GHDF
GLOBAL HUMANITARIAN AND DEVELOPMENT FOUNDATION

SUSTAINABLE ACCESS TO FINANCIAL SERVICES FOR INVESTIMENT (SAFI)

1. Village Savings and Loan Association (VSLA) Methodology

How does Village Savings and Loan Associations methodology work?

The synonymic phrase for Sustainable Access to Financial Services for Investment (SAFI) is Village Savings and Loan Association (VSLA). Global Humanitarian and Development Foundation (GHDF) provides VSLA formation assistance training to promote, form, and support groups of young people in communities. The fundamental principles of VSLA are:

- Members of a self-selected group form a VSLA to save money in the form of shares. The savings are invested in a Loan Fund, from which members can borrow money and must repay with an agreed and reasonable interest. The primary purpose of a VSLA is ***to provide simple savings and loan facilities in a community that does not have access to formal financial services*.** Loans can also provide a form of self-insurance to members, particularly if they are supplemented by a Social Fund to provide small but important grants and no-cost loans to members in distress.

- **VSLAs are comprised of 25-30 members**. This size enables the group to strike a balance between creating a useful pool of capital and keeping meetings manageable. Members are usually drawn from the adult population. Membership is open to youth, both men and women.

- **Associations are autonomous and self-managing**, basing their system of governance, policies, and operating procedures on a written constitution. This is fundamental, because a VSLA's goal is institutional and financial independence. The organizations that initiate and promote VSLAs should never seek to manage an Association's affairs on behalf of members.

- **All transactions are carried out at meetings in front of all the members of the Association, promoting transparency and accountability**. To ensure that transactions do not take place outside Association meetings, a lockable cash box is used to prevent unauthorized cash movement and the risk of record tampering. The cash box requires three keys, each one held by a different member of the General Assembly.

- **The cycle of savings and lending is time bound**. At the end of an agreed period or 'cycle' (12 months maximum) the accumulated savings and service charge earnings are shared out among the membership in proportion to the amount that each member has saved throughout the cycle. This is critical for transparency and the confidence of all members. A cycle must not last for more than one year prior to share-out.

- **All members have an individual passbook**. This is necessary to permit varying rates of savings and to track member loan liabilities. The starting and closing balances of the VSLA Social Fund and Loan Fund are memorized at each meeting.

- **Associations meet at regular intervals** during their first cycle, either weekly or fortnightly as the members agree. After VSLAs complete a cycle and become independent, meetings may reduce in frequency to once every four weeks.

VSLA members meet every week and contribute a fixed amount of savings, with amounts typically ranging from 100 RWF to 350 RWF ($0.172 - $0.603) into an internal loan fund. Excess money is kept in an iron box with three locks held by different members of the management committee. If the saved money accumulates, it's transferred to their account number to avoid theft risks. For the case of this project, every single saving will be deposited on their bank account since urban areas have easier access to banks than in villages where banks are located far from where they operate.

Members can borrow from the revolving fund at an interest rate decided by the group, typically 5% or 10% per month on the principal, for duration between 1 to 3 months. Loan amounts depend on the availability of funds, demand by members and individual repayment capacity. Internal loan amounts can vary depending on available savings. Group members may not take out multiple loans.

By their internal regulation all group members have equal profit on accumulated interest. This is because all members equally contribute to accumulate the saving; which is the loan capital. While those who save do end up paying more, they also get more benefits, as they are able to use the savers funds.

VSLA is for the poor and the very poor. It enables them to manage their household cash flow more efficiently and flexibly, and to invest in income-generating activities that secure and stabilize cash income. Its most dramatic

impact is on self-respect and social capital, particularly among the young women who will form 65% of VSLA membership.

2. The 5 Phases of VSLA Methodology:

VSLA formation and management uses a five main phases of savings and loan methodology cycle as explained below:

Phase I - Start Up:

This phase will include identification of potential VSL members, assessment of their capacity to participate in VSL initiative, profiling of the group members, including social economic status, self-selection and formation of VSL groups.

Phase II - Support to group formation & management:

Once groups have been formed, the project will embark on intensive training on leadership, conflict resolution, group management, reporting, meeting facilitation, social events, etc. The phase will go hand in hand with the selection and training of **VSL Agents** who will be expected to continue forming and training new VSL groups during and beyond project implementation period.

Phase III - Support to the saving and lending process:

This will include training on VSL scheme, internal savings, process of forming Inter groups and facilitate saving and lending processes and activities. Inter groups are clusters of multiple Village Savings and Loan Associations, brought together to facilitate linkages.

Phase IV - Provision of Business Development Skills/Plan:

To enable VSL members to invest wisely, the project will train them on Selection Planning and Management (**SPM**) of Income Generating Activities (**IGA's**). The project will also train the groups in market survey & analysis, marketing skills and design and implementation of small economic projects.

Phase V – Linking VSLA groups to formal financial institutions

This is the final stage of this project, when members reach at a certain level where they require bigger loans which associations cannot accommodate, then this indicates that they have entered into large investments. At this stage, GHDF facilitates them to establish an agreement with formal financial institutions that have the capacity to support such types of investments. This is the beauty of this project.