Variations in Village Savings and Loan Association (VSLA) Practices: An Assessment of Dynamics and Impacts in Zomba and Mangochi Districts

Full Report

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EXECUTIVE SUMMARY

This assessment investigates variations in the practices of Village Savings and Loan Associations (VSLAs) in Zomba and Mangochi districts. While the VSLA model has been transformative in promoting financial inclusion and community empowerment in rural areas, there have been noticeable deviations from the CARE VSL methodology, commonly referred to as the standard methodology. With *Titukulane*'s support for these VSLAs, it becomes imperative to comprehend the reasons and implications behind these changes.

Methodology: The rapid assessment was instrumental in understanding the VSLA practices across selected districts. Qualitative data on the VSLA methodology variations were randomly drawn from 8 out of the 19 Traditional Authorities (TAs) where *Titukulane* is implementing interventions. Within this sample, the assessment encompassed diverse voices from VSLA members, Community Development Agents, Village Agents, and *Titukulane* staff. The research utilized a rapid assessment approach to gain a comprehensive overview of the VSLA practices in Zomba and Mangochi in a time-efficient manner. This methodology was chosen for its ability to capture immediate, relevant insights without necessitating the extended time frame typical of more intensive research methods. The rapid assessment prioritized direct interactions with participants, ensuring their experiences and perspectives were central to the data collected. This direct engagement proved invaluable, especially when exploring sensitive topics related to financial practices and internal group dynamics. Through this approach, the assessment aimed to offer a nuanced understanding of current VSLA practices and the motivations underpinning their variations. In the context of this study, variations refer to the distinct differences in approaches, outcomes, or practices observed among the groups, while deviations denote departures from the expected or standard methods prescribed by *Titukulane*, potentially indicating unique adaptations or challenges faced by certain groups.

Key Findings: VSLAs in both districts have adopted varied practices. Some VSLAs, for example, emphasize equal shares for every member, while others note disparities in contributions. Lending strategies, such as offering loans to non-members, also emerged, aiming to bolster financial inclusivity. However, such innovative strategies sometimes come with their own set of challenges, like difficulties in accurate record-keeping or financial strains from settling older debts using newer contributions. External influences, cultural beliefs, and regional dynamics also play key roles in these variations. Below is a complete list of the variations and deviations noted in the two districts:

- **Shares and Savings:** While some VSLAs continue to advocate for standardized shares per member to ensure equality, others experience disparities due to inconsistent contributions. For instance, in some groups members are allowed to purchase more than 5 shares at a time, with some purchasing up to 100 shares.
- **Loan Practices:** Innovative loan practices, including lending to non-members, aim to enhance financial inclusivity.
- **Documentation and Record-Keeping:** Challenges in maintaining accurate records are pervasive, with different approaches to record-keeping observed.
- **Emergence of Digital Financing Platforms replacing cashboxes:** In younger VSLA demographics, there's a rising adoption of digital financing platforms, such as Airtel Money and TNM Mpamba.

However, this shift poses challenges for older members, who are less familiar with digital technologies.

- **Religious and Cultural Adjustments:** Deep-seated religious beliefs influence some VSLAs to refrain from charging interest.
- **Influence of External Entities:** VSLAs display adaptability and responsiveness to external influences, including NGOs and community initiatives.
- **Group Dynamics:** Many VSLAs have larger membership counts than recommended, possibly reflecting community resource pooling.

Impact Analysis: The variations from standard VSLA practices have led to mixed results, characterized by both gains and setbacks for members. One notable benefit is the financial independence and enhanced trust among VSLA members, resulting from flexible loan repayment schemes and tailored VSLA practices that cater to specific community needs. For instance, allowing for more flexible share purchases has been beneficial for members in economically well-off situations, acting as a safety net and promoting savings. Moreover, the accumulation of higher interests has enabled asset investments, fostering socioeconomic growth.

However, these variations and deviations have also introduced challenges. Offering loans to non-members, although inclusive, harbors risks of loan defaults, threatening the VSLA's overall stability. In instances where members were allowed to purchase beyond the recommended share limit, financial disparities emerged, causing feelings of isolation among the less affluent members. Additionally, larger VSLA groups, while financially beneficial for ambitious projects, have exhibited potential management challenges and conflicts due to their size and diversity of opinions.

These variations reveal a nuanced landscape: while the deviations from the standard VSLA methodology offer advantages tailored to specific community needs, they also necessitate increased oversight and the fostering of unity among members to ensure long-term success and cohesion.

Recommendations: To address the observed variations and challenges, it's essential to enhance oversight and implement continuous monitoring by development practitioners implementing VSL activities. This will ensure that variations align with the core objectives of VSLAs and promote economic growth while minimizing risks to members. However, it is essential to recognize that embracing flexibility can result in both positive and negative outcomes, with variations serving as valuable lessons for future adaptations. *Titukulane* and similar programs are also advised to learn and adapt by periodically revisiting and updating its training programs to match the evolving needs of VSLAs. Building robust business linkages, for example, between VSLAs and micro-finance institutions and agribusiness, revising VSLA operational guidelines, and nurturing open community discussions can further contribute to VSLA growth and stability.

Conclusion: The VSL landscape in Zomba and Mangochi districts is both dynamic and varied: with a combination of formally and informally formed and trained VSLAs, all introducing and following variations of the VSLA methodology. While deviations from the standard model have introduced fresh perspectives and strategies, they also come with potential pitfalls. It is paramount for support entities, such as *Titukulane*, to remain vigilant, adaptive, and committed to striking a balance between embracing innovations and ensuring the security and benefits of VSLA members.

INTRODUCTION

Background and Rationale:

The Village Savings and Loans (VSL) model has significantly transformed financial inclusion and community empowerment in rural areas. Village Savings and Loan Associations (VSLAs) are composed of individuals who voluntarily come together to save collectively and then borrow from these accumulated savings. Fundamental elements of a VSLA include regular weekly meetings, a collective savings system, the provision of loans to its members, and a dedicated social fund. At each meeting, members contribute a set sum, which subsequently becomes available for loans. The social fund acts as a safeguard, designed to offer financial assistance to members during challenging periods. The successful operation of a VSLA hinges on clear roles and responsibilities shared among its members and any associated field officers, such as Community Based Trainers, commonly known as Village Agents.

Village Agents (VAs) are members of VSLAs who are identified as having the skills to train others to start VSLA groups. They are trained by program staff and are paid a fee by the VSLA group itself to train new VSLAs. VAs may also assist VSLAs they have trained when they would like assistance between cycles, provide refresher training, assist in resolving conflicts, and in the long run they may provide a range of formal financial products as agents (of insurance companies, banks, remittance service companies, etc.).

Each VSLA formulates and operates under a predetermined constitution, detailing explicit rules and guidelines. While some of these rules, such as the savings amount or the service charge on loans, are determined through member consensus, others, such as the annual election mandate, remain constant due to their proven significance. This constitution provides clarity on the VSLA's objectives, member and management committee duties, meeting logistics, savings protocols, loan procedures, interest rates, election processes, and procedures for making amendments to the constitution itself.

Some of the commonly expected challenges that VSLAs face are formation of groups, maintaining regular attendance at meetings, fostering trust among members, and managing the social fund effectively. To mitigate these issues, several strategies are employed by NGOs and Community Based Trainers (CBTs) and VSLAs. These encompass conducting community mobilization activities to generate interest in VSLAs, scheduling meetings at times and places convenient for members, promoting transparency and accountability to nurture trust, and setting forth explicit guidelines for the proficient management of the social fund, which are stipulated in the group's constitution.

Titukulane has trained 755 Village Agents who have trained 2359 VSLAs in total, compromising of 48,434 members with 43,538 females and 4,896 males, using the standard VSL methodology. However, during recent field visits to VSL Associations (VSLAs) that have been trained with support from *Titukulane*, notable deviations from the standard methodology emerged. Innovations such as equal shares and upfront savings for the entire circle were identified. These deviations raise pertinent questions about their origins, motivations, and implications for group dynamics, financial security, and overall VSLA effectiveness. Consequently, the need for this rapid assessment arises from the pressing requirement to delve deeper into these changes, ensuring that VSLAs remain effective and continue addressing their members' needs, a move crucial for *Titukulane*'s strategic planning and its capacity-building programs.

Over the years, the Village Savings and Loans (VSL) model has become an instrumental pillar for financial inclusion and community empowerment, especially in rural areas. Notably, over the 3 decades, CARE International has made notable strides in this realm. The Village Savings and Loan (VS&L) methodology, initially implemented in Maradi, Niger, in 1991, has now been replicated across Africa, Asia, and Latin America. Notably, entities such as Oxfam USA, CRS in Africa, Plan International, PACT, and World Vision have not only adopted but are also adapting their renditions of this methodology (CARE International, 2006). These organizations are also collaborating on various tools and results.

Throughout the years, CARE's expertise with the VS&L model has evolved substantially. From an initial basic approach tailored exclusively for impoverished and uneducated rural women, the methodology now boasts variations catering to both literate and non-literate demographics. It has been meticulously tested across diverse settings, from remote rural areas and market towns to urban slums and peri-urban settlements. Drawing from this extensive experience, CARE has honed the tools required to roll out successful programmes on diverse scales.

Village Savings and Loan Associations (VSLAs) are composed of individuals who voluntarily convene to collectively save and subsequently borrow from these savings. Core features include regular meetings, a communal savings mechanism, provision of loans to members, and a pivotal social fund. At every meeting, members contribute a predetermined sum, available later for loans. The social fund acts as a buffer, offering aid to members during challenging times.

Village Agents (VAs) play a crucial role in this model. They are VSLA members equipped with the skills to train others to initiate VSLA groups. After receiving training from program staff, VAs, funded by the VSLA group, train new VSLAs. They also offer assistance between cycles, provide refresher training, resolve conflicts, and, over time, might extend formal financial products as representatives of financial institutions.

Each VSLA operates under a comprehensive constitution that delineates explicit rules and guidelines. These rules range from those decided by member consensus, like the savings amount or loan service charges, to those that remain steadfast owing to their importance, such as annual election mandates.

Despite the model's success, VSLAs often grapple with challenges such fostering trust among members, ensuring regular meeting attendance, group formation, and proficiently managing the social fund. Addressing these challenges requires strategies like community mobilization, fostering transparency, and establishing stringent guidelines for social fund management.

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Objectives:

The primary goal of this assessment was to obtain an understanding of the nature, potential benefits and disadvantages, and degree of deviations from the traditional VSLA methodology among *Titukulane*-supported groups. The assessment explored the motivating factors behind deviations as well as variations of the VSL methodology, gauging the perceived benefits or drawbacks of the innovations, and documenting the findings. Following this, the rapid assessment provides actionable recommendations tailored for future interventions.

METHODOLOGY

Rapid Assessment Design:

The research employed a rapid assessment methodology, designed to swiftly capture a broad perspective of the VSLA practices in Zomba and Mangochi. Chosen for its efficacy in generating immediate insights, this methodology is particularly apt for bypassing the extended durations usually associated with in-depth research methods. As highlighted by Bull, Farsides, & Ayele (2012), these insights demonstrate that rapid assessments are a relatively quick and inexpensive intervention that can provide valuable information. Central to this methodology is direct engagement with participants, ensuring an authentic representation of their experiences, especially when addressing sensitive issues around financial practices and group dynamics. By adopting this method, the assessment aspired to present a detailed snapshot of prevailing VSLA practices and understanding of the reasons behind their deviations.

Assessment Population and Sampling:

Data was sourced from 8 of the 19 TAs where *Titukulane* operates. These TAs were randomly selected and include 4 in Zomba (TA Malemia, TA Ngwelero, TA Nkagula, and TA Kuntumanji) and 4 in Mangochi (TA Bwananyambi, TA Chowe, TA Jalasi, TA Katuli). Within each TA, two GVHs were sampled. From every GVH, one VSLA was purposefully selected based on the project's knowledge of variations from the standard methodology, as reported by the CBTs. This purposeful selection aimed to explore the nature, rationale, benefits and drawbacks behind such variations. Additionally, in each TA, a Community Development Agent (CDA), Village Agent (VA), and a member of the *Titukulane* staff were interviewed.

Data Collection:

A qualitative approach was employed, conducting interviews with various stakeholders to obtain a comprehensive understanding of VSLAs. Focus Group Discussions (FGDs) involved an average of 8 VSLA members per group, aiming to collect shared experiences, identify reasons for deviations from standard practices as well as variations to the methodology, and gather feedback on *Titukulane*'s support. In addition, Key Informant Interviews (KIIs) with *Titukulane* staff were conducted to gain insights into VSLA methods, challenges faced, and future plans. Semi-structured interview guides were utilized in both FGDs and KIIs, ensuring a consistent line of questioning while allowing room to address emergent topics.

Data Analysis:

After data collection, transcriptions and necessary translations were undertaken. A thematic analysis followed, with responses coded based on prevalent themes. These codes were then grouped into broader topics aligned with the assessment's objectives, aiding in pattern identification, spotting deviations, and deriving unique insights.

Reliability and Validity:

To ensure reliability, FGDs and KIIs were performed, checking for consistency in the findings. For validity, the data collection tools were designed in alignment with the objectives of the assessment, and findings were triangulated using multiple data sources. For instance, feedback collected from VSLA members provided a grassroots perspective on the changes in VSL methodologies, their perceived benefits, and challenges. This grassroots understanding was compared with the perspectives of the Community Development Assistants (CDAs), Village Agents (VAs), and *Titukulane* staff, who offered a macro view, shedding light on overarching organizational strategies, intentions behind supporting particular methodologies, and the broader implications they observed from such shifts.

Comparing and contrasting these different viewpoints ensured that our findings were not biased by a singular perspective. It revealed areas of convergence, where VSLA feedback and *Titukulane* staff feedback aligned, affirming the reliability of our observations. Conversely, areas of divergence, where the two perspectives differed, were invaluable as they highlighted potential gaps in communication, training, or support that might need addressing in future interventions.

Ethical Considerations:

All participants in the FGDs and KIIs were informed about the purpose of the assessment, assured of the confidentiality of their responses, and sought verbal or written consent before data collection. The anonymity of participants was preserved during the data analysis phase, with any identifiable data redacted.

A research assistant explains the consent form to a participant in TA Bwananyambi, Mangochi. © Dan Soka / TitukulaneRFSA 2023

FINDINGS

The assessment delved deep into the operational dynamics of VSLAs within the Zomba and Mangochi districts. The subsequent findings illuminate both the adherence to and deviations from the traditional VSL methodologies, providing insights into the prevalent practices and their underlying motivations.

1. Background of VSLAs

Village Savings and Loan Associations (VSLAs) in Zomba and Mangochi districts have undergone a significant journey marked by adaptation and resilience.

Origins and Evolution: Initially, many VSLAs were self-formed without the guidance of any formal training. Most of these groups adopted operational practices from existing VSLAs they learned about through word of mouth. Over time, it became evident that for these groups to thrive, more structure was necessary. The shift from an informal approach began taking shape when *Titukulane* introduced the CARE VSL methodology. However, because these groups were never formally trained from the onset, many of the constitutions they formed earlier remained largely unchanged, even after being exposed to structured methodologies.

Constitutional Persistence and Adaptations: While *Titukulane*'s training introduced standardized practices and norms, VSLAs exhibited a selective adaptation. They opted to incorporate certain aspects from the training, maintaining others that were ingrained from their initial formation. For instance, while some VSLAs decided to stick with the recommended maximum membership of 25, they also chose to retain practices like lending to non-members or setting high-interest rates, sometimes up to 50%. This duality showcases the VSLAs' ability to mesh tradition with modern training, aiming for a blend that best suits their community needs and values.

Diversification and Future Vision: As VSLAs have evolved, they've showcased innovative strategies that go beyond mere savings. These adaptations, from lending to non-members to facilitating multi-group memberships, highlight their commitment to community engagement and growth.

2. Changes, Variations, and Deviations in VSLA Practices

Across Zomba and Mangochi districts, the Village Savings and Loan Associations (VSLAs) exhibit a wide range of practices, showcasing both adherence to conventional methodologies and a keen sense of innovation to meet local demands. While groups tend to deviate from standard practices, these deviations seem to be driven by genuine intentions to maximize benefits for their members.

VSLAs that received training with the support of *Titukulane* already existed and were selected for their vibrant nature, which was a key criterion for *Titukulane*'s engagement. While *Titukulane* did not establish these groups, its significant contribution in providing training, organizing the Village Agent structure, and facilitating financial linkages has been pivotal to their continued success.

Nevertheless, despite the consistent support of *Titukulane* being recognized, there are requests for more hands-on assistance, particularly in areas that reported negligible direct support. This includes calls for more regular supervision and intensive training sessions to further enhance the robustness and efficacy of VSLAs.

Shares and Savings: In the Zomba district, especially within TA Nkagula, there's a deliberate effort to uphold democratic principles by standardizing the number of shares per member, ensuring equity and equal voice among members. However, practices differ in areas like TA Ngwelero where some groups permit members to buy beyond the typical 5 shares, with some even purchasing up to 100 shares. In TA Bwananyambi, it's evident that such deviations have consequences. Members who buy shares above the limit are perceived as more favored, diminishing the morale of others who adhere to the standard limit. This imbalance not only affects group dynamics but also loan accessibility, with the more affluent members often securing more loans than their counterparts.

Loan Practices: In TA Malemia of Zomba, VSLAs have shown adaptability by offering loans even to those outside their membership circle. This move is an initiative aimed at enhancing financial inclusivity within the larger community. Such a deviation from conventional norms is indicative of the groups' proactive nature. TA Ngwelero has also showcased a unique trust-building tactic: members would borrow and repay loans in rapid succession, presumably to establish their financial credibility within the group.

As many of these groups were established without any formal training, these innovative practices have evolved organically, shaped by their internal dynamics and experiences rather than external influences from NGOs or government programs. This self-driven evolution highlights the resilience and innovation of these community based VSLAs in response to their specific circumstances and needs.

***Katapila* Lending: An Innovative Rice-for-Loan Model in Zomba's VSLAs:** In some TAs, notably the rice-growing areas in Zomba such as TA Nkagula, VSLAs are adopting an innovative variation of the lending model known as *katapila*[1]. Under this arrangement, these groups lend money to non-members. In return for the loan, the non-member is required to repay in kind, specifically in the form of rice. For instance, one VSLA illustrated that if a non-member borrows MK10,000, they are expected to return the amount as one bag of rice. Presently, due to poor harvests caused by tropical cyclone Freddy, the value of a bag of rice has surged to roughly MK50,000. In more regular conditions, this bag would be valued at around MK40,000. This in-kind repayment system has proven advantageous for the group's financial health, particularly for VSLAs that have ventured into the rice-selling business.

Use of Social Funds Across VSLA Groups: VSLAs across different TAs have demonstrated unique adaptations in their use of social funds, revealing both the flexibility of VSLA structures and the diverse financial needs and priorities of its members. In TA Ngwelero, it was observed that to safeguard their primary savings, groups have been strategically borrowing from their social fund. This approach not

[1] In the context of money lending in Malawi, "Katapila" is a colloquial term that refers to informal money lenders or loan sharks. These lenders typically offer short-term loans at exorbitant interest rates. People who are in immediate need of cash and cannot access formal banking services often resort to borrowing from katapila. However, the high interest rates make it difficult for borrowers to repay the loans, leading them into a cycle of debt. Katapila lenders usually operate outside of the regulatory framework, making their activities more risky for borrowers.

only ensures the main savings remain untouched but also offers an alternative source of funds when needed. Some members also that the interest rates applied on loans from the social fund tend to be considerably lower, making it a more appealing choice for short-term financial requirements. In both districts, an interesting shift in the allocation of penalty fees and social funds was observed. Groups have opted to direct penalty fees towards the social fund, thus increasing its size and potential utility. The accumulated social fund in these areas has been used to purchase wrappers, which serve as a uniform for members. This shared identity fostered by the uniform not only strengthens group cohesion but also creates a sense of pride and belonging among members. TA Kuntumanji presented a slightly different narrative concerning the utilization of the social fund. Here, members expressed that the fund is predominantly used for loans because genuine emergencies are infrequent. This perspective on emergencies was further supported by the CDA, who stated that when unexpected tragedies, such as the loss of a loved one, befall a VSLA member, the group's immediate response isn't to tap into the social fund. Instead, members rally together, moving around the community to each member's home to collect contributions. This practice, while showcasing the solidarity and community spirit of VSLA members, raises questions about the fundamental purpose of the social fund and whether its current use aligns with its intended objective.

Documentation and Record-Keeping: Accurate record-keeping is fundamental to the success of VSLAs. In TA Nkagula, a consolidated documentation approach was favored, where they opted for a single book for all records rather than using multiple ledgers. One primary motivation behind this was not just the simplicity it offered but also the cost-effectiveness and ease of management for members who might not be literate or familiar with complex bookkeeping. However, such an approach carries potential drawbacks, like reduced clarity and ease of reference. Beyond this, inconsistencies in updating passbooks and timely recording of meeting minutes were issues noted across various TAs.

Emergence of Digital Financing Platforms and Generational Differences: It's crucial to clarify that these groups are indeed VSLAs, consisting of diverse members across different age groups, including youth, men, and women. Feedback from younger members, particularly those under the age of 29, highlighted their preference and adeptness in using digital financing platforms like Airtel Money and TNM Mpamba. These platforms offer them a way to manage, deposit, and lend money, marking a shift from the traditional cashbox system. While this shift reflects the modernizing influence of younger members on VSLA operations, it's also an adaptation that, while not explicitly documented in the constitutions, has been agreed upon by the group members in response to contemporary trends. However, the embrace of digital platforms has not been universal. Many older members have expressed their challenges, often citing unfamiliarity with the technology and a preference for handling tangible cash. Their feedback underscores the need for VSLAs to offer tailored training and support when integrating these digital tools into their operations.

Consistency and Deviations: Observations from TA Kuntumanji in Zomba provided a layered understanding of adherence. VSLAs with a longer operational history seemed to lean closer to standard methodologies. However, this was not a universal sentiment. Some chose to stray from the established path, guided by collective decisions. Interest rate adjustments, for example, were tweaked by some VSLAs in pursuit of higher returns by the cycle's end, while others introduced funds dedicated to specific needs, like procuring household goods.

Religious and Cultural Adjustments:

The Mangochi district has showcased the significant influence of religious beliefs on VSLA operations. In areas like TAs Katuli and Bwananyambi, some groups have chosen to abstain from charging interest on loans. This decision stems from their perspective that levying interest, especially on a fellow group

Focus group discussion with VSLA in TA Bwananyambi, Mangochi. © Dan Soka / TitukulaneRFSA

member's contribution, might be seen as exploiting another's economic vulnerability, which is believed to be a moral wrongdoing within their religious framework.

In these interest-free models, the growth of the fund tends to be minimal. This is because the group primarily functions as a savings collective. When a loan equivalent to a member's contribution is disbursed, any interest charged upon repayment is essentially considered a return on their own money, rather than capitalizing on someone else's financial situation. In such a setup, the principal idea is that they are not leveraging funds that belong to other members, ensuring they are not inadvertently committing a perceived ethical transgression.

This unique operational model has posed challenges for village agents in these regions, who often advocate for the benefits of group interest as a means to grow the communal fund. Efforts to distinguish and educate groups on the advantages of interest-based mechanisms while remaining sensitive to their religious beliefs have been a delicate balancing act.

Influence of External Entities: Within TA VSLAs, interactions with external bodies, like NGOs and community-driven projects, have played a significant role in shaping their methodologies. Notably, many VSLA groups initially formed independently, relying on shared knowledge and replicating what others practiced. This absence of formal training led to inconsistencies in practices, such as variations in the number of shares members could purchase, a trend more evident in untrained groups. But with the structured guidance from entities like *Titukulane*, these VSLAs have incorporated more standardized procedures into their operations. This amalgamation of original and introduced practices becomes evident in scenarios where groups maintain the suggested membership caps yet deviate by lending to non-members. However, not all modifications are externally influenced. Some VSLA practices, especially in groups with a strong presence of long-standing members, evolve based on the collective internal dynamics and experiences of the group.

Comparative Analysis of VSLA Perspectives

To understand the VSLA landscape in Zomba and Mangochi, a detailed examination of practices and observations of VSLAs from different perspectives was conducted. The table below provides a snapshot of how different stakeholders – from the grassroots members to *Titukulane* staff – perceive and interact with VSLAs. This comparative analysis offers insights into areas of alignment and divergence, which can be helpful for identifying opportunities for enhanced training, support, and collaboration.

Table 1 Comparative Perspectives on VSLA Practices

Indicator	**Grassroots Perspective**	**CDA Perspective**	**VA Perspective**	***Titukulane* Staff Perspective**
Constitutional Persistence and Adaptations	Selective adaptation of *Titukulane*'s training; retains practices like lending to non-members or setting high-interest rates	Recognizes selective adoption and modification of practices	Appreciates balance between tradition and modern training	Supports the blend of tradition and new training, values adaptability
Shares and Savings	Standardize shares; Allows buying beyond 5 shares; In TA Bwananyambi: Imbalance affects loan accessibility	Notes variations in share practices across regions	Observes impact on group dynamics due to variations in share practices	Emphasizes equity and inclusivity; concerned about imbalances
Loan Practices	Offers loans to non-members; In TA Ngwelero: Rapid borrowing and repayment to establish trust	Recognizes deviations from norms to enhance financial inclusivity	Notes innovative trust-building tactics and loan distribution mechanisms	Highlights the adaptability and responsiveness to community needs
Katapila Lending Model	Adopts katapila lending, offering rice-for-loan model	Sees it as an adaptive response to economic challenges	Admires the innovation and potential benefits for VSLA financial health	Recognizes the benefits and supports the initiative
Use of Social Funds	Varies use of social funds; some borrow from it, others direct penalty fees towards it	Notes strategic use of funds; emphasizes the importance of social fund's intended purpose	Observes diverse utility and fund allocation patterns across regions	Concerned about alignment with fund's primary objectives
Documentation and Record-Keeping	Consolidated documentation; other regions: inconsistencies noted	Recognizes need for clarity and accuracy; highlights potential drawbacks	Observes varying practices and their implications for VSLA operations	Stresses importance of consistency and accuracy; recommends further training
Digital Financing Platforms	Younger members prefer digital platforms; older members favor traditional cashbox system	Recognizes generational differences in embracing digital finance	Notes challenges and benefits of digital adoption	Emphasizes need for tailored training and support
Religious and Cultural Adjustments	In TAs Katuli and Bwananyambi: Some VSLAs abstain from charging interest due to religious beliefs	Understands and respects the religious influence on VSLA operations	Notes challenges in promoting interest-based mechanisms while respecting beliefs	Balances advocacy for group interest with sensitivity to religious beliefs

The table illustrates the multifaceted nature of VSLA operations, showcasing how VSLA members have a different assessment of training effectiveness compared to *Titukulane* staff. The diverse stances on adherence to VSLA methodology and the nature of deviations give a clear picture of the adaptability and resilience of these groups.

3. Impact of VSLA Variations: Advantages and Disadvantages

In TA Nkagula, VSLAs have a fixed number of shares that each member can buy within a session, as recommended in the standard VSL methodology member. This approach aims to promote equality among members. By giving everyone an equal stake in the group, this approach aims to reduce financial differences within the group. However, in some areas where members are allowed to buy beyond the recommended share limit, issues have arisen. In such groups, members who can't buy as many shares often feel sidelined by the end of the cycle. This can lead to feelings of isolation and can go against the principle of group cohesion.

On the other hand, for groups in TA Kuntumanji that have seen growth in their funds and individual businesses, a fixed share value and limit can feel restrictive. For these members, the ability to buy more shares as they see fit is beneficial. They view the VSLA as a place to safely deposit their earnings, and this helps them save and avoid unnecessary expenses. Buying shares without a set limit also provides a financial safety net against shocks.

Both methods have their merits. While fixed share purchases prioritize group unity and fairness, allowing more flexible share purchases can cater to members who have the means and desire to invest more in the group.

Another significant advantage observed across regions is the increased flexibility in loan repayments, which helps members manage their finances better. In TA Kuntumanji, Zomba, the accumulation of higher interest has had tangible benefits. Members have invested in assets such as livestock and bicycles and have prioritized education for their children. In the Mangochi TAs, the customizations in VSLA practices have fostered greater social cohesion and trust. Specifically, in TA Katuli, this has led to greater financial autonomy, and in TA Bwananyambi, the group-led decision-making has further enhanced trust.

However, the variations also present challenges. In TA Ngwelero, Zomba, offering loans to non-members, while inclusive, poses risks of default, potentially jeopardizing the group's financial stability. In TA Nkagula, it has been observed that high interest rates, reaching up to 50%, might bring short-term benefits but can become a liability for members over an extended period. This is particularly evident in groups that consist of a mix of households from varying economic backgrounds. The economic differences among members become apparent, leading some to feel demotivated and alienated, especially when, at the end of the saving cycle or 'share out', they find themselves receiving significantly less than their peers. However, in VSLA groups where members are predominantly from ‘well-off’ or 'stepping out' households and are engaged in a group business as a VSLA, these high interest rates of up to 50% do not pose challenges. Such members have the capacity to take continuous loans throughout the cycle, resulting in a more equitable distribution of dividends at the cycle's conclusion.

Larger groups have an undeniable edge in terms of the financial pool they create. This more substantial collective fund allows members to access and loan heftier amounts, catering to those with ambitious business ventures or those in immediate financial needs. Additionally, the sheer diversity in a bigger group translates into a broader range of experiences and skills, with members of the group expanding the funds to cater for different needs, such as a kitchenware fund.

With a larger group size, the diversity of opinions can lead to disagreements, underscoring the need for efficient conflict resolution. As these groups grow and financial activities expand, concerns about financial mismanagement emerge, particularly when diverging from standard VSLA practices. Enhanced transparency and accountability become critical. This trend has been noted across various TAs. Notably, in places like TA Bwananyambi, Mangochi, there's a tendency for the VSLA model to favor wealthier members, risking dissatisfaction among the broader membership.

4. Feedback on *Titukulane*'s Support: Insights and Recommendations

Training and Capacity Building: In the Zomba district, specifically TA Ngwelero, *Titukulane*'s initiative to provide training on VSLA methodology, financial literacy, and business management was met with positive feedback. The training sessions not only deepened the members' understanding of the VSLA methodology but also fostered enhanced financial literacy. As a result, group members reported feeling more confident about decision-making, particularly concerning share management, loan procurement, and business activities.

In TA Chowe, Mangochi, the positive influence of *Titukulane*'s interventions is acknowledged. The formalization and provision of structured guidelines have empowered VSLA groups to operate with greater efficiency. Meanwhile, in TA Jalasi, there is a vocal demand for intensified training and sturdier support materials. Similarly, VSLAs from TA Katuli expressed satisfaction with the training provided by *Titukulane*. However, the call for further training, especially for Village Agents, resonates strongly.

Feedback from *Titukulane* staff identified specific areas of deviation and training needs. In Islamic-dominated communities, trainers highlighted challenges with the concept of interest, given religious prohibitions. Training emphasized understanding interest rates for the group's collective benefit. Moreover, the importance of correctly managing distinct VSLA funds was underscored to avoid risks, like using the social fund for loans and compromising the group's emergency response capabilities.

Resource Provision and Methodology Implementation: The groups were appreciative of the improved manuals and guidance that *Titukulane* offered on financial literacy and budgeting. Such resources bolstered the Village Agents' (VAs) ability to efficiently relay the VSLA methodology to members. Furthermore, insights into establishing business stocks equipped some groups with a clearer vision of how VSLAs should function.

Efficiency and Effectiveness: While the inclusion of group members in the training processes resulted in improvements in documentation and meeting conduct, feedback suggests that the support's impact was inconsistent. Some groups, unfortunately, reported experiencing little to no direct support. However it is noted that while some groups may not have interacted directly with *Titukulane* staff, *Titukulane* has trained VAs, who work with these groups, and thereby providing indirect support that fosters sustainability.

Areas for Improvement: Feedback from the Zomba district pointed to several areas for *Titukulane* to strengthen their support. These include the provision of more refresher training on subjects such as loan management, business diversity, business chain and value addition, and the management of multiple businesses.

Key learning

The data has revealed the following:

Adaptability of VSLAs: VSLAs often adapt their practices based on local demands and conditions. While deviations from the norm are common, they are generally driven by the intention to maximize benefits for members. Considering the current cost of living and the observed decrease in the purchasing power of the Malawi Kwacha, some VSLAs have adopted higher interest rates. This approach ensures they receive more money at the end of the cycle, offering a cushion against any inflation that might have occurred during the cycle.

Katapila Lending as an Alternative Model: In certain areas like Zomba's TA Nkagula, the 'katapila' model, where loans are repaid in rice, offers a potentially advantageous system, especially for VSLAs engaged in the rice-selling business.

Interest Rate Adjustments: Varying interest rates within VSLAs correspond with the economic diversity of their membership. High-interest rates often benefit groups where members have prosperous businesses. However, in economically diverse groups, such rates might introduce financial challenges for some members. *Titukulane* has equipped Village Agents (VAs) with training to assist groups, advising them towards adopting lower interest rates that are more inclusive for members and reduce the risks of defaulting loans. However, high interest rates can be beneficial for "stepping up" and "stepping out" households, who consistently borrow and repay such loans.

Digital Financing Platforms for Younger Members: VSLAs with a younger membership are witnessing a shift towards the use of digital financing platforms such as Airtel Money and TNM Mpamba. This transition from traditional cashboxes to digital mediums offers a vibrant and modern approach to managing finances. However, it also poses challenges for the older generation, who may be less technologically inclined and might find it difficult to adapt to these digital systems.

5. Recommendations

Several insights emerged from the discussions, informed by an understanding of the local nuances and the broader objectives of promoting financial inclusivity and empowerment.

Monitoring and Oversight: It's essential to enhance the monitoring systems for VSLAs to recognize and encourage positive innovations and deviations that align with the goals and values of the VSLA model. While embracing these beneficial deviations, it's also crucial to ensure that the foundational methodologies of VSLAs are maintained. A balanced approach between uniformity and adaptability will drive both quality and innovation across all VSLAs.

Supplementary Training Modules and Enhanced Support: Recognizing the foundational strength of the VSLA methodology, it may be beneficial to augment the current training with supplementary sessions that address observed adaptations and innovations from various VSLAs. This approach would respect the integrity of the core curriculum while allowing for more localized or specific training modules. These supplementary modules could offer insights into areas such as business diversification, loan management, and other community-based interventions. By addressing these areas in additional training sessions, *Titukulane* can enhance the support offered to VSLAs without altering the established methodology.

Empowering Documentation and Tools: Proper documentation remains crucial to the successful operation of VSLAs. The evolution of VSLA operations has seen some traditional practices, such as the use of cash boxes, become less relevant due to safety concerns and the larger sums of money handled by groups. Embracing digital innovations can provide a secure and efficient solution to these challenges. While ensuring that VSLAs have the tools and skills for maintaining accurate records, it's also essential to acknowledge the changing landscape. Digital tools and platforms might offer a safer and more efficient way of managing finances, replacing or complementing traditional resources like passbooks and ledgers. Addressing challenges in record-keeping and ensuring precise transactions is critical, whether using traditional or digital tools. Providing consistent access to these resources, tailored to the needs and context of each VSLA, will further bolster their effectiveness and security.

Expansion and Oversight of the 'Katapila' Lending Model:

While the 'katapila' lending system, where loans are repaid in rice, has shown promise in rice-growing areas, especially in Zomba, it is worth exploring the expansion of this model to encompass other value chains, such as groundnuts, beans, as well as commodities such as goats and other small ruminants. A standardized framework for assessing the value of the 'in-kind' return of loans would ensure fairness and prevent potential exploitation. The framework would involve clearly defined guidelines and criteria for valuing 'in-kind' returns, accompanied by periodic reviews and adjustments based on market trends. This framework should also incorporate feedback mechanisms from VSLA members to continuously refine and improve the assessment process. This approach not only diversifies the commodities involved but also offers greater flexibility and opportunities for both lenders and borrowers.

For the Digital Financing Platforms:

a. **Training and Orientation Sessions**: Organize training and orientation sessions tailored for older members to familiarize them with digital platforms. This helps bridge the technological knowledge gap.

b. **Hybrid Systems**: Consider maintaining a hybrid system, where both digital and traditional cashbox methods are operational. Members can choose the method they're most comfortable with, ensuring everyone's participation.

c. **User-Friendly Platforms**: Collaborate with digital platform providers to ensure that the user interface is intuitive and user-friendly, minimizing complexities for users unfamiliar with digital systems.

Broader Business Associations and Linkages: Helping VSLAs establish strong business connections is essential. By exposing them to a variety of business opportunities and guiding them on how to benefit from loans from different sources, *Titukulane* can further enhance their business knowledge and skills.

Community Engagement and Feedback Loop: Initiating community discussions can provide insights into the specific needs and challenges faced by VSLAs, allowing for more tailored support. Working closely with local authorities, especially concerning loans, will ensure more transparency and responsibility in operations. Establishing a strong feedback system will enable *Titukulane* to adjust its support based on the changing needs of VSLAs.

Refine Training Programs: There's a clear demand for more specialized training. Both VSLAs and *Titukulane* staff have highlighted areas such as business management, value addition, and specific VSLA operational guidelines as potential topics.

CONCLUSION

The assessment has provided a comprehensive overview of the operations of VSLAs supported by *Titukulane* in the Zomba and Mangochi districts. One of the core findings is the observed deviations from the standard VSLA methodology. The reasons behind these deviations are varied, and the changes introduced have shown mixed results. Some alterations to the traditional methodology have proven beneficial, resonating with current economic conditions and positively impacting VSLA members. On the other hand, certain changes have not been as fruitful, potentially compromising the security and benefits for members.

Given these insights, there is a clear need to strike a balance. Future interventions should aim to align the VSLA methodology with the current economic environment while ensuring the safety and well-being of its members. This approach would enable *Titukulane* to continue its support for capacity-building effectively while safeguarding the foundational principles of VSLAs.

In light of the assessment's objectives, the evident value of deviations as innovative solutions emerges. However, caution remains paramount. The research provides a foundation for informed, actionable recommendations that will guide *Titukulane*'s future endeavors in supporting VSLA groups.

Reference

CARE International. (2006). *Village Savings and Loan Associations (VS&LAs) in Africa: Programme Guide 2* (Version 1.5). [Training manual].

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