during the period.

Figure 2 also shows other interesting trends. Between 2010 and 2011, the number of groups was on an upward trend but with a decreasing trend (negative growth rate). This means service providers mobilized fewer groups during this period resulting in higher costs per member. The decreasing trend in ASCA growth was at its lowest (negative) in 2012. After the drop, there was a sharp increase in both number of ASCAs and membership through 2013. This drop and sharp rise in numbers in 2012 is shown in Figure 3 (number of groups per agent).
The outreach target of agents was lower in 2012 compared with other years. Agents reached out to only 12 groups. It is explained in the report that the number of agents per group was lower in 2012 since two new service providers started late in the year (implication arising out of delayed implementation due to contractual issues). But this does not explain the drop from 25 groups per agent in 2011 to 12 in 2012. The only logical explanation would either be that some agents dropped out of the programme or the agents’ case load in 2012 was very low. These trends also show that increasing the number of groups (but) with roughly the same average size does not lead to higher growth rate compared with groups with larger membership. It is therefore preferred to have groups with a higher average number of members as this has positive implications on cost per member. When groups have more members (large groups), agents can have fewer groups with more members ensuring they meet their targets but also offer quality supervision while the programme demonstrates lower cost per member (efficiency).

IFAD (2012) reports that the cost per member of RFSP implementing partners were high at USD 46 (Ophavela) and USD 7 (ADEM). The report attributes these costs to high project start-up (fixed) costs but states that the cost per member went down with time as the number of ASCAs increased. However, this depends on the productivity of the partners. The report shows that ADEM had 3 groups meeting monthly in March 2012 as the case load for its agents while Ophavela had 5 groups meeting weekly. These case loads are low compared with the standards in the industry and have a negative impact on cost per member.

However, it is important to note that cost per member varies from one organization to another given the differences in approaches and context, thus it is not the best indicator of efficiency and breadth of outreach. The context in this case would include population density and poverty levels. Programmes operating in sparsely populated regions with high poverty levels have higher cost per member than their counterparts in high-density regions with lower poverty levels.

**Linkages between RFSP ASCAs and formal and semi-formal sector**

**Mobile banking:** As part of IFAD Innovation Fund, FARE-OPHAVELA has signed a memorandum of understanding with M-Cash for ASCAs to use mobile phone banking. This pilot was implemented for the first time in Nampula province (Mogovolas district). Its success led to its replication by KUKULA in Inhambane province and ADEM in Gondola (Manica province) with the support of GIZ, using the groups created under RFSP implementation.

Another notable innovation is linking ASCAs under OPHAVELA II in Niassa to an agricultural and commercialization cooperative, ALIMI Cooperative.

**Bank linkages:** There are also linkages between ASCAs and formal financial service providers. ADEM in Manica is facilitating linkages between ASCAs and the Opportunity Bank of Mozambique through its mobile bank (bank on wheels).

**Fee-for-service model:** RFSP programme partners also trained community-based fee-for-service facilitators (CBFs) as a sustainability strategy to ensure ASCAs continue being promoted after the project’s completion. These facilitators are participants selected and trained within existing groups. After they graduate, facilitators are allowed to create
groups and are paid by the groups instead of the project. OPHAVELA organized the CBFs in associations and ADEM in networks that continue to work with ASCAs after the project close-out.

**Micro-insurance:** Another important innovation is the introduction of micro-insurance into ASCAs. This insurance is based in the communities; the CBF association manages it. Contributions vary from US$0.16 to US$0.67 per member.

**Tanzania**

### Rural Financial Services Programme (RFSP): October 2001–December 2010

**Overview**
RFSP is a US$21.6 million programme: IFAD (US$16.3 million); Beneficiaries (US$0.4 million); Government of the United Republic of Tanzania (US$2.7 million) and Co-financiers (Swiss Agency for Development and Cooperation (SDC)) US$2.2 million.

**Objectives**
The RFSP helped in mobilizing and supporting the development of grassroot microfinance institutions such as the savings and credit cooperative societies and the less formal savings and credit associations.

**Beneficiaries**
RFSP focused on SACCOs as the means of expanding financial inclusion. RFSP contributed to giving approximately 100,000 households access to financial services. There were about 85,000 borrowers in the RFSP-supported SACCOs and in many cases the credit contributed to higher agricultural productivity and income as well as establishment of off-farm income-generating activities.

**Components**
Component 1: Support for developing the human and physical capacity of grassroot MFIs and informal groups as well as for micro entrepreneur development, including vocational training
Component 2: Support for strengthening apex organizations and linking grassroot MFIs, also known as savings groups, to banks and other formal sector financial institutions, including capacity development support for banks and NGOs
Component 3: Support for improving the institutional, policy and legal framework
Component 4: Monitoring and Evaluation
Component 5: Programme Coordination and Management

**Coordination and partners**
Until direct supervision was introduced, the United Nations Office for Project Services (UNOPS) performed satisfactorily as a cooperating institution supervising implementation. AfDB is co-financier.

Overview
AMSDP was a US$42.3 million programme: IFAD US$16.3 million, Beneficiaries US$0.5 million, Government US$5.4 million; with co-financiers African Development Fund US$14.5 million, Ireland Aid US$1.1 million and others US$4.5 million. The AMSDP worked with organizations engaged in marketing and processing of agricultural produce.

Beneficiaries
At completion, AMSDP, through the Producer Empowerment and Market Linkages component, had helped 1,202 groups with 46,500 household members against a target of 1,000 groups with 25,000 household members. Of the beneficiaries, 19,400 are women. Some 800 groups have been formally registered as cooperatives, NGOs, or companies limited by guarantee. About 150 producer groups have been linked to buyers under contractual arrangements.

Programme Objective
To improve the structure and performance of agricultural marketing and pricing systems in order to improve food security of the rural poor, raise their incomes and diversify their production.

Components of AMSDP
Component 1: Policy development aimed at improving the efficiency of the marketing system
Component 2: Capacity development of producer groups, grassroots organizations and small- and medium-scale traders and processors with the aim of developing their efficient participation in markets and enhance their bargaining power in relation to larger organized market participants
Component 3: Financial market services that included a guarantee fund for a commercial bank, introduction of a warehouse receipt system, lending for processing activities and technical assistance to support the financial activities.

Both RFSP and AMSDP achieved their quantitative targets to establish SACCOs and agricultural producer/marketing groups whose services have positively affected many of the members in terms of improving household income, crop prices, and agricultural productivity and food security. Furthermore, AMSDP’s investments in road and other market infrastructure have provided thousands of households with better access to markets and higher prices. From their lessons, a follow-on programme—Marketing Infrastructure, Value Addition and Rural Finance Programme—was designed to scale up its successes and address weaknesses.

Marketing Infrastructure, Value Addition and Rural Finance Programme (MIVARF)

Overview
IFAD, the African Development Bank (AfDB) (US$62.9 million), the Alliance for a Green Revolution in Africa (US$6.9 million), Swedish Complementary Financing (US$1.0 million).

Programme Goal and Development Objective
The goal of the programme was to contribute to poverty reduction in the rural areas of Tanzania. The objective was to enhance the incomes and food security of the target group on a sustainable basis through increased access to financial services and markets.
**Beneficiaries**
The MIVARF programme shall benefit about 500,000 households of smallholder farmers, livestock farmers and fishers, small rural entrepreneurs, traders and artisans, processing and marketing groups, grassroots microfinance institutions, with a special focus on women in 141 rural districts of mainland Tanzania and Zanzibar.

**Components of MIVARF Programme**
- **Component 1: Marketing Infrastructure and Systems Development**
- **Component 2: Rural Finance**
- **Component 3: Programme Coordination**

The programme gives special focus to savings groups under Grassroots Financial Services subcomponent of the Rural Finance Component. Under this subcomponent the programme will offer training support to informal groups, SACCOs and MFIs through informal finance promoters, NGOs and other contracted service providers, for instance.

**Coordination and partners**
The lead programme agency is the Prime Minister’s Office with the following programme parties/implementing partners: regional and district level coordinators, Bank of Tanzania, Financial Sector Deepening Trust, AGRA (Alliance for a Green Revolution in Africa) and AfDB.

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**Overview of Savings Groups activities in Tanzania**
Tanzania has a rich history of savings groups programmes. These include VSLA programmes supported by CARE Tanzania, SILC programmes supported by CRS and other similar models promoted by various organizations working in mainland Tanzania and Zanzibar. A number of variations to the savings groups models have also been documented in Tanzania. This includes Jozani Savings and Credit Associations in Zanzibar (JOSACA) where CARE trained groups between 2001 and 2002. Under Jozani, group contributions are made in the form of shares with emphasis on written records (Allen, 2002). With the exit of CARE in 2002, the groups formed an apex organization—Jozani Credit Development Organization (JOCDO)—to help manage their affairs (Anyango et al., nd). Several other programmes are implementing stand-alone versions of integrated savings groups methodologies in Tanzania. Where these programmes are integrating SGs, it is largely in agriculture and health programmes as part of economic strengthening and livelihood interventions. Savings groups methodologies in Tanzania are promoted in the context of rich rural financial services programmes that promote SACCOs, grassroots MFIs, savings and credit associations (SACAs), and village community banks (VICOBA). These structures present excellent opportunities for linkages between the informal and formal financial services sector for rural finance increasing outreach in Tanzania.
Overview
RFSP was funded jointly by IFAD (USD 18.5 million) and the Government of Uganda (USD 10.8 million).

Objective
The goal of the programme: targeting rural financial service providers, their apex organizations, capacity building, training agencies and other providers of services to rural finance service providers.

Beneficiaries
The project targets capacity enhancement of 500 SACCOs with a focus on 225,000 households and 18,000 Community Savings Credits Groups with a focus of 375,000 households.

Components under RFSP
Component 1: SACCO Establishment, Strengthening and Outreach
Component 2: Strengthening of Apex and other Institutions
Component 3: Regulation and Supervision

Coordination and Partners
The implementing partners were Uganda Cooperative Savings and Credit Union Limited (UCSCU), Uganda Cooperative Alliance (UCA), Uganda Cooperative College Kigumba (UCCK), Association of Microfinance Institutions of Uganda (AMFIU) and Ministry of Trade, Industry and Cooperatives (MTIC).

Through UCSCU, RFSP supported SACCOs on customized training, technical assistance and mentoring through standardized kits and training delivered at the beginning of the programme.

In July 2011, RFSP signed a MoU with UCCK to train on SACCO principles, governance and management. UCCK was also tasked with developing key principles and a training manual for village savings and loan associations. Under another MoU signed between UCA and RFSP in July 2011, UCA was supposed to: support four existing regional SACCO unions, facilitate the registration process for two new regional SACCO unions, and document the learning outcomes from the support to the unions. Another MoU was signed in July 2011 between RFSP and AMFIU where AMFIU was supposed to: train 51 SACCOs on the performance monitoring tool; provide technical assistance to 116 SACCOs on use of the performance monitoring tool to generate quality reports; conduct an institutional needs assessment for all SACCOs supported by RFSP as a basis for the mentoring teams; assist 5 outreach SACCOs in developing strategic plans and product development; provide financial literacy and consumer education training to communities; and train UCSCU field staff. The Department of Cooperatives under MTIC also signed an MoU with RFSP in July 2011 to undertake
four activities: update the SACCO registry based on a comprehensive survey of all registered SACCOs, computerize the SACCO registry, facilitate SACCO forums in 26 districts, and conduct SACCO compliance activities to try to turn around SACCOs that had declined due to identifiable problems and to de-register those that are defunct or never took off.

Under Component 3, the Cabinet paper on the principles for regulation and supervision of Tier 4 MFIs (including SACCOs) underwent further review and revision by an inter-ministerial group including the Ministry of Finance, Planning and Economic Development (MFPED) and MTIC. The intention was to present it along with a policy paper on Savings Groups which was being prepared by MFPED. The mission noted the importance of ensuring that the policy paper is consistent with the principles of SGs since these groups are savings-led and driven by members and that premature provision of external funds is inimical to their governance structure and success. The policy papers were important in providing a framework for regulating and supporting Tier 4 institutions and the design of a follow-on IFAD programme, Project for Financial Inclusion in Rural Areas (PROFIRA).

**Project for Financial Inclusion in Rural Areas (PROFIRA)**

**Overview**
PROFIRA is a US$ 36.6 million follow-on programme to RFSP whose focus is on promoting the provision of financial services among underserved rural populations through SACCOs and Savings Groups. It builds on the successes of RFSP.

PROFIRA adopts a pro-poor approach using *Geographical targeting* and *social inclusion* as its poverty targeting strategy. Geographical targeting focuses on increasing outreach by establishing new SGs in poorer areas of the country. The SACCO programme will not adopt this strategy since its implementation is nationwide. Social inclusion has a pro-poor focus with special attention that ensures both SACCOs and SGs have a deliberate approach to include women and youth, special groups such as HIV/AIDS-affected households and the disabled.

**Programme Goal and Development Objective**
The project development objective is: to sustainably increase the access to and use of financial services by the rural population. The overall goal to which the project will contribute is: to increase income, improve food security and reduce vulnerability in rural areas.

**Beneficiaries**
It is estimated that there will be approximately 750,000 members of SACCOs and CSCGs participating in the project. However, only about 576,000 households, as only 90% of the supported SACCOs will become fully sustainable institutions, and 20% of members of SACCOs and CSCGs are assumed to come from the same households.

**Components under PROFIRA**
Component 1: SACCO strengthening and sustainability
Component 2: Community-based financial services
Overview of Savings Groups programmes in Uganda

In Uganda, the IFAD-supported Uganda Women’s Effort to Save Orphans (UWESO) is promoting CBFIs in its areas of operation as part of its socioeconomic empowerment strategy. The UWESO model is a VSLA CBI methodology that was launched in July 2006. IFAD support was to help UWESO scale-up VSLAs in 17 districts, among other interventions. UWESO uses the VSLAs as an integral platform for community mobilization, especially of women, who comprise 78% of VSLA membership. VSLAs provide UWESO with structures to promote food security and improved agricultural technologies. The UWESO model allows VSLA members to be trained in business management before getting loans from their groups. Due to the challenge of excess liquidity, UWESO is initiating linkages with Barclays Bank of Uganda for a pilot savings scheme.

Fee-for-service model: Like other NGO promoters of CBFIs, UWESO has introduced a fee-for-service model where it is charging groups 80% of the USD 40 for the VSLA toolkit that includes a cash box and three padlocks.

CARE International has a strong presence in Uganda and implements its flagship savings group methodology, VSLA, through community-based trainers. Like CRS private service providers, community-based trainers start with project support (projects pay them a stipend) and then graduate to independent fee-for-service agents paid by the groups they support after a stipulated period, usually one year. CARE and CRS are among many international and local NGOs promoting savings groups through local partners in Uganda. Like other East and South African countries, savings groups models are being implemented together with well resourced rural financial services that include MFIs and SACCOs.
**Overview**
The Rural Finance Programme (RFP) was designed within the framework of Zambia’s poverty reduction strategy and Financial Sector Development Plan. The total cost of the programme was US$17.4 million with IFAD’s contribution of US$13.8 million, Government of Zambia US$3.1 million, US$ 0.6 million by partner financial institutions and beneficiaries.

**Development Goal and Programme Objective**
The programme goal was to improve the livelihoods of rural households through increased use of sustainable financial services in the rural areas.

**Beneficiaries**
Direct beneficiaries will include (i) 30,000 poor rural households participating in savings and credit associations; (ii) 100,000 rural households and small enterprises accessing rural banking services, including 15,000 households and small enterprises accessing credit; (iii) medium- to large-scale enterprises intensifying or expanding a contract relationship with 60,000 rural households, some of whom will also be accessing rural banking services; and (iv) an unknown number of households benefiting from the programme’s matching grants for financial services projects, including those specifically targeting poor rural people such as woman-headed households and households affected by HIV and AIDS. As many as 150,000 rural households could be direct beneficiaries.

**Components under RFP**
Component 1: Development of Community-Based Financial Institutions
Component 2: Promotion of Rural Banking Services
Component 3: Credit Facility for Contracted Small Scale Production
Component 4: Innovation and Outreach Facility
Component 5: Policy, Institutional and Management Support

**Coordination and partners**
This IFAD-funded RFP is implemented in partnership with the Ministry of Finance and National Planning through its Investment and Debt Management Department, National Savings and Credit Bank (NatSave), Development Bank of Zambia, NGO partners and various private sector players.

**Rural Finance Expansion Programme (RUFEP): 2014**
The Zambia Rural Finance Expansion Programme (RUFEP) is a US$26.315 million follow-up programme that is co-financed with a US$10.8 million loan from IFAD directly; US$11.988 million loan from the IFAD-managed Spanish Food Security Co-financing Trust Fund, and a contribution from the Government of Republic of Zambia. The loan agreement was signed by Zambia’s Minister for Finance and National Planning on 24 July 2014.
Programme Goal and Development Objective
RUFEP’s goal is to contribute to improved livelihoods of the rural poor through sustainable economic growth. The development goal is increased access to and use of sustainable financial services by poor rural men, women and youth.

Beneficiaries
RUFEP is designed to help 140,000 rural households by increasing their access to and use of sustainable financial services. The programme targets small entrepreneurs and smallholder farmers while paying particular attention to women and youth. It is estimated that at least 50% of the beneficiaries will be women and 25% youth.

Components of RUFEP
Component 1: Strategic Partnerships
Component 2: Innovation and Outreach Facility
Component 3: Knowledge Management and Programme Implementation

Coordination and partners
RUFEP is going to be coordinated by the Rural Finance Unit (RFU) under the Ministry of Finance and National Planning. Implementing partners will include apex organizations such as Bankers Association of Zambia, Association of Microfinance Institutions of Zambia, and SaveNET (an organization facilitating the networking and linkages of CBFi promoters in Zambia). Other implementing partners will include the Development Bank of Zambia, participating financial service providers, NGOs promoting CBFIs.

Overview of the Rural Finance and Savings Groups in Zambia
The Government of the Republic of Zambia (GRZ) has placed great emphasis on increasing financial access to its rural population as part of its rural development drivers. Through GRZ’s Zambia’s Sixth National Development Plan (2011–2015), the government states the increased focus on financial access in the rural areas through the rural finance programme (RFP). RFP is a joint project between GRZ’s Ministry of Finance and IFAD with the aim of increasing sustainable financial services in Zambia’s rural areas.

Table 8. Percentage of unbanked population in Zambia, by province

<table>
<thead>
<tr>
<th>Province</th>
<th>% of population</th>
<th>% of banked population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lusaka</td>
<td>14.8</td>
<td>39.2</td>
</tr>
<tr>
<td>Copperbelt</td>
<td>17.6</td>
<td>21.2</td>
</tr>
<tr>
<td>Southern</td>
<td>11.7</td>
<td>12.9</td>
</tr>
<tr>
<td>Northern</td>
<td>12.0</td>
<td>6.7</td>
</tr>
<tr>
<td>Central</td>
<td>11.3</td>
<td>5.9</td>
</tr>
<tr>
<td>Eastern</td>
<td>12.6</td>
<td>5.5</td>
</tr>
<tr>
<td>North Western</td>
<td>5.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Western</td>
<td>7.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Luapula</td>
<td>7.3</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Source: FinScope Zambia, 2009
Zambia has finalized the development of the Rural Finance Policy and Strategy (RFPS) document which will facilitate deeper outreach and financial inclusion for rural populations. This document was approved by the ministry in May 2013. The document sets a policy framework that encourages innovative sustainable business models that will increase financial inclusion in Zambia (GRZ, 2012). The strategy document points out the specific role played by Savings Groups, such as Village Savings and Loans Associations (VSLAs) methodology in increasing financial inclusion.

RFP was a 6-year IFAD-funded access to finance programme that, besides other components, used VSLAs as part of a CBFI strategy to help rural communities of Zambia have increased access to financial services. The programme was housed in the Ministry of Finance. It began in September 2007 and ended in September 2013 with a follow-up programme, Rural Finance Expansion Program (RuFEP), in 2014.

The RFP CBFI component worked with three partners to implement the VSLA methodology:

- Micro Bankers Trust in the Eastern Province—Chipata, Chadiza, Lundazi and Katete districts
- Rural Economic Expansion in the Northern Province—Kasama, Mungwi, Mbala, Mpika and Luwingu districts
- Keepers Zambia Foundation in the Western Province—Mongu, Kaoma and Senanga districts

A categorization report of RFP’s VSLA groups under the three partners revealed the following statistics (Mang’eni, 2013). A total of 754 VSLAs with a membership of 13,029 were sampled for categorization. The average membership in RFP VSLA groups was 17.3 members per group (Table 9). It is important to note that RFP VSLAs have above-average male membership (30%) when compared with other similar programmes where more than 80% of VSLAs comprise of females.

<table>
<thead>
<tr>
<th>Rural Economic Expansion</th>
<th>Micro Bankers Trust</th>
<th>Keepers Zambia Foundation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>2,291</td>
<td>1,219</td>
<td>399</td>
</tr>
<tr>
<td>Female</td>
<td>3,769</td>
<td>4,498</td>
<td>853</td>
</tr>
<tr>
<td>Total membership</td>
<td>6,060</td>
<td>5,717</td>
<td>1,252</td>
</tr>
<tr>
<td>Total (groups)</td>
<td>357</td>
<td>297</td>
<td>100</td>
</tr>
<tr>
<td>Av. membership in a group</td>
<td>17.0</td>
<td>19.2</td>
<td>12.5</td>
</tr>
<tr>
<td>% of males</td>
<td>38</td>
<td>21</td>
<td>32</td>
</tr>
</tbody>
</table>

**Summary of Selected Savings Groups promoters in Zambia**

A recent desk review conducted in Zambia by SaveNET/CRS and Financial Sector Deepening Zambia (FSDZ) revealed that in spite of various efforts by local and international NGOs to promote the implementation of savings groups (SGs), their penetration rate was only 3%. This data was compared with household statistics from the Zambia 2010 population census report. The desk review is not conclusive as other players were not included. However, it does provide an indication of SGs penetration rate in Zambia since the main players were captured in this review (see Table 2).
<table>
<thead>
<tr>
<th>Province</th>
<th>Keepers Zambia Foundation</th>
<th>Catholic Relief Services</th>
<th>PLAN</th>
<th>ZINGO</th>
<th>WVZ</th>
<th>Rural Economic Expansion</th>
<th>Churches Health Association of Zambia</th>
<th>Total</th>
<th>Population per province</th>
<th>Estimated households (est. HH)</th>
<th>Savings groups / est. HH (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>0</td>
<td>0</td>
<td>8,807</td>
<td>151</td>
<td>743</td>
<td>0</td>
<td>0</td>
<td>607</td>
<td>10,308</td>
<td>1,267,803</td>
<td>230,510</td>
</tr>
<tr>
<td>Copperbelt</td>
<td>0</td>
<td>3,746</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3,178</td>
<td>6,924</td>
<td>1,958,623</td>
<td>356,113</td>
</tr>
<tr>
<td>Eastern</td>
<td>0</td>
<td>0</td>
<td>1,751</td>
<td>120</td>
<td>304</td>
<td>0</td>
<td>0</td>
<td>2,554</td>
<td>4,729</td>
<td>1,707,731</td>
<td>310,497</td>
</tr>
<tr>
<td>Luapula</td>
<td>0</td>
<td>0</td>
<td>2,789</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2,789</td>
<td>958,976</td>
<td>174,359</td>
</tr>
<tr>
<td>Lusaka</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>280</td>
<td>1,054</td>
<td>0</td>
<td>0</td>
<td>120</td>
<td>1,454</td>
<td>2,198,996</td>
<td>399,817</td>
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<tr>
<td>Muchinga</td>
<td>0</td>
<td>1,735</td>
<td>0</td>
<td>173</td>
<td>113</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2,194</td>
<td>711,657</td>
<td>129,392</td>
</tr>
<tr>
<td>Northern</td>
<td>0</td>
<td>1,023</td>
<td>0</td>
<td>0</td>
<td>1,656</td>
<td>0</td>
<td>0</td>
<td>8,679</td>
<td>10,479</td>
<td>1,047,943</td>
<td>190,535</td>
</tr>
<tr>
<td>North Western</td>
<td>600</td>
<td>0</td>
<td>0</td>
<td>175</td>
<td>504</td>
<td>0</td>
<td>0</td>
<td>120</td>
<td>1,399</td>
<td>706,462</td>
<td>128,448</td>
</tr>
<tr>
<td>Southern</td>
<td>0</td>
<td>0</td>
<td>8,761</td>
<td>432</td>
<td>2,877</td>
<td>0</td>
<td>0</td>
<td>168</td>
<td>12,238</td>
<td>1,606,793</td>
<td>292,144</td>
</tr>
<tr>
<td>Western</td>
<td>800</td>
<td>8,069</td>
<td>0</td>
<td>0</td>
<td>1,284</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>10,153</td>
<td>881,524</td>
<td>160,277</td>
</tr>
<tr>
<td>Total</td>
<td>1400</td>
<td>14,573</td>
<td>22,108</td>
<td>1,331</td>
<td>8,535</td>
<td>6,000</td>
<td>6,920</td>
<td>60,867</td>
<td>13,046,508</td>
<td>2,372,092</td>
<td>3</td>
</tr>
</tbody>
</table>

**Source:** SaveNET Zambia, 2013
The low penetration is attributed to the fact that promoters of savings groups in Zambia are comparatively new to the industry, hence the low uptake by programmes.

**Aspects of CBFI Outreach**

In examining aspects of outreach, we first define what these terminologies mean in the context of rural finance. According to Scheiner (2002), six aspects of outreach are defined:

- **Value to clients:** The value to clients determines their willingness to pay for the service. Willingness increases when the product or service matches closely with client needs. The growth in CBFI outreach through direct donor support and self-replication is a testimony of the high demand by rural communities for their services. In this cross-country assessment a number of testimonies and evidence-based reports reveal a sharp increase in the number of CBFIs (ASCAs and VSLAs), which proves that they are of high demand among the areas of operation. This shows their worth to their clients.

- **Cost of outreach to clients:** Cost of outreach to clients is measured in terms of financial and transactional costs. Financial costs are in the form of cash costs, such as interest and other fees incurred to acquire a service, a product or both. Transactional costs are non-cash costs, for example, time taken to acquire the financial product and other indirect cash expenses, e.g. transport and charges in acquiring needed documents for the transaction). CBFIs are highly cost-efficient evidenced by insignificant transactional and financial costs. From the Mozambique report, we see another aspect of cost of outreach from the supply side. This is referred to as cost per member, which is the cost incurred by the programme to reach out to one member. The cost per member is not only significant to NGO and donor promoters, but it also reflects the operational costs among formal MFIs to reach remote rural clients. The higher the cost per member the higher the cost of outreach even to the consumer of the financial products as this is reflected in financial and transactional costs.

- **Depth of outreach:** This is defined by characteristics such as:
  - location: remote rural areas with poor infrastructure
  - gender: focus on female and youth
  - education: inclusive of illiterate population
  - ethnicity: focus on minorities
  - access to public amenities: focus on populations lacking access to public services.

  CBFIs are often the only financial outfits that are found in remote rural areas for service-marginalized populations. The size and scope of financial services is proof that CBFIs have depth of outreach that no other financial institution has due to the high operational costs incurred to deepen outreach.

- **Breadth of outreach:** Breadth of outreach is the number of clients reached over a given period. This affects the cost per member because breadth of outreach has budgetary implications; the wider the breadth, the lower the costs over a given period of time. Different projects promote different methodologies and use different approaches to achieve their targets. This is seen in the case for RFSP programme in Mozambique where there is a correlation between breadth of outreach and cost per member.
• **Length of outreach:** Length of outreach is linked to long-term supply of financial services, which is achieved by setting up structures to meet future demand through long-term sustainable supply of financial services. CBFIs have been able to achieve this goal through self-replication. However, promoting agencies have come up with strategies to ensure length of outreach through post-project fee-for-service community-based trainers such as the private service provider model being promoted by CRS in Africa.

• **Scope of outreach:** Scope of outreach includes the nature and type of products and services offered by a CBFI. When looking at the assessment, most CBFIs offer savings and credit services to their members. However, CBFIs that are linked to the formal sector have a wider scope of services. In this study, Opportunity International Bank of Malawi offers larger loans and further training and financial advisory to its CBFI clients. Other products include remittance services and micro-insurance, which has become increasingly accessible through mobile banking technologies and can be observed in all countries.

### Products and Risks of the CBFI subsector

From the foregoing observations, CBFIs (savings groups) have three main financial products:

- Savings
- Loans linked to member savings
- Micro-insurance (social funds)

Other services are usually supply-led and driven by NGOs or by formal financial institutions to enhance the basic services provided by CBFIs.

Several risks can be identified with the products and services CBFIs offered. Table 10 highlights these risks and also provides guidance on how mitigate or manage these risks.
Table 10. Risks and how to mitigate them

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Explanation and occurrence of the risk in the CBFI</th>
<th>Management of the risk</th>
</tr>
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<tbody>
<tr>
<td><strong>Financial risks</strong></td>
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<tr>
<td>Credit risk</td>
<td>Credit risk is the chance of loss of income occurring from defaulting borrowers. CBFIs operate in rural areas where household incomes are affected by the seasonal nature of their agro-based economy. Most CBFIs have fixed repayment terms (monthly loan terms) and more often have a 10% interest rate. Given the erratic household income, some group members experience challenges in repayment can lead to default. However, most programmes show that the Portfolio at Risk (PAR) ratio is low, making the groups' portfolio healthy. However, as these groups grow in fund and size, the challenge of credit risk starts to manifest as witnessed in VDCs in Malawi where an OIBM report highlighted that funds amounting to MK 33,826,205 were lent out by VDCs and at the time of reporting only MK 21,441,676 had been recovered, leading to arrears amounting to MK 12,376,990. This represented 65% recovery. Due to the lean period the bank was not able to recover much from the VDCs and planned for another round of collections once harvesting of crops was in progress.</td>
<td>CBFIs in their usual sizes of between 15 and 30 members have very low credit risks. But whenever these groups are federated or linked to formal sector institutions, repayment problems can easily occur. This is due to the higher average loan sizes and reduced peer pressure as groups become linked to institutions and have no moral obligation to repay their peers (cold vs hot money). To avoid credit risk, programmes that intend to federate CBFIs or link them to formal sector institutions need a clear proven framework that respects the values and principles of CBFIs. Otherwise such linkages and federations have had negative effects on groups resulting in a drop in membership (Allen &amp; Paneta, 2010). Comprehensive financial education and sensitization also needs to be done before mature groups are linked to MFIs. If possible, linkages should be done for individuals who are willing, rather than forcing the entire group to be linked against the will of a few weak members.</td>
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<tr>
<td>Liquidity risk</td>
<td>Liquidity risk is the chance of loss of income resulting from lack of enough funds to meet the cash flow needs in the short term besides other obligations. This is the most common risk for CBFIs in the first few months of their cycle. A CBFI cycle is usually 11–12 months. During the first 1–3 months, the demand for loans is higher than the supply (member savings). For this reason, CBFIs are forced to place some members on the 'waiting list' until the next meeting when the funds are availed. This leads to loss of interest income. On the other end, CBFIs experience an overflow of money (excess liquidity) in the last months before the cycle ends as members do not borrow but only repay and save waiting for the day of share-out. This leads to the risk of losing funds as witnessed among groups that have lost their cash boxes with all of their member savings.</td>
<td>To address liquidity problem for CBFIs, approaches must take into account the cyclic nature of flow of funds in a CBFI. In the early stages of the cycle, CBFIs can benefit from external injection of funds to address shortages in liquidity. This relationship with external MFIs should respect the cyclic nature of group liquidity. Towards the end of a cycle, groups usually require a safer place to keep their funds apart from the group’s cash box. This can be enhanced by mobile banking facilities.</td>
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<tr>
<td>Type of risk</td>
<td>Explanation and occurrence of the risk in the CBFI</td>
<td>Management of the risk</td>
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<td><strong>Operational risks</strong></td>
<td>Transactional risk is the chance of loss of income occurring due to the nature and processes of the CBFI. CBFIIs operate in remote rural areas where illiteracy levels are high. NGO promoters have introduced written record keeping in these groups, making groups dependent on those who are able to read and write. There are instances of elite capture by members who better understand the records than their illiterate counterparts. At times, due to poor record keeping, groups lose money through errors in tracking transactions as the group fund becomes bigger and more complicated.</td>
<td>CBFIIs need additional capacity enhancement in the areas of record keeping to improve the management of the growing group funds. Also, linkages to formal sector institutions need to be structured in a way that takes away the transactional risk and adds value to group transaction. Such linkages could be structured alongside mobile banking facilities.</td>
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<td>In addition, groups use rudimentary custodial services, such as keeping cash in 3-padlocked boxes. This poses a challenge in the later stages of the cycle where there is so much cash in the boxes as groups wait to share out. When CBFIIs are linked to MFIs or banks, this risk is transferred to the MFI hence the risk is reduced significantly.</td>
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<td><strong>Fraud risk</strong></td>
<td>This is the loss of income arising from fraudulent practices by officials of a group. There have been a number of cases where some group treasurers have colluded with key-holders to access group funds and replace the funds before the meeting. We also have cases where the group cash boxes have been stolen, broken into or destroyed by fire – allegations which needed to be verified by groups before accepting loss of cash, especially towards the end of the cycle.</td>
<td>The introduction of mobile money will greatly address risks of fraud. Mobile network operators are creating mobile products that will help groups secure the cash virtually. These are forms of cyber cash boxes that will open up the groups to the products such as micro-insurance and remittances.</td>
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<td><strong>Strategic risk</strong></td>
<td>This is the chance that the organization will lose income due to poor leadership. CBFIIs are trained to elect leaders among themselves. The election term is usually representative of the group cycle and leaders can be re-elected for a final second term depending on their performance in the previous cycle. But often times the leadership in CBFIIs does not have the capacity and skills to steer the groups to the next level. So while structuring linkages that could benefit groups immensely, the quality and competence of CBFI leadership is not well placed to represent CBFIIs to formal financial institutions.</td>
<td>In managing this risk CBFI promoters should invest in training group leadership to ensure that groups are led towards the right growth path and are not limited to the narrow products offered through the group fund.</td>
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Lessons Learned and Recommendations

This section proposes general recommendations for improving scale and aspects of outreach for CBFIs through savings groups methodologies. The section cites best and promising practices that can be used to improve future savings groups programmes and other CBFIs.

1. CBFI linkage to the formal financial sector

Successful linkages with the formal financial sector occur where they are designed at the project design stage, and not as a project exit strategy. Linkages need to be well-thought through and planned well ahead of time. Whenever linkages are planned later in the project phase, they create relational issues between CBFIs and formal sector partners due to the radical paradigm shift in the nature and style of doing business. The case of OIBM and VDCs in Malawi shows the difficulty in changing bad financial practices among VDC clients that OIBM had to address when they took up the VDC portfolio.

Linkages should be initiated for their own sake, but must be seen to add value to the clients. Many programmes promoting CBFIs do not critically look at the issue of linking with the formal financial sector and oftentimes such linkages have led to a drop in membership at the CBFI level (Allen & Panetta, 2010). Effective linkages occur where the structures respect the principles of self-management and autonomy of the CBFIs.

2. Technological Infrastructure

Poor physical infrastructure such as bad roads, lack of electricity, utilities and inappropriate buildings make it difficult and costly for MFIs and banks to operate branches in remote rural areas. However, advances in mobile platforms such as mobile money, have changed the whole equation of financial access. A good percentage of the rural population has access to a mobile phone and mobile money facilities. As a result, the formal sector can initiate linkages with CBFIs in remote rural areas through mobile platforms to offer their services. Mobile network operators (MNO) should be engaged to develop features on the SIM-card that are similar to group cash boxes hence promote the use of virtual platforms for group transactions. This will greatly reduce transactional and financial risks as well as costs and make groups profitable. Such mobile infrastructure can also be used to introduce micro-insurance products for groups. FinScope Uganda (2013) shows how mobile money can greatly enhance financial inclusion. The reports noted that the number of adults using non-bank formal financial services increased from 7% in 2009 to 34% in 2013, leading to a drop in number of adults who were financially excluded from 30% to 15%. This change is largely attributed to the scaling up of mobile money facilities in Uganda. Similarly, we see MNO operators contributing to the insurance industry by allowing agents to sell insurance packaged with airtime sales. This has greatly increased the number of people covered by insurance.

3. Linkage with Government development programmes

CBFIs operate in remote rural areas where illiteracy levels are high making group records weak, resulting in groups becoming vulnerable to elite capture. Groups should be integrated in government and NGO programmes, enhancing the collective capacity of
groups to take care of other financial and non-financial needs of members. These services will include, for example, government adult literacy programmes and financial education campaigns. However, these services should be planned from the design stage and not as an exit strategy. Caution should also be taken that groups do not become overloaded with ‘development work’ at the expense of their original mission.

4. Aggregation of CBFIs to take advantage of economies of scale

Most CBFIs operate in groups of an average size of 20. These numbers are too small and normally would not attract formal sector players as they do not have the numbers to achieve economies of scale and offset operational costs. To address this challenge, groups can be aggregated to acquire services such as insurance (life and agriculture), access markets through linkage programmes, bulk their farm products to serve larger markets and contractors.

5. Meso-level networking structures

Related to the above recommendation concerning the aggregation of CBFIs is the emerging issue of having a meso-level structure that will serve the strategic needs of the informal financial sector including CBFIs. Such structures are the equivalent of the national associations of microfinance institutions and banker associations. The role of this meso-level structure will include but is not limited to:

- offering insights into the CBFI industry in the country
- providing outreach mapping and financial landscaping of CBFIs in the country
- policy monitoring and advocacy for the CBFI industry
- documenting and disseminating industry best practices
- building capacity of CBFI promoters
- certification of CBFI trainers and progressive monitoring of performance

Practices leading to such meso-level structures are already in place. In Zambia, the Savings-led Microfinance Network (SaveNET) is a meso-level structure that has been mooted and promoted by industry experts. Its role is to work with promoters and other stakeholders to promote and strengthen CBFIs in the informal sector. The promoters of SaveNET intend to establish similar structures in other countries with agencies promoting CBFIs in the informal financial sector.

In Mozambique, a similar structure is the ASCA forum whose role is similar to SaveNET. The ASCA forum organizes annual meetings for members who include promoting agencies, donor representatives, Bank of Mozambique, and commercial bank representatives. During the meetings, the forum discusses themes ranging from new group lending models, legal structures for addressing default in CBFIs, linkages with the formal financial sector, and monitoring and evaluation issues. The forum seeks to develop into an apex organization for networking ASCAs as one possibility for the programme’s exit strategy. This is similar to SaveNET in Zambia. The challenge with these meso-level structures is lack of commitment and partial management. Without fulltime operational and strategic staff, these structures will experience the same challenges faced by national microfinance associations. Funding is needed from donors, governments and CBFI promoting NGOs.
6. Potential role for formal financial institutions

Most CBFI are able to meet their financial needs without links to MFIs or banks. CBFI programmes also operate in rural areas where banks and institutional MFIs do not exist. Before linking up with formal financial sector, CBFI must show that there is sufficient market demand and need. The creation of larger CBFI would provide a business case for the formal financial sector to broaden outreach to more remote rural areas. These larger structures should have appropriate financial services and products that can protect the integrity and self-regulating aspects of the CBFI. The role of the formal financial sector is to seek opportunities to engage with these kinds of structures, such as SaveNET in Zambia and the ASCA forum in Mozambique.
Conclusion

The desk review has revealed a number of IFAD and non-IFAD rural finance programmes with components of CBFIs and savings groups methodologies. Several approaches have been examined and different variants of CBFI models highlighted. The critical role played by CBFIs in addressing the gap left by formal financial sector players cannot be reinforced. However, as the review shows, a lot remains undone in proving successful concepts and best practices for linking the informal financial sector with the formal sector. Critical success factors are affected by different country contexts and regulatory environments. However, players in the industry can take advantage of the emerging technological infrastructure through mobile banking facilities to increase outreach to hard-to-reach areas. Financial services being offered at the informal financial sector are rudimentary and limited to the capacity of CBFIs (savings groups) operating in this sector and geographical areas. Efforts should be made to nurture, grow and create linkage opportunities for the informal financial sector to broaden their services to their members through offering a wider range of services and products. This should be the principal goal for structuring linkages among these sectors.

The review also highlights that successful rural finance programmes are those that offer a variety of financial and non-financial interventions that include financial education programmes and market linkages for value chain financing, and initiate networks of CBFI promoters to avoid overlapping while building on the strengths of partners. Donors should consider best and emerging practices as a condition to funding in order to promote practices that enhance outreach and sustainability.
Appendix 1. Terms of Reference for CBFI Study

Rural Finance Knowledge Management Partnership (KMP) Community-Based Financial Institutions Study

KMP, a rural finance network grant, is undertaking a ‘Cross-country assessment of community based financial institutions in ESA’ desk review that will bring insights into the evolution, nature, characteristics, management and operational features, depth and breadth of outreach, financial performance, products and risks of the CBFI sub-sector in selected countries. The study is being done by Local Links Limited in Zambia under the leadership of Oundo Mang’eni who is a technical advisor in microfinance and a long-term expert in community-based financial institutions. The main terms of reference are:

- Take stock and analyse different forms of CBFI in the countries of assignment and make a comparative analysis in terms of their nature, characteristics, management and operational features with regards to the country context.
- Review the existing registration framework of CBFI (if any) and identify areas for improvement.
- Assess the convenience of CBFI over other financial channels in contributing to financial inclusion in the countries of assignment.
- Assess the sustainability and replication of CBFI over a long time.
- Identify and make a comparative analysis of CBFI with and without external technical and financial support.
- Identify existing and potential risks in CBFI and recommend appropriate options to mitigate the risks.
- Study the existing linkages between CBFI and semi-formal and formal financial institutions, and provide recommendations for promoting such linkages in line with best practices.
- Assess the effectiveness of the CBFI methodology including assessing the convenience of the methodology in providing access to financial services by marginalized rural communities.
- Assess the challenges faced by CBFI in delivering services to members and suggest/recommend ways to address those challenges.
- Assess the implication of formalizing the CBFI and suggest how best to formalize them, if need be.
- The analysis on the above should take into account experience from other markets outside the seven countries.

In order to undertake the desk review we request for reports that include the following:

- History of CBFI implementation of RFP partners in the country, i.e., when they started implementation.
- Staff structure up to the level of village agents (though village agents are not staff, but good to know who supervises them)
- Number of groups per village agent per year
- Ratio of village agents to total staff
- Cost per member assisted by the programme. This can only be calculated after knowing the programme cost in relation to the number of people reached at a given period. So if a programme has been implemented for five years, it will be good to know programme costs per year as well as outreach (number of people reached) per year.
- Key challenges
- Any other information such as CBFIs linked to MFIs or banks such as in Malawi.

What are the lessons learned in this case?

The following indicators will be useful for the desk review to compare across projects:

**Category One: Member Satisfaction**

1. Cost per member for those using one donor such as RFP programmes
2. Attendance rates
3. Drop out rates/retention rate
4. Membership growth rate

**Category Two: Financial Performance of CBFIs**

1. Average savings mobilized per member to date
2. Returns on assets
3. Annualized returns of assets
4. Returns on savings
5. Average outstanding loan size
6. Portfolio at risk
7. Average write-off per graduated group

**Category Three: Operational Efficiency of CBFIs**

1. Percentage of members with loans outstanding
2. Loan fund utilization rate

**Category Four: Operational Efficiency of Implementing Organization**

1. Number of groups per village agent
2. Ratio of village agents to total staff
3. Cost per member assisted by the program (using time analysis).
Bibliography


