



Access to Finance

PROSPER Intervention Learning Brief

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EXECUTIVE SUMMARY

As part of the Building Resilience and Adapting to Climate Change (BRACC) programme funded by the Government of the United Kingdom's Foreign, Commonwealth and Development Office (FCDO), Promoting Sustainable Partnerships for Empowered Resilience (PROSPER) implemented a support for Village Savings and Loans (VSL) groups, including VSL training, in its four target Districts – Balaka, Chikwawa, Mangochi, and Phalombe. PROSPER partner Concern Universal Microfinance Operations (CUMO) also offered successful VSL participants in some communities the opportunity to graduate into microfinance loans.

As part of the evaluation of BRACC conducted by the BRACC Knowledge and Policy Hub, the effectiveness and impact of PROSPER's VSL and CUMO microfinance programme was evaluated. The evaluation methodology drew from the midterm qualitative data, particularly focus group discussions with Cash for Inputs participants.

At the start of PROSPER, VSL groups were not a new innovation for most communities but PROSPER is credited with improving VSL functioning and participation rates; PROSPER's community-based trainer model and the content of its trainings were generally praised. There was evidence of some graduation into CUMO microfinance loans, but higher interest rates and more rigid loan terms are seen as barriers by some VSL participants.

VSL groups fill financing gaps by providing affordable and accessible savings and loan products in rural communities. Formal lending is limited and often inaccessible, while informal lenders are viewed as having expensive and sometimes predatory loan terms. Theoretically, VSL participation is inclusive, and respondents cite a wide range of people participating, including youth and people with disabilities. Women are reported to be the majority of participants, and are sometimes viewed as better borrowers, but some may be forbidden from joining by their husbands. Poor households often cannot afford to buy into VSL groups, and female-headed households may struggle to have the time to participate.

Overall, VSL participation operated as expected, with respondents describing positive impacts in the areas of accessing basic needs, improved income, and investing in assets. In many cases, VSLs have enabled participants to invest in sizeable assets such as bicycles or homes. Participants also described contributions to improved resilience (such as ability to access loans to cover basic needs in the case of a shock, and reduced reliance on unsustainable natural resource extraction as livelihoods), and social improvements such as less stress and greater economic empowerment, especially for women.

It was acknowledged that outcomes for VSL participation are not always positive; negative outcomes are largely related to failure to repay loans, and intra-household conflicts. There was wide agreement among respondents that transparency and collaborative decision-making is critical. Both men and women are reported to engage in harmful practices with respect to participation in VSL groups. Women may not disclose their borrowing, while men may make unilateral decisions about loan or payout use. However, where VSL participation is approached with transparency and mutual decision-making, respondents describe overwhelmingly positive impact on household relationships, including greater cooperation, better problem solving due to having additional resources, less burden on men as the sole providers of cash income, and greater respect for women on the part of their husbands.

The key lessons were:

-) Lesson 1: Pair VSL and microfinance promotion with training that includes intra-household decision-making issues;
-) Lesson 2: Promote several options for VSL design to improve inclusion, including lower risk and

Sharia-compliant models, where appropriate;

-)] Lesson 3: Replicate approaches offering graduation into larger loans;
-)] Lesson 4: Additional support or other models may be needed for vulnerable groups.

BACKGROUND

BRACC AND PROSPER

PROSPER is a multi-stakeholder resilience programme supporting the Government of Malawi to reduce extreme poverty and end the recurrent cycle of crises and humanitarian assistance. With funding from the UKAID under the BRACC programme, and over the period from December 2018 to March 2023, the programme will target 950,000 vulnerable people in the districts of Balaka, Chikwawa, Phalombe and Mangochi. PROSPER aims to build household resilience and livelihoods, strengthen market and government systems, reduce the impact of climate shocks, respond to seasonal consumption needs, support the design of social safety nets, and generate evidence and knowledge to inform government policy. The programme is implemented by a joint non-governmental organisation (NGO), private sector and United Nations (UN) consortium consisting of Concern Worldwide, CUMO Microfinance, the Food and Agriculture Organization of the United Nations (FAO), GOAL, Kadale Consultants, the United Nations Resident Coordinator's Office, the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF), United Purpose, and the World Food Programme (WFP).

The BRACC Knowledge and Policy Hub provides knowledge management support to PROSPER and to BRACC as a whole, which contributes to monitoring and evaluation, research, communications and advocacy.

The PROSPER programme is characterised by several unique approaches to resilience programming, which are enabled by its consortium structure. First, it implements bundles of complementary interventions in communities, aimed at addressing different resilience risks. Second, different bundles of interventions are targeted to households of different wealth levels, with household categorisation based on ranking exercises conducted with each community. These approaches are intended to ensure that programming is robust and well suited to the households targeted for participation.

ACCESS TO FINANCE IN MALAWI

The challenges of accessing finance through formal channels due to not having sufficient collateral have long been recognised as a barrier to development. In Malawi, less than half of the population have access to a bank account (and it was less than a quarter ten years ago), which inhibits the capacity to save and access money. As in many other countries, microfinance has been promoted in Malawi to increase inclusion in access to finance. This takes place through official microfinance institutions as well as through promotion of rotating savings and credit associations, whereby community members make regular contributions to pool savings and have the opportunity to take out loans or receive rotating payouts from the pool. With appropriate training, these approaches can enable skills development in money management and provide access to small amounts of finance that enable livelihood improvements. Such groups in Malawi have particularly high participation by women, meaning they overcome the typical gender barriers to financial inclusion.

PROSPER ACCESS TO FINANCE

PROSPER's access to finance interventions were specifically designed to promote graduation into more formal financial services and larger loan amounts. Support for VSL groups was broadly targeted across all wealth groups. PROSPER provided training on VSL and financial management and encouraged voluntary participation in VSL groups. These VSL groups facilitate saving and lending among group members; loans are financed only by the savings of members and are typically quite small. For programme participants with several rounds of successful loan repayment in VSL groups, PROSPER partner CUMO offered the opportunity to graduate into microfinance loans.

PURPOSE OF THIS LEARNING BRIEF

This learning brief is part of a series of outputs produced as part of the BRACC Knowledge and Policy Hub's midline evaluation of the BRACC programme. It is one of four briefs focusing on specific interventions implemented under BRACC; the other intervention briefs address Agricultural Insurance, Livestock Pass-On, and Cash for Inputs.

This brief, and the analysis in it, seek to address questions related to programme effectiveness, relevance and impact, including BRACC Midterm Evaluation Question 1: Which combinations of BRACC interventions contributed most to building food security and resilience? In which locations and contexts? In addressing this evaluation question, the brief specifically looks at how what types of households have had successful results with PROSPER access to finance initiatives, and how more people could be reached; the role of access to finance in addressing climate shocks; intra-household effects of access to finance; and how access to finance initiatives could be made more effective.

RESULTS

METHODOLOGY

The BRACC programme was evaluated using mixed methods, including both quantitative and qualitative data. The quantitative evaluation methods included a randomised control trial designed to measure the impact of PROSPER interventions, which was implemented in two Districts and utilised household survey data in a wide range of resilience and welfare outcomes. The same survey data were also collected for a sample of participant households in the two PROSPER Districts excluded from the impact evaluation. The qualitative methods included key informant interviews, case studies, and focus group discussions that collected data on intervention-level outcomes and impact.

The findings in this brief draw primarily on the focus group discussion data related to VSL groups. Participants in VSL groups were selected for inclusion in the focus group discussions. Questions posed included how the programme worked and who participates, how loans and savings from the VSL group are used, what alternatives to VSLs are available, the negative effects of VSLs, how participation affects household relationships, and how VSL promotion, and access to finance more broadly, can be supported.

FINDINGS

VSL Implementation in Communities

For most communities, VSL groups were not new. Many focus group participants, though not all, noted that VSL groups had existed in their villages before the arrival of PROSPER. Respondents mentioned

VSL groups formed with help from other programmes or organisations, including United Purpose in Phalombe, WALA and Ubale in Balaka and Chikwawa, and CADECOM in Chikwawa. Where these VSL were functioning well, PROSPER was described as supporting communities to keep the activity going strong. However, in some cases, respondents described the existing VSLs as working poorly; for example, rules for borrowing or allocating payouts were unclear, or repayment was not enforced. Several respondents credited the VSL management training provided by PROSPER with helping VSL groups in their community establish clear rules and procedures for operation. Training also helped groups address technical issues related to calculating interest and payouts.

We started VSLs a long time ago before the programme started. When the programme came, they just encouraged us to continue what we were already doing, and they imparted additional skills to us on how to operate the VSLs. We were lacking the skills on how to operate and manage the VSLs and the knowledge they imparted to us helped us to start doing things differently, such as we formulated other new VSLs from the main group. We have worked with the programme for two years now. – Female VSL participant, Chikwawa

The trainings for village savings and loans have taught us how well we can manage our VSL groups. Initially, before the programme, we did not know how to manage our VSL groups and people could just get loans anyhow and fail to pay back the loans and this delayed sharing out of our savings, but now with the trainings we attended, we established rules that for one to get a loan they need to pay back their outstanding loan before obtaining another loan. Everyone is able to abide by the rules, and even the village head certified the rules, whereby whoever fails to pay back their loan is summoned. Hence VSL groups are running smoothly, and we are able to get our savings by the end of the circle. – Female VSL participant, Balaka

We also changed our interest calculation. In the past we used to say that after borrowing, the interest should be added to the borrower, but now we realise that the money which people get from the VSL group as loans belongs to all members. Therefore if we are calculating sharing of interest, then it should apply to all so that everyone benefits from it. – Female VSL participant, Phalombe

Other respondents cited PROSPER trainings as encouraging greater participation in VSL groups.

GOAL Malawi also opened our eyes after the training they conducted on the advantages and disadvantages of participating in VSL. We learned that through VSL we will be able to borrow money at low interest rates and the interest that we accumulate was ours as opposed to other money lending firms. – Female VSL participant, Chikwawa

VSL groups typically were described as operating by collecting savings payments beginning in January each year. These payments are recorded as “shares” in the VSL group. Loans to members are made out of the money collected and are repaid with interest. At some point, usually around December, the cash in the VSL is shared out among members based on their relative shares. While many groups follow the January to December cycle, this can vary by group. There is some variation in rules around loans. Some groups allow lending only to members, while others lend to non-members, usually with the requirement that a member vouch for the borrower. Some groups may also restrict loans to the amount of money the member has saved in the group, which insures that in the case of default, there is no need to try to recover funds or collateral. For groups that allow loans larger than the amount an

individual has saved, default may result in the group seizing assets to sell to recoup the loss. Several groups in Chikwawa also mentioned that in addition to their share payments, they contribute an amount into a social welfare fund.

We have a social welfare fund in our groups for emergencies and sometimes we contribute money to support our friends .– Male VSL participant, Chikwawa

Many respondents described their VSLs as being supported by good leadership structures, institutions and procedures, including record-keeping, which contribute to smooth functioning of the VSLs.

In VSL, we had to be on the same page as members, plus we selected leaders to lead us. We also had to follow the rules that were set for the smooth running of the group.

– Female VSL participant, Phalombe

For the Village Saving Loans we have a constitution and rules which guard our group, for example if you come late or don't show up during meetings, you are supposed to pay K100, this helps to improve participation. – Male VSL participant, Phalombe

Record keeping for future reference especially during share out. Selecting authorities who are able to read and write has helped a lot because they are able to keep the record and trace all relevant information to make sure the group is not frustrated. –

Male VSL participant, Chikwawa

Graduation Into CUMO Microfinance

PROSPER's approach included layering CUMO microfinance services into the interventions offered in communities, to enable VSL participants to graduate into more formal finance. A small number of respondents mentioned being able to access loans from CUMO, the PROSPER partner that provides microfinance loans that PROSPER VSL groups can graduate into. The loans are described as being given to the VSL group by CUMO; the group then distributes the financing to its members, generally in proportion to the shares each member has. A couple of respondents mentioned being able to get similar loans for their VSL groups through other microfinance institutions as well.

I belong to a Village Savings and Loan Association (VSLA) group where we managed to get a loan of MKW 497,000 from CUMO as a group and I got MKW 100,000 from the group's loan. – Male VSL participant, Phalombe

The people that use CUMO are the ones that are in the VSL groups of 10 people minimum, conduct small businesses, have assets like land [and] livestock, and are able to pay a fee depending on the amount you want to borrow. The VSL groups that go to borrow money from CUMO need to have more women; at least 60%. – Male VSL participant, Phalombe

GOAL Malawi showed us that we can also access loans from the Malawi Rural Development Fund (MARDEF) and FINCA, which is a microfinance institution that offers loans. We go and get these loans as a group, not individually. What we do is that 15-20 people group themselves and everyone registers the amount of money they need, then we go and get the loan and share according to the amount everyone registered. When it is time to pay back the loan, we collect the money and pay it back as a group. – Female VSL participant, Chikwawa

Respondents appreciated that graduating into these formal microfinance institutions allowed them to

access larger, more transformative loans; some also noted certain drawbacks, such as less flexible repayment schedules, and the risk of having significant assets seized if the borrower could not repay the larger loan.

With CUMO one can get a huge loan at once as compared to VSL and expand one's business. The only drawback is that their loan repayment scheme is not flexible as once your loans are due and you fail to pay back, they may take your collateral and sell it to recover their money. – Male VSL participant, Chikwawa

One respondent believed that the opportunity to graduate into CUMO loans was an important incentive for people to participate in VSL groups in his community. However, this same focus group, which was based in Mangochi, also said that CUMO ultimately did not offer loans in their community, resulting in disappointment. A second focus group in Mangochi reported a similar experience.

We have plenty of Village Savings and Loans groups here, and many joined because CUMO promised that they would be providing loans to village banks. Hence, many people joined to get access to loans. – Male VSL participant, Mangochi

We were told that CUMO was going to come and support VSLs with loans to buy water pumps, but they never came due to COVID-19. What is needed is to have organisations such as CUMO to support VSLs with loans. – Male VSL participant, Mangochi

Filling Access to Finance Gaps

Some respondents indicated that in their communities, VSL access to finance was critical because they had no other options for loans or savings; some mentioned reliance on piece work for immediate finance needs. However, most respondents reported that while other options existed, they did not meet community members' needs, or had serious downsides.

A number of respondents reported that microfinance institutions operated in their communities; in addition to CUMO, lenders such as the Microloan Foundation and FINCA were mentioned. However, these loans were viewed as having high interest rates and high barriers to participation, including collateral requirements, paperwork, and in some cases, having to travel far to the microlender's office.

We fail to borrow money from lending institutions because of lack of surety or collateral. The institutions want communities who have stable businesses with good returns, including property which later can be confiscated in case we fail to pay back the loans. For the community members to access the loan, we will need travel to Nchalo where the institution offices are located. We cannot manage the process because it takes time to be completed before the loan is issued out. There is too much paperwork before loans are issued out. Sometimes we have emergencies – we want readily available money to borrow so that we can sort out our problems, hence a limitation. – Male VSL participant, Chikwawa

A couple of respondents noted that larger loans could be obtained through microfinance; one respondent described microfinance as being accessed by “big businesspeople”.

Compared with formal institutions, VSLs were valued for being able to provide loans quickly and on flexible terms.

Firstly, I would say that it is so easy to get a loan in VSL groups compared with other types of finance, especially when one is in an emergency situation. – Female VSL

participant, Phalombe

Informal lenders (“katapira”) were commonly mentioned as an alternative source of loans. Informal lenders were universally described as charging very high interest rates; respondents cited rates of 50-100% for a loan due in a year or often less, compared with 20% for VSL groups. Informal lenders were described as strictly enforcing repayment due dates, and confiscating assets when loans are not paid on time.

Some used to get it from individual businessmen, though there were few who used to manage to do so simply because the interest rate was too high. We used to pay with an increment of 50%, meaning when you get MKW 50,000 you were supposed to pay MKW 100,000 within the agreed short period of time, but now we all use VSL groups.

– Female VSL participant, Phalombe

Some respondents described those borrowing from informal money lenders as being relatively wealthy, with collateral, while others said that people borrowed from money lenders if they were not welcomed in VSL groups.

People that access loans from extortionate lenders are usually those that do not join VSL clubs; they don't join because they are troublemakers that can cause disunity in groups. – Female VSL participant, Chikwawa

People who access “katapira” are usually the rich; the ones with cows and those who go to Mozambique for business. – Male VSL participant, Phalombe

A few people may borrow from friends or relatives, but the amounts are described as small, with informal terms, and not always available.

Friends or relatives do not always have money when you need it, as such they are not reliable. – Male VSL participant, Chikwawa

Respondents mentioned some additional modalities for savings. Some respondents describe community members as saving through mobile money. Others mention buying crops when prices are low and storing them for sale when prices rise in the lean season. One respondent described opening a commercial savings account, but was disappointed with the interest earned, compared to what could be earned in a VSL group.

I once saved my money with a commercial bank, but to my frustration the interest was way less than I anticipated. Ever since I started saving my money with VSL groups I am able to get more money with huge interest at the end of the cycle, to the extent that am able to pay my siblings' school fees and farm inputs. – Male VSL participant, Balaka

Participation and Inclusion

Many respondents described VSL groups as an opportunity that is potentially open to all, and that many types of people participate in, including both women and men, as well as people with disabilities and youth. The key condition for participation is that a person is judged to be trusted to repay loans taken from the group and does not engage in behaviours seen as uncivil or disruptive. In some cases, a prospective group member may be evaluated based on whether they have assets that could be seized in the case of loan default.

It is open to everyone, but it has to be a trusted one, honest and stable, so that they

should be able to repay the loan. Also, it should not be a drunkard, because they tend not to have assets at home. – Female VSL participant, Mangochi

People with bad behaviour like liars, thieves, gossipers and confusionists are not welcome as they could disrupt the group and cause many to quit. – Female VSL participant, Chikwawa

Many respondents noted that women make up the majority of participants in VSL groups. This was attributed to a number of factors. First, some described men as being too busy to participate. Examples were given of men who had an interest in VSL groups, but did not have time to participate in them, and sent their wives to participate on behalf of the household.

All kinds of people participate in VSL groups, i.e. men, women, the disabled, the rich, the poor. Women are the ones who dominate in the VSL group. Men rarely find time to attend the meetings frequently, so they just send their wives. They give them the money to save at the VSL group. – Male VSL participant, Balaka

Few men participate in village banks. We lack interest in joining because sometimes we spend much of our time doing piece work to support our household. Therefore, we send our spouses to participate, knowing that the village bank is all about saving, borrowing and paying back loans. We work behind, supporting our spouses in saving and paying back the loans. – Male VSL participant, Chikwawa

Other respondents described men as being less reliable about repayment and therefore excluded from some groups.

Most clubs involve only women because men are hard to deal with. We used to have them in our group, but they used to take loans and not pay back. Most of them used the money that they borrowed for drinking and when we asked them to pay back, they would threaten to beat us. – Female VSL participant, Chikwawa

Social norms may also play a role; one man mentioned that men may feel shy or uncomfortable in a female-dominated VSL group.

Most VSLs are patronised by women and as such most men shun them as they find it hard to interact or transact with these women because they are uncomfortable or shy. This may affect their willingness to join any female-run VSL, and this explains why there is low male participation in the area. – Male VSL participant, Chikwawa

Despite women's overrepresentation, some women may still face gender-based barriers to participating in VSL groups. A few respondents noted that men may prevent women from participating in VSL groups; one attributed this to men fearing that their wives will stop respecting them if they have more money than their husbands. In other cases, women may choose not to participate because of lack of control over how loans obtained from the VSL are used.

Some men stopped their wives from joining the VSLs, which prevented other women from improving their income levels and they are still relying on their husbands to provide for the family's daily needs. – Female VSL participant, Chikwawa

Sometimes women are instructed by their husbands to get loans from VSL, and later on the men use the money for infidelity activities; hence women decide not to be part of VSL to avoid such scenarios. – Female VSL participant, Balaka

In addition, while women may make up the majority of VSL members, female-headed households participate in VSL at a lower rate than male-headed households. While the BRACC midterm evaluation quantitative data did not collect information on individual participation in activities at the household level, it found that only 28% of female-headed households reported participating in VSL groups, compared with 37% of male-headed households. This appears to be driven largely by the fact that female-headed households tend to have fewer adults; once household size and dependency ratio are controlled for, there is no longer a significant difference in participation rates. Women in these households may struggle to find the time to participate in VSL groups, as many men do.

Respondents also widely acknowledged that poverty is a key barrier to participation in VSL groups. This was echoed in the midterm evaluation quantitative data, which found that only 30% of the lowest wealth group, Hanging In, participated in VSL groups, compared with 42% for Stepping Up, the middle wealth group. Focus group respondents describe poorer households as lacking the income needed to buy shares in VSL groups and facing greater difficulties in making repayments. One respondent noted that people who are elderly or have severe disabilities may be precluded from participation because they cannot work to earn cash to make contributions.

Some people are not able to participate in VSLs because they are very poor and cannot afford to source money and make contributions each and every week. – Female VSL participant, Balaka

We do have some who are not participating in any of the VSLs, or do not conduct any saving or loans... some are too old to the extent that they can't conduct any business or any serious activity to generate income on their own so that they could be able to pay back the loan or invest in saving, therefore they fear that at the end they would be penalized after failing to honour repayment, and they decide not to participate. Some are severely disabled and don't have the ability to do anything. – Female VSL participant, Phalombe

Respondents also attributed lack of participation to lack of interest, or fears of being unable to repay loans and ending up having assets confiscated.

There is fear from some people in the community because of what has been happening to those who failed to honour their loans ... if a member has failed to repay the loan there are conditions which follow; for instance, either assets of equal value to the loan amount are confiscated, or sometimes his/her savings are deducted. These rules have been applied to some and most people know about it, therefore people fail to join. – Female VSL participant, Phalombe

Lastly, several respondents observed that some community members may be precluded from participating in VSL groups if they are Muslim, and VSL loan terms do not comply with Sharia law.

Use of Loans and Savings Payouts

Respondents described using money from VSL loans and payouts for a wide range of uses. Spending on farm inputs was very commonly cited, as was investment into non-farm microenterprises. A few respondents noted that with money from loans, it is particularly advantageous to invest in income-earning activities, because it allows for the loan to be repaid. Investing in agriculture was also seen as important for food security.

Most of us use money from VSL for buying fertiliser. There is no happiness if you

have not bought fertiliser. – Male VSL participant, Mangochi

They trained us that when we get loans, we have to put the money to good use. So, we invest it in an enterprise which will give us more money to pay back the loans and keep the profits. – Male VSL participant, Balaka

*Whenever people receive their savings or loans, we take it as an opportunity to start up or top up businesses in the community. If you can go around our community, you will realise that there are shops, groceries and different businesses being conducted.
– Female VSL participant, Phalombe*

A large number of respondents also reported that VSL loans and payouts are used to meet basic household needs, including food, clothing, kitchen utensils, and education and health expenses. The flexibility of VSL lending was seen as conducive to financing emergency expenses like medical bills.

Most people in our community use loans to settle hospital bills when sick, pay school fees for their children and buy food when they run out of it. – Male VSL participant, Chikwawa

Investment in assets, including livestock, appliances, bicycles, land, and home improvements such as metal roofing, were also commonly cited. A few respondents described these types of investments as being more commonly made with payout money or savings, which do not need to be repaid.

I bought a pig from the money I received from the Village Savings Loans. – Male VSL participant, Phalombe

I bought a brand-new bicycle, fridge and kitchen utensils with my share out money in 2019. – Male VSL participant, Chikwawa

Savings are mostly used to buy assets like bicycles, iron sheets or burnt bricks. We also use savings to buy farm inputs. – Female VSL participant, Balaka

How money was used often depended on the timing of the loan or payout. A few respondents described households as being more likely to use money for food during the lean season. Money received in December may be more likely to be used for crop inputs; this is likely the reason why many VSLs pay out at this time. The size of loan or payout may also matter – very small amounts may be insufficient for meaningful business investments. Some respondents described larger loans or payouts as being used to invest in different types of businesses.

People in our community normally use savings to buy food during lean months of January and February. – Male VSL participant, Chikwawa

Most of the time we don't have food in December, so we buy food, clothes for our children and use some of the money to pay for farm activities or inputs. – Female VSL participant, Chikwawa

Those that deposit as little as 10 000 or 15 000 earn less interest, so they simply use the money they receive at share out to buy food. – Female VSL participant, Chikwawa

When we get the loan, we invest it in our business – such as maize-selling if the loan was for a lot of money. When the loan amount is small, we venture into selling

tomatoes, Zibwete or mandasi. – Female VSL participant, Chikwawa

Very few respondents reported that VSL money was spent on temptation goods, but a small number mentioned that some people spend loans or payouts on things like alcohol.

Since VSLs started, people use the money to buy fertiliser or seeds; I don't think there is someone who borrows money or uses the savings just for enjoyment. – Male VSL participant, Mangochi

Some just get loans to use for beer drinking. – Female VSL participant, Chikwawa

One respondent reported that his VSL decided to make investments together as a group.

As one way of boosting up our VSLA, we rented in land where we grew tomatoes and the money that was generated was reinvested into our group. – Male VSL participant, Phalombe

Intra-household Decision-making

Respondents were generally consistent in describing the potential pitfalls of VSL group participation as it relates to household decision-making and relationships. VSLs were seen as problematic when decisions about borrowing and use of loans or payouts were made unilaterally or kept secret within a household. Both men and women were described as engaging in such behaviour, but the circumstances tended to differ for each gender.

Women, who are more likely to be directly engaged with VSL groups, may not disclose their borrowing, or the amount borrowed, to their husbands. This can lead to conflict, especially if the loan is not repaid, and the loan is discovered at the time when the VSL group comes to take household assets. Women were also described as sometimes not disclosing the full value of payouts to their husbands, something seen as particularly unfair if the husband contributed to the payments into the VSL.

Some women in the community would go back to the villages where they came from to invest the money without consent from their husbands. For example, women build houses without the knowledge of their husbands. This kind of behaviour affects relationships within households and hence the village bank is not good. — Male VSL participant, Chikwawa

There are still some women that don't give the money that was received at share-out to their husband despite the husband's contributions, so that discourages them from contributing. – Female VSL participant, Chikwawa

Fewer cases were cited where men took out loans or received payouts without the knowledge of their wives, possibly because women are more likely to be the direct participants in VSLs, but possibly also because this may be seen as less problematic. However, men may make unilateral decisions about how to spend the money from a loan or payout that cause conflict. In some cases, men were described as asking their wives to take out loans for them, and then wasted the money or were unable to repay the loan, causing the wife to have issues with her VSL group. One woman in Balaka described being asked to take out a loan of MKW 40,000 (\$50) for her husband; after collecting the money, he left her. In other cases, men were described as taking the payout money and spending it without consulting with their wives. This can be particularly problematic in polygamous communities, where men may take the payout from one wife and share it among wives, or even use it to marry a new wife.

Sometimes the woman can be a member of the VSL group, and the husband can ask

her to go get the loan for him in her name, and when the husband does not pay back the loan it brings problems to the member and the group. – Male VSL participant, Phalombe

It's not only wives who misbehave, sometimes husbands run away with the money soon after the share-out is done and use the money anyhow, like marrying another wife or spending it on alcohol. This may result in breaking up families. – Female VSL participant, Chikwawa

Some polygamous men want to have the money earned by one wife from the VSL shared between two households and that causes conflict. – Female VSL participant, Chikwawa

Sometimes men go as far as getting married to other women with money earned by their first wife from the VSL. – Female VSL participant, Chikwawa

Several respondents also reported that VSL groups can contribute to disputes with other family members or relatives.

Another situation is that, assuming you're a Chair of VSL and your family member has defaulted on the loan, you need to follow the rules and regulations regardless of the relationship between you, and this brings discord in the household. – Female VSL participant, Mangochi

Sometimes your brother-in-law would ask you to go and get a loan on his behalf. When he fails to pay back the loan, you go and confiscate his bicycle or any other assets; from there, the relationship between the two of you turns sour. – Female VSL participant, Chikwawa

Despite these examples of conflict around VSL, a large number of respondents also believed that when VSL participation is approached with transparency and collaborative decision-making, it can contribute to more productive and harmonious relationships within the household.

There are instances when conflicts arise in the family, more especially when only one member makes the decision on how to use the money, but when decisions are made jointly between husband and wife, no conflict is expected because everybody is happy with the decision made. – Male VSL participant, Mangochi

Participants described VSLs as helping to improve family relationships by creating opportunities for wives and husbands to work together collaboratively. VSLs are also described as providing an additional tool to solve financial problems that cause stress within the household. As women are empowered to earn their own income, this removes some of the burden on men as the sole providers of cash earnings for their households. Finally, women's greater ability to contribute to household needs and solve problems was described as leading to their husbands having greater respect for them.

It has made relationships stronger within the households. My wife and I both participate in a VSL group. When it comes to receiving shares, I send my wife to collect the money and then we make decisions together on how to spend the money. VSLs have also strengthened family bonds – when there is money within a household, people are happy, they do not quarrel. – Male VSL participant, Balaka

If we are honest and decision-making is done jointly when it comes to taking loans

and using them, our family ties are strengthened as there is transparency and interdependency between us. – Female VSL participant, Chikwawa

Access to loans helps to mend our relationships, especially in time of need, as we are able to get a loan from VSL and help our families. – Female VSL participant, Balaka

It brings the family together upon sharing the dividends. – Male VSL participant, Phalombe

For a household to be in order, women take much of the responsibilities and money is needed for these responsibilities to be done. – Male VSL participant, Chikwawa

With VSLA, spouses really depend on each other because women are now able to buy food for the family. – Male VSL participant, Phalombe

Our husbands have started giving us the respect we deserve because we have money now through the VSLs and small businesses that we are running. They know that if they mess up, we can now be independent and stay on our own without them. This has helped us to enjoy our marriages because there is peace in our households. – Female VSL participant, Chikwawa

Impact

Behaviour Change

Respondents described several positive behaviour changes resulting from participation in PROSPER VSLs and VSL trainings, mostly related to making better decisions around spending. Respondents reported adopting budgeting, prioritising saving, and investing in assets and income-generating activities over consumption. A few respondents also reported greater discipline in VSL administration.

We are now buying assets based on need, not just copying what our friends are buying. We have been trained on how to budget and prioritise through VSL. – Female VSL participant, Balaka

Before GOAL Malawi came, I did not have any idea how to run a business or VSL investment. Through training and participation in a VSL, I have learned how to save, budget and invest my money in businesses and VSL for a profit. I am now conscious of VSL needs and requirements as I make well-thought-out budgets so that I don't spend my money recklessly. – Female VSL participant, Chikwawa

In the past, people would just come and borrow money and not pay back the loans, but now, with the coming in of community-based trainers, people are scared to just borrow money and not pay back the loans because they are saying the group belongs to the community-based trainers. – Female VSL participant, Chikwawa

Addressing Basic Needs

A large number of respondents reported that participation in VSLs made it easier for their households to access basic needs, including food, clothing, education expenses, and other necessities. In some cases, the mechanism for this was simply access to loans, but other respondents described being able to better afford basic necessities as a result of increased income from investment in agriculture or business activities. Expenditures for children were often particularly highlighted. Flexible timing around loans and payouts in December were features of VSLs that were described as enabling greater impact

around basic needs. Households that use loans for consumption support instead of investment in businesses, sometimes had to do piece work to support repayment.

VSLA has made it easy for us to access food and clothing for our children. – Male VSL participant, Phalombe

When we joined VSL groups we noticed change in our families in terms of hunger, in a way that whenever we share out from our VSL groups we are able to buy food and get farm labour to help on our farms. On top of that, from VSL groups we are able to get loans whenever we are in need to provide for school children's needs like exercise books. – Female VSL participant, Balaka

Participating in VSL groups reduces poverty in our homes – it permits us to get a loan any time and address problems in our families such as school fees, food, shelter, farm inputs and many more. – Male VSL participant, Balaka

I have managed to educate my two children up to Form Four at Lithumba Secondary School because of VSL. – Female VSL participant, Chikwawa

The ones that buy food repay the loan by doing piece work. – Male VSL participant, Phalombe

Income

Respondents described VSL participation as contributing to increased incomes through both farm and non-farm activities. Both investments in new businesses and expansion of existing businesses were mentioned.

Through VSL, we are able to increase our income at household level. We are able to boost our businesses and make more profit to be used for the household. We are also able to buy farm inputs which increases productivity for our crops, thereby enhancing high yield and food security. – Female VSL participant, Balaka

VSL has helped us start small businesses. We deposited the money that we earned from our farm harvests into VSL and with the interest that we earned we started small businesses such as brewing beer and cooking doughnuts. – Female VSL participant, Chikwawa

Through the bicycles we bought, we hire people to operate a transport business for us. Each person brings home MKW 1 000 a day and through this money, we can easily pay back the loan we get from VSLs. – Female VSL participant, Chikwawa

Assets

Respondents describe investing in a large range of assets, including productive assets. Asset investment is described as being achieved using loans, payouts, and income from businesses supported by VSL loans. In some cases, the value of the assets described was considerable, given wealth levels in rural Malawi.

I managed to buy a door for our house using VSL. – Female VSL participant, Phalombe

With the 2020 share-out from village bank, I built a house. – Male VSL participant,

Chikwawa

I bought a goat from my VSL proceeds, which is helping me access manure. – Male VSL participant, Phalombe

Through our participation in VSL, every member of our club has managed to procure a bicycle at a wholesale price. – Female VSL participant, Chikwawa

Not all assets described are productive assets. Respondents describe improvements in the quality of life of their households as a result of their investments.

Our children use these bicycles when going to school. Before, we used to walk long distances. – Female VSL participant, Chikwawa

The food warmers I got through taking part in VSL are helping to keep my food warm at all times. In the past we would eat cold food, which was not nice or healthy. – Female VSL participant, Chikwawa

Resilience

Respondents describe VSLs as contributing to household resilience through a variety of mechanisms. First, and most directly, VSLs enable households to access cash in the case of a shock to cover costs of food and other basic needs. VSLs are also described as helping households invest in assets like livestock, which can be sold to meet emergency cash needs. Assets such as bicycles can ease the burden of transportation when a household member is sick or injured.

We have easy access to loans to cater for unforeseeable circumstances like sickness and food shortage. – Male VSL participant, Chikwawa

In case of a drought, we could sell the goats we attained through VSL to earn money for food. – Female VSL participant, Chikwawa

Having a bicycle makes it easy for me to commute from place to place. Now when my children are sick, I am able to take them to hospital easily. – Female VSL participant, Chikwawa

Relatedly, VSL loans also provide a source of financing that can be used to mitigate the impact of shocks on livelihoods; specifically, households can access funds to replant in case of early dry spells or other crop shocks.

If our crops are destroyed by dry spells early in the season, we are able to borrow money from the VSLs to buy hybrid seed to replant our farmlands. – Male VSL participant, Balaka

Several respondents, mainly in Chikwawa, also described VSLs as enabling their households to move away from unsustainable natural resource harvesting and invest in other livelihoods.

Before the introduction of village banks, community members were relying on charcoal production. With the introduction of village banks, charcoal production has been reduced because it is no longer a source of income. We borrow money from village banks and invest in small business to support our households, hence conserved natural resources. – Male VSL participant, Chikwawa

Social Benefits

Some respondents reported additional social benefits as a result of VSL participation. One category of benefits mentioned by several respondents was reduced harm caused by borrowing from informal lenders on predatory terms. Such lending was described as not only leading to poor financial outcomes, but also stress, having to leave the community, or resorting to theft.

The interest rates are fair at VSL groups. When you get money from loan sharks, you become a prisoner of your own mind, they want you to pay back by a specific date and if not, things turn sour. You just benefit the people who are lending you the money because their interest rate is 100%. – Male VSL participant, Balaka

Other people who access other types of finance, like getting loans from loan sharks, are faced with problems as the interest rates are very high and if one fails to pay back the loans, the loan sharks seize assets of the defaulter. In addition to that, other people end up being victims of their own actions by exiling themselves from their villages. – Female VSL participant, Balaka

People have trouble paying back loans obtained from extortionate money lenders; in the end they end up stealing from others to pay back. – Female VSL participant, Chikwawa

One respondent described participation in VSL groups as an opportunity to make friends.

Village banks has helped strengthen relationships which were not there before. We interact and thereby create new friendships. – Male VSL participant, Chikwawa

Several respondents described VSLs as easing financial burdens for the household, ultimately reducing stress and worry. Women felt more empowered to meet the needs of their household, and less dependent on men for finances. Some respondents also reported feeling less burdened by the need to find piece work to meet immediate cash needs. One woman described the confidence she felt being able to afford better clothing.

We used to be worried all the time because children would fail to go to school or even eat as we had no money, but because our income levels have increased, we are happy nowadays that we are able to visit our friends and chat with them because we are no longer worried about food at home. – Female VSL participant, Chikwawa

Even single women are happy now – they no longer want to get married so that the husband can take care of them. As a divorced woman, I am still able to feed my family and pay school fees for my children and I don't even want a man. In the past, we were suffering, worrying about what to do to raise school fees because men would abandon women with the kids, but VSLs have really made our life easier, we are even able to pay for tertiary education for our kids. – Female VSL participant, Chikwawa

We joined village banks to ease the burden of doing piece work in the fields. Before the establishment of VSLs, community members used to do [piece work] like farming in fields to support families. We could go far to search for [piece work], for example we used to go to Mozambique, Namiya area to search for [piece work] and we got maize or food in return because food was scarce in our area. We were refusing to be paid money knowing that there are no markets selling food stuffs. When village banks were established, we were encouraged and interested to join so that we could be uplifted

financially. We borrow money from village banks and pay back monthly. This is the easiest way of paying back the loan because it gives us time to source money to pay back the loan. We are no longer doing piece work under pressure. – Male VSL participant, Chikwawa

The way we are looking good now, one wouldn't differentiate us rural women from those living in towns because we are able to afford good clothes too. – Female VSL participant, Chikwawa

Negative Outcomes

The negative outcomes described by respondents were largely related to inability to repay loans, as well as domestic disputes related to the intra-household dynamics described previously. Repayment issues can be the result of using loans poorly (or having loans taken by a spouse and used poorly), or simply due to a business failing.

Having a husband who drinks beer sometimes brings negative impacts when we get a loan because sometimes, they steal the money that you intended to invest in a business, causing conflict in the family. – Female VSL participant, Balaka

Losing household assets due to failure to repay the loan: in most cases this happens because some get loans to start a business and when the business fails to generate profits, it becomes difficult to source income to repay the loan. – Male VSL participant, Phalombe

Attempts by VSL members to collect overdue loans or seize assets in lieu of payment can lead to community conflict. Non-payment can cause lasting rifts between individuals or households.

The issue we had was when we went to inquire about a loan whose due date had passed. The one who took out the loan attacked us with a panga knife. – Female VSL participant, Phalombe

If a loan is not repaid and the VSL fails to recoup the costs through collateral, the loss can negatively affect financial outcomes for the rest of the group.

Some members may deliberately take a huge loan and decide to run away by relocating to another faraway area or country. This will have a negative impact on the other households as they may not get their share-out money and as a result, they may fail to carry out what they planned to do with the money like buying food, farm inputs and other assets. – Male VSL participant, Chikwawa

Sustainability

Respondents were very optimistic about the sustainability of VSLs in their communities. Many mentioned that their VSL group was committed to continuing and/or expanding. Given that VSLs predated PROSPER in many villages, this seems a realistic expectation. The only elements that respondents saw as negative for sustainability were the exit of CUMO with the close-out of PROSPER, and the risk posed to microenterprises due to shocks.

We still have VSL groups functioning at the moment and membership is increasing almost each time despite the PROSPER programme shutting down, so we truly believe that if we are able to do it now, then definitely we will continue, and outcomes will last longer. – Female VSL participant, Phalombe

Our VSL has been going on for some time now and we see no reason why we should stop as we have become used to it and the benefits are many. – Female VSL participant, Chikwawa

We had CUMO and everyone had the opportunity to borrow, but with the phasing out of the project, we have only remained with VSLA. – Male VSL participant, Phalombe

The business is not all that vibrant to sustain me in times of shock. – Female VSL participant, Phalombe

Lessons for Access to Finance Design

Respondents had a great deal to say about how access to finance products and programmes could be better designed to meet community needs. Many of these involved better lending terms, including lower interest rates, longer loan terms, and greater flexibility; some wanted to see more lenders and options for access to finance in their communities. They also had input on other aspects of programme design.

Several respondents highlighted the importance of pairing VSL groups and microfinance with training on business management and VSL administration. This was seen as not only important for successfully functioning VSLs, but also in attracting more people to participate in VSL groups. In several cases, PROSPER's community-based trainers were held up as a model for how to do this well. A couple of women suggested that training on household financial management and collaborative decision-making would be helpful.

Access to the finance programme can be improved through regular trainings by community-based trainers as this fosters more interest as they become more and more aware of what they must do to keep their VSL going and promote participation. – Female VSL participant, Chikwawa

The community-based trainers should ensure that members are well-aware of the importance of paying back loans and they should encourage men to assume ownership of the VSL intervention because the reason why some men end up not following the financial management principles that their wives apply, is that they have no sense of ownership. Some men even go as far as marrying a second wife with the money earned by their wife at the VSL club. – Female VSL participant, Chikwawa

One group noted the importance of collaborating with local authorities to ensure that VSL policies related to loan repayment can be enforced.

The Government of Malawi should put in place procedures to help village bank members to handle cases of theft in village bank groups. We go to police to lodge a complaint, but the response is that we develop by-laws and not village bank procedures. We want procedures to be formalised so that all village banks can be operated and managed equally. – Male VSL participant, Chikwawa

Several respondents referenced the importance of complementary programmes that enable access to productive resources, or improved income-generating opportunities, such as irrigation agriculture.

If more people are to benefit from access to finance, we must have several income-generating activity options available for them when they ask for help. We might advise them to put more effort into crop production and use modern technologies which could

help them to produce more. What they produce could be sold and invested in VSL or in a business of their choice. – Female VSL participant, Chikwawa

A large number of respondents were interested in seeing expansion of programmes similar to that offered by CUMO, which would enable VSL members to access larger, more transformational loans. In some cases, respondents hoped to receive a grant rather than a loan for their VSL.

We wish VSLs could be linked to banks or organisations so that we can have access to big loans. These loans will enable us to start meaningful businesses like selling torches, clothes and the like. – Male VSL participant, Mangochi

There is a need for microfinance companies to give loans to VSL groups so that groups can have more money that can be borrowed among members so that we can invest in huge businesses and be able to make huge profits and later pay back the loan to the microfinance company. – Male VSL participant, Balaka

If our group could be given MKW 300,000 by NGOs as a starting point to create room for us to get a bigger loan for our businesses. – Female VSL participant, Phalombe

A couple of focus groups also noted that VSL groups themselves could play a role in the promotion of VSL participation in communities.

We as VSL members also have a role to play to sensitise people that are not in VSLs to the benefits of VSLs. Let us show them how our lives have changed since we joined VSLs and tell them to do the same so that they improve their lives. – Female VSL participant, Chikwawa

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

At the start of PROSPER, VSL groups were not a new innovation for most communities but PROSPER is credited with improving VSL functioning and participation rates; PROSPER's community-based trainer model and the content of its trainings were generally praised. There was evidence of some graduation into CUMO microfinance loans, but higher interest rates and more rigid loan terms are seen as barriers by some VSL participants.

VSL groups are seen as filling an important gap with respect to affordable, accessible savings and loan products in rural communities. Formal lending is limited and often inaccessible, while informal lenders, the most commonly mentioned alternative, are viewed as having expensive and sometimes predatory loan terms. Theoretically, VSL participation is inclusive, and respondents cite a wide range of people participating, including youth and people with disabilities. Women are reported to be the majority of participants, and are sometimes viewed as better borrowers, but some may be forbidden from joining by their husbands. Other groups face barriers to participation as well: poor households cannot afford to buy into VSL groups, and female-headed households may struggle to have the time

to participate.

Overall, VSL participation operated largely as expected, with respondents describing a large range of positive impacts in the areas of accessing basic needs, improved income, and investing in assets. In many cases, VSLs have enabled participants to invest in sizeable assets such as bicycles or homes. Participants also described contributions to improved resilience, such as ability to access loans to cover basic needs in the case of a shock, reduced reliance on unsustainable natural resource extraction as livelihoods, and improvements in social welfare, such as less stress and greater economic empowerment, especially for women.

It was acknowledged that outcomes for VSL participation are not always positive; negative outcomes are largely related to failure to repay loans, due to loan misuse or simply failure of a business, and intra-household conflicts around the use of loans and payouts, or repayment. There was wide agreement among respondents that transparency and collaborative decision-making is critical for households to participate in VSL programmes successfully and avoid conflict. Both men and women are reported to engage in harmful practices with respect to participation in VSL groups. Women, who reportedly make up the majority of VSL participants, may not disclose their borrowing, or the amount of loans or payouts received. On the flip side, men may take money from VSL loans or payouts and make unilateral decisions about its use, including using it on temptation goods, or in polygamous communities, sharing it among their other wives. However, where VSL participation is approached with transparency and mutual decision-making, respondents describe overwhelmingly positive impact on household relationships, including greater cooperation, better problem solving due to having additional resources, less burden on men as the sole providers of cash income, and greater respect for women by their husbands.

Participants suggest that access to finance could be improved by offering lending on more favourable terms, pairing access to finance with good training, complementing access to finance with access to productive resources or new livelihood opportunities, and enabling larger loans through programmes such as graduation into microfinance.

Lesson 1: Pair VSL and microfinance promotion with training that includes intra-household decision-making issues

Respondents generally spoke well of the PROSPER VSL training offered, crediting it with improving VSL functioning and outcomes. Some mentioned wanting additional training on business management. However, intra-household decision-making is also clearly a key component to good outcomes for all household members. VSL training could incorporate training on negotiating skills and sensitisation to gender roles in the household and the importance of mutual decision-making, to help promote better household relationships, more equitable decision-making, and more productive use of VSL loan resources.

Lesson 2: Promote several options for VSL design to improve inclusion, including lower risk and Sharia-compliant models where appropriate

Not all VSLs operated with the same guidelines around lending. Some VSLs allowed households to take loans exceeding the value of their shares, while others did not. The latter model may be more accessible to poor households, or more risk averse households, who may fear having assets confiscated if they fail to repay loans. Sharia-compliant VSL models, for which guidelines already exist, should also be promoted as options in areas with Muslim populations.

Lesson 3: Replicate approaches offering graduation into larger loans

Not all VSL participants may be interested in graduating to formal microloans, given higher interest rates and more rigid lending terms, but for the segment who are, programmes like the CUMO microfinance loan programme may be a good model for enabling successful VSL participants to access more transformational loans. Other models could be explored as well, such as providing grants to VSL groups, particularly for lower income populations.

Lesson 4: Additional support or other models may be needed for vulnerable groups

Ultra-poor and female-headed households face barriers to participation in VSLs related to lack of income to buy in to VSL groups or repay loans, and potential constraints related to time poverty. For these groups, VSL participation alone may not be a good model for graduation. Very poor households are likely to use loans for basic needs and repay them by doing piece work. These households may need more comprehensive and transformative packages that enable them to meet basic needs and invest in new income-generating activities to reach the level where they have sufficient income to successfully participate in VSL or microfinance activities.

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