

Community-led financial inclusion: Village Savings & Loans Associations



1. Pioneer partnership

Access to finance is more challenging for rural men and women and in particular, young men and women. Given the challenges in accessing credit from formal sources, 2SCALE explored other sources of financing such as Village Savings and Loans Associations (VSLAs) and informal cooperatives, which cater to disadvantaged segments that are often excluded from the formal banking system. To address these shortcomings in financial services provision, 2SCALE in the Yedent partnership in Ghana supported the introduction of VSLAs. The cluster that benefited from the VSLAs included Saboba, Chereponi, Zabzugu, Salaga, and Gushegu.

In these clusters, 2SCALE supported the setup of 165 VSLAs benefiting more than 3,500 soybean and rice farmers. The VSLAs that were established in the Yedent partnership benefited from other services such as trainings in group dynamics and financial management, soya processing, as well as formal registration with regulatory bodies in Ghana as legal entities. For example, 15 VSLAs with 320 members (all women) received training not only on soybean processing but also in financial literacy in the Yedent partnership.



Community ownership & VSLA groups have enhanced cohesion rice and soybean farmers

2. Replicable practice

This practice is addressing the challenges left by the poor penetration of financial services in the operational areas of Faranaya. VSLAs were introduced to address the savings and credit needs of smallholder women farmers to upscale their economic activities. Cluster actors, mainly smallholder farmers, lacked adequate access to credit to expand and invest in value chain activities. The absence of financing opportunities to scale up business activities reduces the potential of clusters in supporting their growth needs. This makes the VSLA methodology relevant in raising capital to finance new businesses and to scale up existing businesses. It is a self-managed rural financing scheme where members of the association purchase shares weekly. The accumulation of the weekly shares is given out as loans to members with a marginal interest.

To summarize, this practice is addressing constraints in terms of:

<p>Inclusion</p>	<ul style="list-style-type: none">• Ownership: The entire VSLA process is owned and led by women smallholder farmers. The utilization of funds is at the discretion of the women for their business' growth and household emergencies.• Voice: The VSLA methodology gives equal opportunities to members' in terms of decision making. The members are guided by a constitution which spells out functions of members. It gives equal rights to savings and credit as well as voting in decision making.• Risks: Financial risk exists in the inability of women in VSLAs who fail to utilize their credit for its intended purpose. The VSLA box can be stolen. This is a major risk in the operations of the methodology. The women are commodity traders and producers. Fluctuations in market prices and crop failure are major risks in the operations of VSLA member to pay back credit.• Rewards: Members are able to get credit at a reduced interest rate, no collateral is required, and there is no Know Your Customer (KYC) bureaucracy in getting savings services. Additional services such as group marketing, technical services on production as well as other value chain services such as inputs, land preparation are gotten in bulk with reduced market rates.
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3. Preconditions for replication

Identify the Financial needs of Cluster Actors

The financial needs of all actors should first be identified and prioritized to determine the appropriate financial tools that will best fit the needs of the actors. The financial needs identified will provide the basis to appropriately link the needs of actors to the right financial services. The financial needs should not only focus on credit but also insurance, savings, investment, and payment systems. This is to eliminate the financial bottle necks in the value chain that limit the full participation of actors towards value chain competitiveness.

Identify Financial Institutions for Linkages to Cluster Actors

VSLAs are not an end in themselves but a means to an end. Over time it will be observed that some members of the VSLAs have overgrown the financial services provided by the VSLA. As such, there is the need to identify financial institutions in agri-financing and match them to VSLAs. A profile of each financial service provider should be generated to appropriately match the services to the needs of smallholder farmers in VSLAs in various cluster actors. These linkages are instrumental in sustaining the growth of small businesses.

Training Cluster actors in the Management of Credit/Financial Literacy

While access to finance is important, its management is critical to ensure pay back and avoid wasteful investment. The capacity of cluster actors must be built on lending, cash management, and investment. Broadly, financial literacy trainings are key in the financial inclusion agenda to ensure actors make informed financial decisions that will facilitate growth in their businesses.



Financial literacy trainings have led to increased capacity

4. Results Achieved

This practice fits in the 2SCALE Universal Impact Indicators (UII), especially UII8. This UII8 addresses issues of financial inclusion and within the context of this practices it is mainly on savings and credit. A total of 500 members in the VSLAs had access to savings opportunities and save GHS 122,168 (€16,024) in the first six months. Three hundred and fifty-eight (358) members received loans valued at GHS 120, 518. 80 (€ 17,216.97). This loan includes the overall turnover of savings given out as loans with interest. Figure 1 gives the details by age and sex disaggregation for members who have had access to financial services (credit and savings) in the VSLAs in the Faranaya partnership.

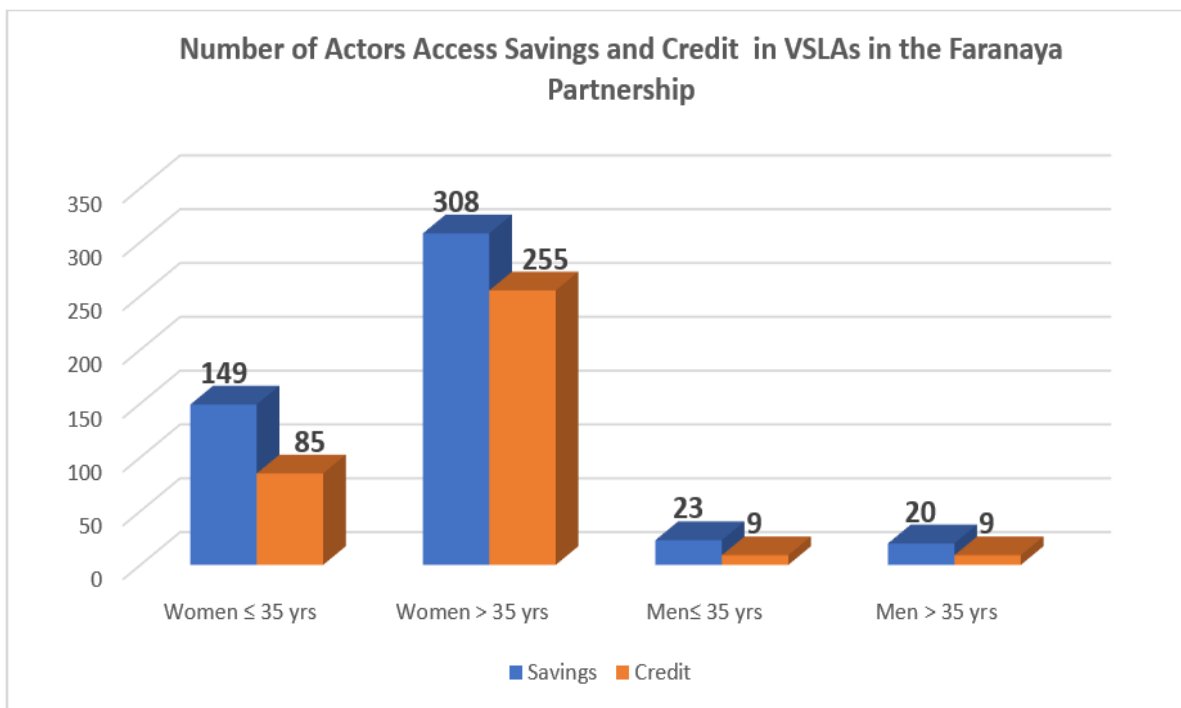


Figure 1: List of Members accessing financial services through VSLAs

Want to know more?

To know more about this practice, please reach out to either Jalil Zakaria, jzakaria@2scale.org 2SCALE Country Team Leader for Ghana or Peter Kirimi, pkirimi@2scale.org the 2SCALE Financial Inclusion Specialist.

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