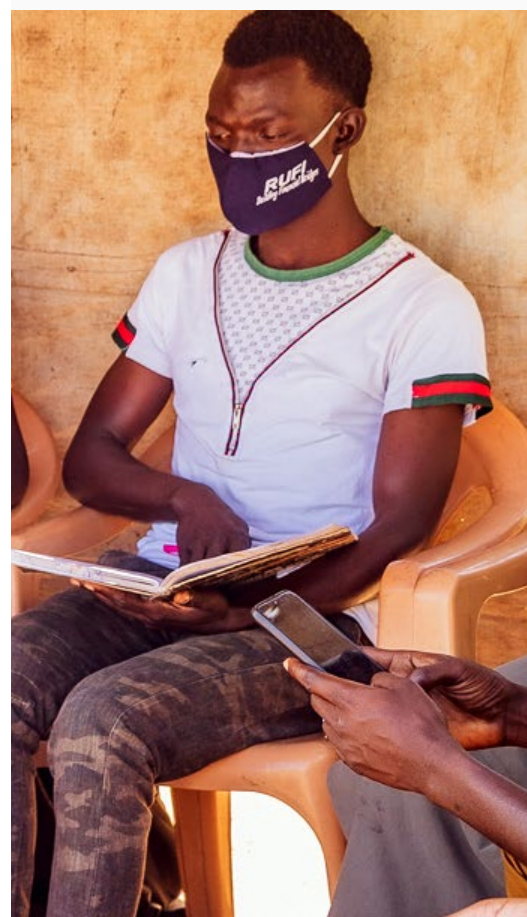




Unlocking Public and Private
Finance for the Poor



DIGITALIZATION OF VILLAGE SAVINGS AND LOANS ASSOCIATIONS (VSLAs)

A case presented by Ensibuuko Tech Limited

West Nile, Uganda

Ensibuuko Tech Limited is a Ugandan Financial Technologies company (FinTech) established in 2014 that enables digital access of affordable and relevant financial services to unbanked communities. Over the years, Ensibuuko has built a successful business in digitalizing Savings and Credit Co-operatives (SACCOs) through a microfinance platform (Mobis), and established a thriving ecosystem of services for SACCOs including integration to mobile money systems and other payment platforms. Through this effort, the organization has reached 68 SACCOs with at least 122,000 beneficiary accounts in 30 districts across Uganda.

In 2017, taking into account the opportunities presented by VSLAs as well as the existing needs for digitalization, Ensibuuko, with the support of the USAID Feed the Future, expanded their portfolio to include Village Savings and Loan Associations (VSLAs). Ensibuuko adopted a Human Centered Design methodology to build a unique set of tools for VSLAs.

The platform, implemented in partnership with Dan Church Aid (DCA), an organization working with refugees and host communities in Yumbe and Arua districts, was launched in March 2019.

The digitalization of VSLAs revolves around two key users: an empowered VSLA secretary, and an entrepreneurial community facilitator – who both play an instrumental role in the digitalization of VSLAs:



VSLA secretaries maintain digital records of the VSLAs meetings, an updated central ledger, and individual accounts of each member.

Community facilitators are a support resource for the VSLA on its journey to digitalization. They offer financial literacy, digital training, and technical support to the group on an as-needed basis.

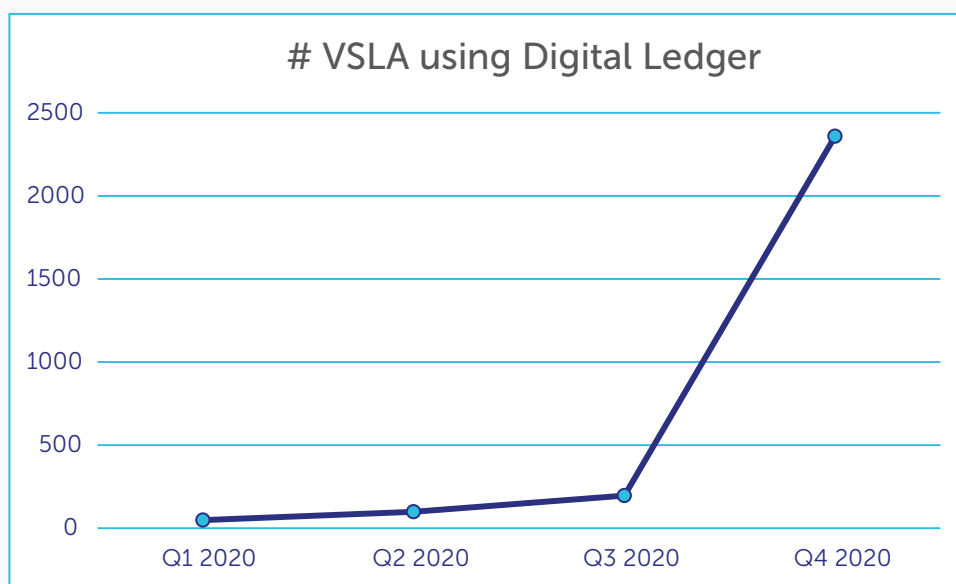
VSLA Context

VSLAs are savings groups that are self-managed by the members. The members forming the group are self-selected with a group size ranging between ten to twenty-five members. The core objectives of these groups are to provide a safe environment for members to save money through purchase of shares, and access small loans. Alongside the savings, contributions are also made to a social fund that provides small grants to members during emergency situations. The VSLAs therefore reduce the dependency on aid since all the money comes from individual members and revolves among them. During the cycle, members meet on monthly or weekly basis. Towards the end of the year, the members meet to share dividends from the accrued interest coming from the shared loans and savings from their weekly contribution.

Group members are required to have a passbook that they use to record their loans and savings but without a centralized ledger. For full transparency on the group finances, all transactions and other requests are done in front of all members. The money is placed in a box with three different locks; three leaders elected by the members and re-elected at the end of each cycle, are entrusted with one key per lock to guarantee security and prevent misallocation of funds. At the end of the cycle, all the collected savings, service charge and fees/fines are distributed among the members in proportion to the amount they saved during the entire cycle.

Paul Sserunjoji, Partnerships Director, Ensibuuko observes that there was “a hike in the number of VSLAs using the digital ledger system to record all the financial records of their members in December 2020, thus Ensibuuko onboarded and trained over 2,000 groups in a single month.”

Illustration of the VSLA onboarding Journey 2020



Source: Ensibuuko data base extract

Benefits of digitizing VSLAs operations

Digitalization of VSLA operations through an innovative digital ledger application powered by Ensibuuko has come a long way in helping capture all the manual records that were on paper in the past. There is no doubt that when done right, digitalization of VSLAs can result in rapid acceleration of financial inclusion in developing countries since VSLAs have already proven to work for those hard to reach through conventional means. This is an avenue for helping VSLAs build data that they can use as collateral – transactional historical data that financial institutions could make use of in extending digital credit to its members.

Solving challenges related to liquidity and access to formal financial services

In Uganda, the fintech and banking fraternity have managed to innovate around creating electronic VSLA group wallets that allow linkage between MNOs – Mobile Network Operators' wallets and traditional financial systems thus allowing for the push and pull of electronic value. VSLAs have managed to open special group accounts designed for savings groups. This helps to keep the group savings safe, and provide individual group members an opportunity to have personal accounts. In this scenario, FinTech solutions such as mobile KYC and mobile money can play a vital role to lower costs and extend access in hard to reach communities. This creates a win-win situation since it saves time and money for both VSLA members and formal financial service providers. Increased safety of savings also allows for longer savings cycle, bigger loans and longer repayment periods for loans. This is important for micro entrepreneurs to grow their businesses.

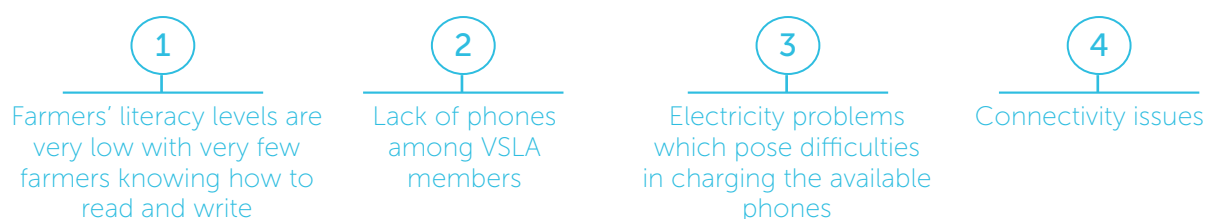
Developing a thorough financial history

Digitizing VSLAs' transaction records helps to create credit history for each member. This goes a long way to dispel negative assumptions that low income earners are not creditworthy. Further, a well-designed solution that integrates with other financial and mobile services creates richer data to uncover the unknown.

In some contexts, VSLAs could join together to form a much larger savings group that allow access to a larger pool of finance, better record management and even more opportunities for their members. This allows VSLAs to retain some degree of autonomy as opposed to integrating with other financial service providers.

Understanding the context, challenges, and opportunities for VSLA digital transition, Ensibuuko has designed a digital platform that responds to the unique value proposition that enhances the way VSLA operate and record all their activities using the digital ledger application. The solution is being piloted in West Nile in partnership with several NGOs like Dan Church Aid.

The digital VSLA platform has provided the above advantages and opportunities. However, there still exists a few hurdles;



Steps taken to curb challenges

The introduction of a network of Digital Community Entrepreneurs (DCEs) has presented an alternative to fix issues of last mile distribution of digital inclusion services and products like financial literacy training, phones, and solar. Early results indicate that this model provides and brings these services and products closer to the last mile. Working with local community opinion leaders is one of the innovative sustainable models, supported by United Nations Capital Development Fund (UNCDF) to unlock constraints around last mile distribution of digital inclusion related services and products.

To support the work of the DCEs, Ensibuuko developed a VSLA digital ledger system that takes advantage of Progressive Web App technologies to function as an offline app while maintaining the ability to be accessible by any device with a basic internet browser. This guarantees compatibility with most mobile devices while allowing for new experiences that cannot be matched by solutions that are only based on Unstructured Supplementary Service Data (USSD).

To date, most farmer groups have embraced this new technology which they continuously value and use during transactions at their weekly group meetings. The future lies beyond just recording group transactions, but also building data sets that will eventually link the VSLA to financial institutions that can lend farmer groups money to meet their borrowing needs.

It is key to note that most fintech solutions in developing countries are developed outside the community they end up serving. It is prudent that there should be local participation and buy-in the design process. That way, the solution would not feel too alien to users. The pilot scheme in West Nile serves this purpose well.

It is paramount to consider affordability and reliability of the VSLA digital platforms because users pay for services that they find useful if the pricing is right. This innovative solution targets the extremely poor and it is priced to reflect that. The decentralized nature of the solution and design reduces the number of transaction processing done at VSLA level to minimize costs involved.

To sum it all, digitalizing VSLAs is a catalyst in driving and building transaction data that could be leveraged to build algorithms that financial institutions could ride on to extend credit to farmers' groups thus addressing issues of lack of collateral at the last mile. This journey calls for concerted effort and has promising results since most customers living at the last mile have embraced the VSLA / farmer group concept in their day to day life.



LEAVING NO ONE BEHIND IN THE DIGITAL ERA

The UNCDF strategy 'Leaving no one behind in the digital era' is based on over a decade of experience in digital finance in Africa, Asia and the Pacific. UNCDF recognizes that reaching the full potential of digital financial inclusion in support of the Sustainable Development Goals aligns with the vision of promoting digital economies that leave no one behind. The vision of UNCDF is to empower millions of people by 2024 to use services daily that leverage innovation and technology and contribute to the Sustainable Development Goals. UNCDF will apply a market development approach and continuously seek to address underlying market dysfunctions.

ABOUT THE UN CAPITAL DEVELOPMENT FUND

The UN Capital Development Fund makes public and private finance work for the poor in the world's 46 least developed countries (LDCs). UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through three channels: (1) inclusive digital economies, which connects individuals, households, and small businesses with financial eco-systems that catalyze participation in the local economy, and provide tools to climb out of poverty and manage financial lives; (2) local development finance, which capacitates localities through fiscal decentralization, innovative municipal finance, and structured project finance to drive local economic expansion and sustainable development; and (3) investment finance, which provides catalytic financial structuring, de-risking, and capital deployment to drive SDG impact and domestic resource mobilization.

For more information, please contact: