



# FINANCING FAMILY FARMS

## WITH SELF-MANAGED SAVINGS AND CREDIT SYSTEMS

### WHAT IS IT ABOUT?

#### The financial needs of family farms

Family farms have diverse financial needs:



- For the **operations**: a need for cashflow linked to the very nature of farming activities and the time lag between cash inflows and outflows during a production cycle



- For the medium and long-term **investment** in adapted and high-performance equipment and materials for the farm



- For the **unforeseen events** management, such as accidents, climatic events, poor harvest

At the same time, family farms also have household needs: housing, schooling, health...



#### Farmer-initiated systems

Dealing with insufficient supply, family farms can formally or informally organize themselves into self-managed savings and credit groups, whose names and modalities vary from region to region. These arrangements are often combined with external financing.

**Village Savings and Loan Association (VSLA) or Tontines:** Solidarity group that meets regularly to save in a safe space, to access small loans and to obtain emergency insurance.

**Input-savings:** Savings scheme organized between farmers for the collective purchase of quality inputs.

**Input-credit:** Group purchase of inputs, paid in advance by the FO, the supplier or thanks to an MFI loan, and where the farmer repays at the end of the season.

**Credit warrantage:** Loan guaranteed by a stock of products build up at harvest, whose value increases over a given period.

EXTERNAL  
FINANCING

### STEPS TO SET UP A FARMERS' SELF-MANAGED FINANCING SYSTEM

1

#### AWARENESS CREATION AND TRAINING

In response to a need expressed by a group, the field officer organizes information sessions and exchange visits to present financing experiences. If the group is interested, training is organized to acquire the knowledge needed to set up such a service.



2

#### DEFINITION OF THE RULES

The group meets to define its rules:

- Building up savings: minimum amount, value of a share, frequency, modalities
- Mobilization of savings: minimum amount, possible duration, maximum number of loans per person...

It can be drafted based on an existing system, with adaptations. This is an essential stage, requiring time and consultation.



3

#### CONTRIBUTION AND MOBILIZATION PERIOD

##### Building up savings



- Regular contribution of members according to their capacity and the terms defined in the rules
- Possibility of supplementing savings by taking out a loan with an MFI, to be repaid by the group at the harvest time

##### Mobilizing savings at the right time and according to needs

##### Individual loans

- Short-term loans within the group
- Repayment with interest (between 5 and 20%)
- At the end of the cycle: possible redistribution of total savings and interests or choice to keep it for the group

##### Group purchasing of quality inputs

- Inputs needs inventory
- Linkage with suppliers
- Selection, negotiation and contracting
- Delivery of inputs

4

#### AT THE END OF THE CYCLE

- Analysis and review of the cycle to understand what worked
- Preparation for the next cycle (adaptations to be made to the rules...)



### ADVANTAGES

A simple service tailored to the needs:

- Rules defined by farmers
- Deadlines adapted to the agricultural season
- Reactivity for immediate needs

A first step in financial education, encouraging farmers to anticipate their needs and monitor their budget. This opens the door to other financing options.

Greater solidarity between group members, fostering a collective spirit



## FUNDAMENTALS TO REMEMBER

### THE GROUP

- Develop the service for existing groups where people know each other
- Respect a group size that allows trust between members (max. 30 people)
- Identify at least one trusted leader and to make decisions as a group

### RULES AND COMMITMENTS

- Set terms and conditions to limit risk: limit the amount to be saved, dispatch control roles between several people, ensure regular contributions...
- Respect solidarity values: adjust the service for those who need it most (young people just starting their activity, displaced people...)

### THE ACCOMPANIMENT

*By a relay farmer / by an advisor*

- Accompany each stage of the service set-up to ensure discipline
- Set up recording tools (notebooks) at several levels (farms, groups/FOs) to reassure members and avoid the risk of misappropriation
- Support each farm in analyzing its needs, its environment (suppliers/markets) and its projects
- Combine technical and financial advice: good savings and repayment capacity



Burkina Faso – Compilation of cooperatives' fertilizer needs



Madagascar – Weekly VSLA meeting



Madagascar – Savings tracking booklet



## WORDS OF FARMERS

"Trust does not exclude control."

"Apply the '4-eyes rule' to reinforce controls: this consists in separating each stage of the process and assigning them to different people."

"It is difficult to lend money to someone you don't know, you can't lend if you don't trust the group."



## FOR MORE INFORMATION

**Example of tools:** Input-savings record sheet (Burkina Faso)

**Webinar:** Family farm financing, February 2022

