Mobilising internal finance

How forest and farm producer organisations upscale financial access

Isabela Núñez del Prado Nieto

With case study inputs from Clifford Amoah Adagenera, Felipe Jhonatan Alessio, Fostina Ngulube, Hugo Carrera Rueda, José Carlos Vandresen, Luiza Maria da Silva Rodrigues, Pallavi Rathod, Rubén Darío Usnayo Ramos, Vishal Pathak, Boris Fernández Arancibia, Elvis Kuudaar, Vincent Ziba and Virginia Vallejo Rojas

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Forest and Farm Facility

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Acronyms

AFID	Alternative Finance for Development
ASCA	Accumulating savings and credit association
BNDES	Brazilian Development Bank
CAZ	Cotton Association of Zambia
CONAFIPS	National Popular and Solidarity Finance Corporation
FECOAC	Federation of Savings and Credit Cooperatives of Ecuador
FFF	Forest and Farm Facility
FFPO	Forest and farm producer organisation
FINDEPRO	National Organisation of Community Financial Institutions of Producers
IDB	Inter-American Development Bank
KANBAOCU	Kassena Nankana Baobab Cooperative Union
MFI	Microfinance institution
NGO	Non-governmental organisation
ODA	Official development assistance
Pronaf	Brazil's National Programme to Strengthen Family Farming
Pro-Rural	Bolivian Association for Rural Development
ROSCA	Rotating savings and credit association
RUDI	Rural Urban Distribution Initiative
SACCO	Savings and credit cooperative organisation
SEWA	Self Employed Women's Association of India
SHG	Self-help group
UNORCAC	Union of Peasant and Indigenous Organisations of Cotacachi
VSLA	Village savings and loans association
WOCCU	World Council of Credit Unions
Zanaco	Zambia National Commercial Bank

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Summary

There is very limited access to finance for rural communities comprising smallholders, family farmers and Indigenous Peoples. This applies especially to largescale long-term agricultural finance, which is of particular importance for sustainable development. This research report explores how forest and farm producer organisations (FFPOs) can mobilise internal finance to offer their members financial services, helping them to build financial track records that can attract external finance on the right terms, as a way of tackling this existing gap.

The objective of the report is to shed light on the potential of FFPOs' capacity to mobilise internal finance to scale, to offer practical insights from a series of case studies covering six countries, and to provide a set of recommendations. The report is intended primarily for leaders and representatives of FFPOs, as well as their technical support partners. An additional audience includes international resource partners in climate and development finance, plus policymakers in the finance, forest, agriculture and other land-use sectors.

Smallholders, family farmers, Indigenous Peoples and local communities are crucial for the sustainable management of forests, which play an important role in climate change mitigation, preventing biodiversity loss and providing livelihoods and food security. These groups often organise themselves in producer organisations to reduce costs, share knowledge, increase the scale of production, improve their bargaining position in markets, and advocate for more enabling policies.

Through their strength in numbers, FFPOs have the potential to be key change agents. Their productive activities are critical to delivering effective action on climate, nature, livelihoods and food security. Evidence shows that as well as delivering economic development and food security, FFPOs are also a powerful force for forest landscape restoration that adapts to and mitigates climate change impacts and conserves biodiversity. FFPOs' businesses are usually collectively owned by their members and democratically managed. Profitability is often seen as a necessary element of a broader vision of sustainability that blends concerns over social inclusion, environmental resilience and economic distribution: characteristics that make these businesses especially capable of delivering these benefits to society.

But for FFPOs' businesses to grow, they often require finance. However, access to external sources is limited. In remote rural areas, public finance is limited and development assistance rarely reaches the local level. Conventional banks perceive FFPO businesses to be high-risk; they also require collateral, which is a limitation for most smallholders.

FFPOs often turn to local moneylenders instead, but these may charge such high rates of interest that FFPOs risk becoming overindebted and defaulting on repayments.

Although all finance sources have advantages and disadvantages, internal finance is a promising and rarely discussed source of finance. All FFPOs have internal financial resources that can come from profits generated by selling products or services, or from members' shares, savings and membership fees. These internal financial sources provide benefits that other external sources cannot, as they are under the FFPOs' own control, do not incur high interest rates, and can help FFPOs to become financially literate, accountable and self-reliant.

There are different ways in which groups mobilise their finances and they do so at different scales. Groups can establish internal financial mechanisms with a range of sophistication: from informal small savings groups using cashboxes to large, fully digitised financial cooperatives. Importantly, some of these groups started as informal savings groups, but over time have grown into established financial cooperatives, showing a successful pathway for mobilising internal finance.

Savings groups are a very common and widespread informal mechanism that serve tens of millions of forest and farm producers. Savings groups are a heterogeneous category that includes many types of schemes. But they all share some main features. They are voluntary groups, based on trust, in which members save together, both to fund loans and to generate interest for those who have pooled their money. Evidence shows that savings groups have very positive impacts on their members' businesses, can advance women's empowerment, and provide enhanced resilience for their members because they allow diversified investments into many income-generating opportunities. Savings groups can have considerable durability over time, but their growth is constrained by the duration and nature of the saving and loan cycle, which is often annual in nature and with an annual redistribution.

Financial cooperatives are also widespread and include credit unions and savings and credit cooperative organisations (SACCOs). They are another mechanism that many FFPOs have established to provide financial services to their members. They are member-owned and democratically managed financial institutions, where members typically share a commonality based on a geographic area, trade community or other affiliation. As opposed to savings groups that are mechanisms limited by annual contribution and redistribution, financial cooperatives are businesses. They can grow, expand their capital and become more profitable over time by offering services that generate income. The main purpose of these business, however, is to benefit its members rather than to maximise profit, due to their cooperative principles and the nature of their ownership structure.

Well-managed financial cooperatives bring many benefits to their members and to the wider economy. As community-rooted organisations, financial cooperatives are able to provide tailor-made products that serve the needs of their members better than any other financial entity. They foster social capital and local economic development, promote financial inclusion, increase entrepreneurship and build solidarity.

Financial federations are a further level of advancement. Financial cooperatives nearly always form federations, organising themselves in a two- or three-tier system, with a federation at national or regional level and primary organisations serving members at the local level. Together they can provide an alternative system for financing smallholders in the rural sector through a more democratic, solidarity-based and welfare-oriented model.

As a contribution to understanding how FFPOs can mobilise internal finance, this report assesses the academic literature on mobilising internal finance and presents six case studies from Bolivia, Brazil, Ecuador, Ghana, India and Zambia, where FFPOs have successfully established internal financial mechanisms. These range in sophistication and scale from US$2,320 in assets for a savings group in Zambia to almost US$5 billion for the Cresol Credit Union in Brazil. The analysis of these case studies, and how those financial mechanisms were developed, allows the reader to map out a set of 3 stages and 11 steps that others can follow when mobilising internal finance:

- **Set the conditions to start mobilising internal finance:**
  - Strengthen internal governance and build trust between the FFPO and its members
  - Organise collective savings mechanisms, such as savings groups, and cultivate savings habits among members
  - Institutionalise the mechanism in line with a suitable institutional model according to the objectives and regulatory framework of the country
- **Mobilise internal finance through the provision of financial services:**
  - Use strategically the FFPO's knowledge to tailor services to its members' circumstances to ensure uptake and lower risks of loan defaults
  - Build alliances with trusted partners that align with the FFPO's strategy for capacity building, enabling investment and knowledge generation
  - Provide non-financial services to members, such as social funds, financial literacy training and technical support to strengthen solidarity and reduce risk of loans defaults
  - Professionalise staff and digitise processes to accelerate efficiency and enhance transparency

- **Grow financial service provision:**
  - Manage the provision of financial services as an additional business
  - Mobilise savings groups to establish financial cooperatives or to link to existing ones
  - Diversify funding sources for capital stability and blend finance to channel external funds to the local level
  - Federate or join federations of financial cooperatives to amplify impact and advocate for more enabling policies

The case studies show how FFPOs that have successfully established financial cooperatives generate additional profits that provide another source of income to the organisation while also improving members' financial literacy and building a financial track record for them, which unlocks access to external financial services. Through tailored financial products, they help their members improve and diversify their businesses to enhance resilience, build social cohesion and empower women and youth. They also show they can efficiently diversify and blend external financial sources to increase financial access for their members, directing funds to productive activities that are socially inclusive, good for nature and climate, and contribute towards food security.

Estimates suggest that almost a quarter of all finance delivered to smallholders is channelled through informal and community-based financial mechanisms, such as savings groups and local financial cooperatives. This shows the potential they have to facilitate access to finance but, more importantly, to do it under terms that work well for smallholders and forest producers while benefitting nature and climate. Recognising and supporting FFPOs and their financial cooperatives can harness this vast potential. The report concludes with some recommendations for how this can be achieved.

For official development assistance (ODA), donors and practitioners:

- Recognise and build the capacities of FFPOs to mobilise finance through the provision of technical assistance to strengthen the financial management capabilities of FFPOs.
- Support FFPOs in facilitating the formation of savings groups and their eventual transformation or linkage to financial cooperatives.
- Complement FFPOs' internal funds with enabling investment to establish their own financial cooperatives through different blended finance modalities, such as shared-risk and guarantees.
- Partner with FFPOs to assist in the expansion of their financial cooperatives by providing technical support, investments for staff development, and digitising operational processes.

- Channel funds for nature and climate action through existing strong FFPOs' financial cooperatives.

For policymakers:

- Create an enabling regulatory framework for financial cooperatives in dialogue with cooperative federations.
- Promote collaboration between national development banks and financial cooperatives to improve their liquidity and expand their reach and impact.

Andean Chakra, an ancestral agricultural system of the Kichwa Indigenous Peoples in Ecuador © Pareto Paysages

1

Why access to finance matters for FFPOs

1.1 The global importance of FFPOs

Amid the current interrelated global challenges of climate change, loss of biodiversity, economic inequality and food insecurity, all types of forests have the potential to make important contributions.

Halting deforestation in natural forests is potentially one of the most cost-effective actions for mitigating climate change and preventing the loss of biodiversity (FAO 2022). Forest ecosystems can contribute to regulating hydrologic cycles and soil fertility, which, in turn, decrease the risk of agricultural losses caused by droughts, soil erosion, landslides and floods. Maintaining agroforestry systems and securing the multiple benefits that forests and trees provide to farming systems will be key for meeting future needs for food. Additionally, the wood-based industry contributes more than US$1.5 trillion to national economies globally and accounts for 1% of global employment (FAO 2022; Li *et al.* 2015).

Forests can make all these contributions as long as they are well managed. Smallholders and family farmers, Indigenous Peoples and local communities are crucial in this aspect, as they own or manage at least 48% of forests and farmlands worldwide (WWF *et al.* 2021). Despite this considerable percentage, it is likely that this estimate is conservative, as variations exist due to the diverse methodologies employed (FAO 2022).

Indigenous Peoples manage about 40% of all terrestrial protected areas and ecologically intact ecosystems worldwide (Garnett *et al.* 2018). Deforestation rates tend to be lower on Indigenous Peoples' lands than in surrounding forests, including in protected areas: 91% of Indigenous Peoples' and local communities' lands have no, low or moderate human modification or are in good or moderate ecological condition (WWF *et al.* 2021).

Smallholder and family farmers comprise 90% of the total farms worldwide, and account for an estimated 80% of world food production. For smallholder farmers alone, these figures are 84% of total world farms and 35% of world food production (Lowder *et al.* 2021). This makes them crucial for tackling food insecurity.

Although usually undervalued, smallholders make a very important contribution to rural economies and collectively may constitute the world's largest private sector, generating a gross annual production value of up to 1.29 trillion (Verdone 2018). The same source argues that accounting for additional economic multiplier effects and non-market values associated with smallholder production could increase this figure tenfold or more, reaching an approximate 12% of global economic output. Furthermore, small and medium community forest enterprises generate more than half of forest-related employment in many countries (Mayers 2006; PROFOR 2018).

Smallholders and family farmers, local communities and Indigenous Peoples often organise themselves in groups and organisations, and when they do so, they improve agricultural productivity while delivering positive environmental outcomes, and generally contribute to the public good (Macqueen *et al.* 2020; Pretty *et al.* 2020). The Forest and Farm Facility (FFF) uses the term 'forest and farm producer organisation' (FFPO) as a shorthand to refer to these many and varied groups and organisations (Macqueen 2022).[1] Although not all self-identify as producers (some may think of themselves more as communities, territories or some other grouping), all of these groups produce goods of some sort (Macqueen 2022; Pasiecznik and Savenije 2015).

1 The Forest and Farm Facility (FFF) is a partnership between the Food and Agriculture Organization of the United Nations (FAO), the International Union for Conservation of Nature (IUCN), the International Institute for Environment and Development (IIED) and AgriCord. FFF commissioned this report to assess the way in which mobilising internal finance could tackle the lack of access to finance for FFPOs.

FFPOs are formal or informal membership-based organisations that have strong relationships with forested landscapes and grow, manage, harvest and process a wide range of natural-resource-based goods and services for subsistence use and sale in local, national and international markets (Boscolo *et al.* 2014; Macqueen 2022). FFPOs vary widely in size and institutional form and may focus on forests or combinations of forest- and farm-related activities (Pasiecznik and Savenije 2015). They can be associations, cooperatives, community enterprises, unions, federations and other diverse groups.

Having established the importance of FFPOs for forest management, food production and the economy, the next section explains the characteristics of FFPOs' businesses and why finance is so important to support them.

1.2 How finance supports FFPOs as change agents

FFPOs have the potential to be change agents through their productive activities, delivering a variety of global environmental and socioeconomic benefits (Bowler *et al.* 2010). Evidence shows that as well as delivering local economic development (Macqueen *et al.* 2015; MacQueen 2008; Molnar and Angu 2007), FFPOs' businesses can also deliver improved socioenvironmental conditions, such as organising collective efforts to reduce deforestation or by promoting forest landscape restoration (Alejo *et al.* 2021; Djenontin *et al.* 2022; Mayers 2019; Porter-Bolland *et al.* 2012; Walker *et al.* 2020).

Certain ownership and governance characteristics make FFPOs' businesses especially capable of delivering these broader benefits to society. These businesses are usually collectively owned by their members and often have a broad sustainable livelihood vision within which profit maximisation is contributory (Macqueen *et al.* 2015). Collective ownership usually involves a process of asserting collective local control through some form of democratic governance. Inclusive governance arrangements ensure that the integrated needs of families, communities and Indigenous Peoples remain central to the business operation. Critically, these governance arrangements involve ongoing processes of negotiation between multiple individuals and interests – and the gradual evolution of systems of social accountability to avoid elite capture by the few at the expense of the many (Elson 2012).

Where profitability is only contributory to a broad sustainable livelihood vision, and where social accountability is high, financial viability can be challenging for these businesses. Nevertheless, numerous studies affirm that such businesses can be profitable and viable (Humphries *et al.* 2012; Macqueen *et al.* 2015). Where the internal governance of FFPOs is strong, their businesses can also deliver much broader visions of landscape-level prosperity through various innovative practices (Macqueen *et al.* 2020). These practices include environmental and cultural stewardship at the landscape level, equitable benefit sharing, enhancing networks for access and local representation in decision-making, addressing landscape-level risks, injustice and conflict, and many other values that contribute to a broader idea of prosperity. However, there are also many challenges that hinder the potential of these businesses, including a lack of access to finance.

All forest and farm businesses have financing needs, such as long-term capital for assets such as land, and equipment, operational and fixed costs, and working capital, particularly to invest in expansion and growth (Canby and Raditz 2005). In fact, working capital is one of the main financing needs for smallholder farmers (IFAD 2023). Therefore, access to appropriate financial products helps these groups start, retain and improve their businesses (Lee and Widyaningrum 2019). For example, there is evidence that access to credit increases the productivity of small farmers, enabling them to improve their crops and food production, while increasing their income (Houensou *et al.* 2021).

New finance solutions and investment modalities that improve access to finance for these groups and reduce inequalities must be both replicated and scaled up if the potential of FFPOs is to be realised. There are many examples of innovative approaches for financing smallholders, Indigenous Peoples and local communities that offer plenty of evidence of how access to financial services is supporting smallholders to make changes for the benefit of all (FAO 2022).

To sum up, where FFPOs are well organised and have access to finance, the evidence shows the potential they have as change agents leading the transition to a more sustainable and fair future. However, finance is often limited for FFPOs, and the next section will describe this in more detail.

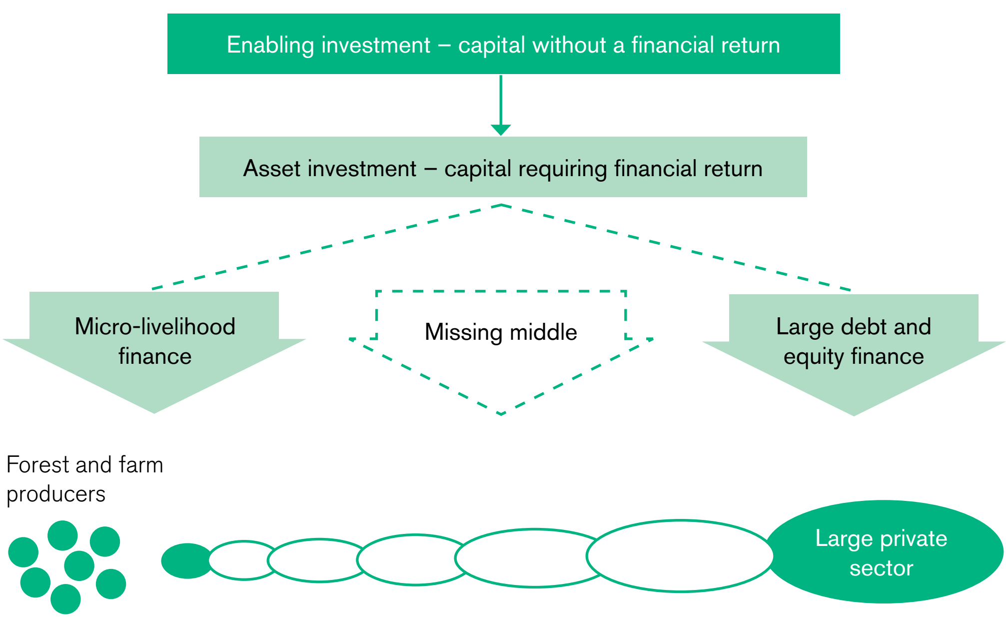
1.3 Why limited access to finance is an issue for FFPOs

Despite the key role of FFPOs amid pressing global challenges and all the potential benefits from their businesses, access to finance is very limited for them. It is estimated that over 70% of demand for smallholder finance goes unmet — the equivalent of US$170 billion per year (ISF Advisors 2019). Although quantifying this gap is challenging and there ought to be a large variance across countries and geographies, there is a general consensus in the field about the existence of a significant gap. This gap cuts across all geographic regions and financing types but is particularly concentrated on long-term finance. For example, many FFPOs' businesses are focused on a variety of forest and agricultural value chains, some of which involve tree growing. For tree crops, the cycle of production is longer term than for annual agricultural crops, and the lack of suitable finance is especially constraining for these FFPOs.

It is important to recognise that the lack of access to finance 'while a real problem in its own right, is also often a symptom of other difficulties' (Arnold *et al.* 1987). These difficulties include but are not limited to insecure tenure, inadequate technical capacity, lack of business and market know-how, and limited cost efficiencies and bargaining power. Because of these difficulties, it is often necessary to put in place enabling investments to establish the conditions that will enable FFPOs to access finance (Macqueen *et al.* 2012). Enabling investments refer to grants or concessional loans that are used to secure rights, strengthen organisations, enhance business and technical proficiency, and develop a track record of secure financial management that gives confidence to asset investors (those expecting a return on their investment).

The limited access to finance for smallholders includes this lack of enabling investment. But even where there are enabling investments there is a financial gap (see Figure 1). This gap or 'missing middle' is between microfinance for households and large debt or equity investment for industrial-scale forest businesses (Macqueen *et al.* 2018). Between those two extremes, there are many FFPOs' businesses: too big for the predictable annual cycles of microcredit (where high interest rates cover high transaction costs), but too small and with too little track record to be taken seriously for large low-interest debt by conventional banks, requiring a difficult 'step change' from informal micro-to-small-scale enterprises to formal small-to-medium-scale businesses (Elson 2012).

Figure 1. The 'missing middle' in access to finance for FFPOs



Source: Adapted from MacQueen *et al.* (2018)

There are various sources of finance that can play a role in improving access to finance for FFPOs. Table 1 provides a summarised list of the advantages and disadvantages of each. For example, enabling investments from government, official development assistance (ODA) and climate finance provide a basis for FFPOs to build on. However, the availability of these sources is limited: smallholders received less than 1.7% of climate finance in 2019, and the situation has not improved since (Chiriac and Naran 2020). Conventional finance entities perceive FFPOs' businesses to be high risk and have high transaction costs and low return (Macqueen *et al.* 2018). FFPOs' businesses are often member-owned, democratically managed and work on a variety of forest and agricultural value chains. Large numbers of members and multiple value chains with associated income streams make risk analysis very complex for banks.

Table 1. Advantages and disadvantages of sources and types of finance for FFPOs

Sources and types of finance	Advantages	Disadvantages
Government, ODA and climate finance (grants, enabling investment)	▪ No repayment of interest ▪ Potential to build on	▪ Restricted availability ▪ Restricted to funder interests ▪ Short term
Conventional formal banking (loans, credit, equity investment, bonds)	▪ Significant amounts of funds ▪ High replicability and flexibility after repayment	▪ Heavy requirements for collateral ▪ High initial costs ▪ High interest rates
MFIs and moneylenders (loans, group lending)	▪ Easier access than banks ▪ Some MFIs may provide financial literacy and other services	▪ Very high interest rates ▪ Where informal, it does not build a track record ▪ Limited amounts
Buyers, trade and value chain finance (trade credit/ equity, leasing, factoring, purchase orders, warehouse receipt)	▪ Medium preparatory costs ▪ High replicability and flexibility after repayment	▪ Limited providers ▪ May create dependency
Internal finance (profits, savings, retained profits, membership and service fees)	▪ Financial self-reliance ▪ No repayment or interest ▪ Lower cost ▪ Builds financial literacy and management	▪ Limited amounts of funds, particularly at the beginning ▪ It can be a long-term process

Source: Adapted from MacQueen et al. (2018)

To minimise the risk, lenders ask for collateral, usually in the form of physical assets such as land. This is a barrier for most smallholders who reasonably are unwilling to use their land as collateral (IFAD 2023; Nhanthumbo *et al.* 2016). Due to these difficulties, smallholders often turn to moneylenders or microfinance institutions (MFIs), which generally have fewer requirements but higher interest rates and shorter repayment terms. Buyers and trade finance provide many opportunities for FFPOs' businesses as they are value chain partners and stand to benefit directly from them, but currently, there is restricted availability of providers and, in some cases, it may create an overdependence and indebtedness in hostage relationships (Macqueen *et al.* 2018).

All finance sources have advantages and disadvantages, but amid the difficulties these groups have, internal finance emerges as a promising and rarely discussed source of finance. All FFPOs have internal financial resources that come from their sales profits, members' savings schemes, and fees. These provide benefits that other external sources cannot, as they can make FFPOs financially self-reliant.

There are many FFPOs that have successfully mobilised their own funds and established financial mechanisms. These mechanisms often increase financial literacy among members, build a financial track record for the organisation, and can eventually be a good vehicle to channel external funds to their members from, for example, climate and ODA financiers.

The next section goes into more detail about what can be achieved through the mobilisation of this finance source through a review of the literature on savings and loan groups, financial cooperatives and the role of FFPOs in this process.

SEWA members in a savings group meeting © SEWA

2

Mobilising internal finance

2.1 The importance of internal finance

There is not much or perhaps not enough said about internal finance. Where FFPOs can use savings over external debt to meet their financial needs, they will retain total control. They also avoid paying high interest rates. FFPOs generate income and can manage their collective internal financial resources to support and expand their operations. They can establish mechanisms that aggregate their profits, member shares and savings, and membership and service fees. This can mobilise an internal pool of finances.

When external sources of credit are not accessible, insufficient or unpopular due to rigid collateral requirements, smallholders can struggle to acquire enough capital to finance or improve their businesses. Some FFPOs have demonstrated that it is possible to tackle this challenge by mobilising their own finances.

There are different ways in which groups have mobilised their internal finances, and also different scales at which this happens. Groups can establish internal financial mechanisms across a range of sophistication levels: at one end lie informal small savings groups; in the middle, more established financial cooperatives, such as credit unions and savings and credit cooperative organisations (SACCOs); and at the other end, federations of financial cooperatives. Importantly, there is often a trajectory or journey from simpler to more sophisticated options. Some of these groups have started as informal savings groups and over time have grown to establish a more advanced internal financial mechanism such as a SACCO or even a federation of SACCOs, showing a successful pathway for mobilising internal finance.

The following sections provide an overview of savings groups, financial cooperatives and federations of financial cooperatives as mechanisms to mobilise internal finance.

2.2 Savings groups

Savings groups are a very common and widespread informal mechanism for forest and farm producers in the global South. These are a form of community-managed microfinance that have existed probably since money became a medium of exchange and are found around the world with a variety of structures and procedures (Rippey and Fowler 2011). These are voluntary groups that are based on trust, whose members aim to mobilise their finances by saving together to fund loans and generate interest.

Some of these groups existed even before the introduction of money, when the means of payment consisted of other objects, such as rice or cowries. Groups such as rotating savings and credit associations (ROSCAs) and accumulating savings and credit associations (ASCAs) are found around the world (Bouman 1995). ROSCAs typically are autonomously formed groups composed of several members that meet periodically to pool savings and distribute the pot to one member on a rotating basis until every member has received it (Meyer 2015). This enables each member to access a larger amount of funds than they could on their own. ROSCAs have varying conditions and different levels of complexity (Rogers 2006). ASCAs are similar except that the funds do not rotate but are accumulated and stored until a specific date and during accumulation, loans may or may not be given (Bouman 1995).

Recognising the importance of these financial groups and the contribution they make to the household and community finance, many development organisations have collected research on practices and approaches from around the world to build standard models and train groups on how to adopt them (Rippey and Fowler 2011). These models vary and come with a bewildering number of different names given by the development organisation facilitating its adoption, such as savings and credit associations, community-based credit groups, savings and internal lending committees, and the widely known village savings and loans associations (VSLAs) (Meyer 2015).

VSLAs take many of the elements of ROSCAs and ASCAs but add more flexibility in savings and loans, standardise the governance structure, and reinforce accountability elements (Ksoll *et al.* 2016). In VSLAs, each group usually consists of 15 to 30 members, who meet regularly to deposit savings in a fund for loans made to group members. At each meeting, members can decide to contribute more than an agreed minimum and can take a loan from the group without having to wait for their preassigned turn. These loans are charged with an interest rate so that the money deposited by group members can earn interest. Savings and loan repayments are kept in a group lockbox that can only be opened at group meetings and 'shared out' among members at the end of a predefined cycle, which is usually a year (Brannen and Sheehan-Connor 2016; Karlan *et al.* 2017). VSLAs do not receive any capital through grants or external loans; the pots simply grow over time as individuals collectively accumulate more savings.

Self-help groups (SHGs) are a similar community-managed microfinance mechanism that is concentrated in India and is frequently cited as the largest microfinance movement in the world (Rippey and Fowler 2011). SHGs are similar to VSLAs in that they are self-managed savings-led groups that make loans among themselves, and both are actively promoted by external development organisations. Although they are very similar, SHGs have the added feature that implementing organisations have the explicit intention to link the groups to formal sector banks for credit after the groups have matured (Karlan *et al.* 2017). Additionally, SHGs tend not to distribute or only partially distribute the funds and they often are more complex in terms of bookkeeping than other savings groups (Rippey and Fowler 2011).

Both VSLAs and SHGs usually create a social fund from the group savings in case one of the members requires the resources in case of emergencies. Disbursements from the social fund are assessed and approved by the group and are accessed usually as an interest-free loan.

In all its variations, the savings group mechanism is very important for rural finance and has a significant impact on its members and their communities. The next section will focus on these impacts.

2.2.1 Why savings and loans groups are important

Savings and loan groups in their different forms have proven to be very important and have significant impacts on their members. They also have advantages over formal sources of finance due to their trust-based nature and flexibility, which allows members to use the loans for a variety of purposes while fostering investment in new income-generating ideas. A growing body of evidence suggests that mobilising finance through these groups has positive and significant impacts, such as the following:

- **Improved members' businesses:** VSLAs have been found to positively impact the economic performance of the members' businesses (Ksoll *et al.* 2016; Odunayo 2019). Members experience an increase in total business income and are stimulated to invest in expanding and improving their businesses (Karlan *et al.* 2017).
- **Women's empowerment:** VSLA participation has significant positive effects on women's empowerment. Women within these groups report having a greater influence on household decisions, especially concerning food expenses, education, healthcare expenses for children, and business expenses (Brody *et al.* 2015; Karlan *et al.* 2017; Maganga 2021). This empowerment extends beyond financial matters and contributes to their overall wellbeing.
- **Enhanced resilience:** Studies have shown that VSLAs contribute to increased resilience among the members. By having access to savings and credit, individuals and households are better equipped to withstand economic shocks, extreme weather events and other uncertainties (Adegbite *et al.* 2022; Demont 2020; Panman *et al.* 2022).
- **Improvement in general life quality:** VSLA participation leads to an improvement in the overall quality of life for the members through financial security, increased decision-making power and support from the group, all of which contribute to members' wellbeing, self-confidence and happiness (Anand *et al.* 2019; The SEEP Network 2020).
- **Enhanced technical efficiency and increased agricultural outputs:** Loans obtained through VSLAs are primarily used in agriculture, resulting in increased agricultural outputs (Ksoll *et al.* 2016). Farmers who join VSLAs seem to make smarter decisions regarding input quantities and select inputs at cost-minimising prices, leading to better yields (Appiah-Twumasi *et al.* 2022).
- **Increased savings and access to credit:** Studies indicate that VSLA participation leads to increased savings and better access to credit for the members (The SEEP Network 2020) coming from the internal funds of the groups, as well as from external sources when advanced groups link to formal finance providers (Datassist 2017). This financial empowerment helps individuals and households better manage their finances and invest in their businesses and livelihoods (Ksoll *et al.* 2016; Odunayo 2019).

Currently, there are 16 million documented savings group members in over 80 countries with the average member saving around US$28, with the world's VSLA groups collectively managing US$400 million in savings (SAVIX).[2] However, while various forms of savings

2 The Savings Group Information Exchange (SAVIX) data only includes all trained members in the methodology of savings group by a facilitating agency using the SAVIX information system (such as Care and Oxfam) and does not include all other existing savings groups that are self-organised, which are thought to be the vast majority.

and loan groups exist in numerous countries, their importance and financial potential can sometimes be underestimated. For example, a ROSCAs case study in Manang in Nepal showed that from 2001 to 2004, the nominal value of the collective funds to be invested in and paid out by ROSCAs over their full terms exceeded 30 million rupees (US$400,000), which equates to about 6 million rupees (US$80,000) changing hands within the community each year. In a country with an annual per capita income of only 20,000 rupees (US$250), this represented an enormous amount of money for a completely self-contained system of rotating savings and credit utilised by a village community of roughly a thousand people (Rogers 2006).

2.2.2 Sustainability, linkages and potential for growth

Despite the impacts and importance of these groups, there are challenges to do with their sustainability after implementing organisations leave, the need to link them to formal finance providers in different ways, and their potential for growth. And many groups are meeting these challenges.

A recent study shows that after more than eight years, over 70% of the savings groups' sample have continued to operate independently without any external support (The SEEP Network 2020). The same study claims that for every 100 groups trained by external non-governmental organisations (NGOs), 45 additional groups were established without external NGO support but through spontaneous replication, peer support, volunteers or fee-for-service trainers. Additionally, savings and loans have more than doubled in the same period of time.

In terms of linkages with formal financial services, this varies. For some groups, their level of financial acumen involves holding savings in a simple strong box, often with three locks with three members each entrusted with a key and without written accounts due to members having few numeracy skills (Ksoll *et al.* 2016). For others, however, groups mature and grow and explore the need for new and diverse financial services. Implementing organisations encourage an evolution towards housing their savings groups within formal financial service providers using, for example, group savings accounts and loan products (Care 2013). This linkage can happen in one or more of the following four ways (Rippey 2017a):

1) **Group savings accounts**, in which the group keeps its financial assets with a financial institution (usually as a condition for borrowing)
2) **Individual savings accounts**, adapted with special facilities because of the individual's membership in a savings group (can be offered as a package of other services)
3) **Individual credit**, which does not create a liability for the group but where the loan is in some way dependent on the borrower's group membership (using the financial history of the member with the group, for example), and

4) **Loans to the group as a whole**, or loans to individual members, which are guaranteed by the group, thus creating a liability for all the members.

The impacts of linkages with formal financial service providers tend to be positive. There is no controversy about types 1 to 3, as there is a general agreement that keeping savings accounts is generally positive both for individuals and groups, and individual credit can also be positive while not harmful to groups. Linkage types 1 and 2 seem to have positive results in a group's financial performance (Allan *et al.* 2016; Sogah 2018). Particularly, linked groups have a higher return on savings and assets compared to not linked groups (Sogah 2018).

More controversial are the linkages with formal financial services described in type 4: the offer of loans to the group as a whole, where other members are liable for the borrower's default (Rippey 2017b). Where formal financial providers offer credit to the groups, these groups are more able to provide more loans to their members, although appropriate credit products are less common than savings accounts. However, some studies found that after three years, financial service providers began to encounter a large number of loan defaults. This created the problem of group indebtedness and they started to lose members (Rippey 2017b).

Some studies suggest that financial service linkages can be a double-edged sword as they can erode the savings group cohesion. Initial increases to the group's financial performance may ultimately be outweighed by an increasing drop-out rate of members, generating a higher turnover (Burlando *et al.* 2020). There are mixed results on the impact on group cohesion, with some studies showing no impact from linkages (Frölich and Nguyen 2020). Not enough is known empirically about the implications that linkages have on savings groups' sustainability, social cohesion or group dynamics.

There are also many variables that can influence the different outcomes of financial service linkages beyond the type of linkages, such as the information that the groups receive about the linkage, and the orientation of the formal financial provider, among others. When a linkage includes financial training, for example, there is an increase in financial literacy for group members accompanied by an increase in confidence to deal with financial institutions (Care 2013; Sogah 2018). Usually, after a period of time, group members open individual bank accounts, showing that the linkage of savings groups can be a springboard for formal financial inclusion (Allan *et al.* 2016).

Potential for growth is a final question mark over these groups. It is undeniable that savings groups bring many benefits to their members. However, since savings groups do shareouts at annual or shorter intervals, they have limited capacity to accumulate capital which constrains the size of loans, as well as their ability to provide loans at the same time (The SEEP Network 2020). Savings groups also have significant covariant risk exposure, making them vulnerable to local shocks that may affect all members. Additionally, many savings groups do not have written records and due to the absence of legal status, their operation is individual-centred rather than rule-based, and sensitive issues are negotiated among members without guidelines (Cassidy and Fafchamps 2020; Johnson *et al.* 2010).

Some of these challenges appear to be addressed by the growing experiences of digital savings groups. These refer to technologies and systems that digitise savings groups' records, procedures or transactions (Staehle 2020). Some technologies will enable the groups to move away from paper records, which has proven to improve efficiency (Arnold 2020). Other technologies enable a group to move its operations digitally through mobile money and not handle cash. These have the benefit of improving the safety of the group's savings. Some examples of digital technologies can be seen in Box 1.

Box 1. Digital solutions examples: DreamSave and Save

DreamSave is an application for smartphones that enables savings groups to have digital records, members' profiles, and automated calculations. The app also allows members to monitor their real-time share of accumulated profits and predicted final savings until the agreed liquidation date, fostering confidence, encouraging more savings and promoting a healthy spirit of competition. Members declare their savings goal at the start of the cycle, which adjusts dynamically based on their changing savings rates at each meeting, providing clear visibility into how their decisions affect their progress toward their goal. User groups also decreased time spent in meetings from two hours to half an hour and increased transparency through SMS summaries sent to members.

Complementing DreamSave, Save is a digital payments-based platform for savings groups that enables the group to move from cash towards mobile money. It is integrated with Access Banks in Rwanda, MTN Mobile Money and Airtel Money, among other formal financial providers. Savings groups pay a subscription fee and can also apply for loans beyond the group's funds through a line of credit which allows the group to take out larger loans and accumulate their fund over a longer term.

Sources: (Arnold 2020; Staehle 2020)

Some critiques of the digitisation of savings groups include the added cost, as all of these tools require a fee (although usually only a small amount) and there is a risk of reducing social cohesion and increasing exclusion of members who cannot access or handle mobile devices (BFA 2018; Staehle 2020).

Despite digital solutions, the short-term nature of yearly shareouts in VSLAs curtails the growth of savings. Therefore, it is difficult for a savings group to act as a financial mechanism that will increase the scale of its members' businesses or increase significantly their income. However, there are cases where savings groups have used the amount saved collectively to invest in more farming land, for example, instead of doing the usual shareout between members, which has increased their income in the long term (Zhang 2021).

Although controversial in some regards, linkages with formal financial providers have seen positive impacts. There are guidelines from the most experienced implementing organisations on how to proceed with linkages for the best outcomes and with appropriate safeguarding (UNCDF and MSC 2020).

There are also alternative pathways for savings groups to move up the financial ladder by building on the trust and governance skills that members develop to evolve into formal financial cooperatives (Meyer 2015; Seibel 2017). There are experiences showing the positive impacts of these transformations, including the case studies presented in this report. Although there is not much literature on this, the existing evidence shows that this transformation has positive impacts on savings, increases the incomes of members, and advances financial inclusion (Kim and Kwak 2021). A savings group can either establish a financial cooperative or join others to collectively establish one, which in turn will attract other savings groups and their members to link with them (Seibel 2017).

Having explained how savings groups work, their impacts and limitations, the next section will focus on financial cooperatives, a more advanced financial entity that can emerge from the internal finances of producer organisations.

2.3 Financial cooperatives

Financial cooperatives are formal or semi-formal member-owned financial institutions which, unlike many savings groups, have intrinsic growth potential. They are community rooted and often started locally, without major external support (Branch 2005). Therefore, members typically share a commonality based on a geographic area, trade community or other affiliation. Their purpose is to provide members with financial services to improve their economic and social wellbeing through asset accumulation and income generation (Branch and Klaehn 2002).

Financial cooperatives can have many names around the world, including credit unions, SACCOs, cooperative banks and others (McKillop *et al.* 2020). For the purpose of this study, the term 'financial cooperatives' will be used to refer to all.

As opposed to savings groups that are limited by a set short contribution and redistribution term, financial cooperatives are businesses that can grow, expand their capital and become more profitable over time by offering services that generate income. The main purpose of the business, however, is to benefit its members rather than to maximise profit, due to its cooperative nature (Birchall 2013). There are financial cooperatives that are explicitly not-for-profit, but even in these cases, they need to remain financially self-sufficient (McKillop *et al.* 2020; Yitayaw 2021). They are also better placed to manage risk than savings groups as they can diversify their membership base to be more financially stable by serving middle-income and lower-income members. The cases of Ecuador and Brazil presented in the next section are good examples of this strategy.

Financial cooperatives have a set of principles, laid down by the International Cooperative Alliance:[3]

- **Self-help and self-responsible:** Cooperatives are autonomous, self-help organisations controlled by their members that aim to achieve predetermined economic and social objectives
- **Voluntary and open:** Cooperatives are voluntary and open to members to join and leave as needed
- **Democratic:** Members have equal voting rights, regardless of how many shares they own, and actively participate in setting their policies and making decisions
- **Equal economic participation:** Members contribute equitably to, and democratically control, the capital of their cooperative and benefit in proportion to their transactions with the cooperative
- **Educative:** Cooperatives provide education and training for their members so they can contribute more effectively to their development
- **Cooperation among cooperatives:** Cooperatives work together through local, national, regional and international structures, and
- **Solidarity:** Cooperatives work for the sustainable development of their communities through policies approved by their members.

Around the world, financial cooperatives are relatively homogenous in terms of governance (Forker *et al.* 2014). As democratic and member-owned organisations, financial cooperatives are governed by their members on the principle of one person, one vote regardless of the amount of capital the individual has invested (Birchall 2013). However, the institutional structure, and legal and regulatory status, have resulted in the sector offering varying sophistication in terms of services, product offerings and business models across countries, especially between advanced and emerging countries (Cuevas and Fischer 2006; Forker *et al.* 2014; McKillop *et al.* 2020).

Financial cooperatives' main source of funds for capital comes from their members in the form of shares, and they cannot be withdrawn throughout the membership period, which provides the main capital base of most cooperatives. The other main funding source for

3 See https://www.ica.coop/en/whats-co-op/co-operative-identity-values-principles

the cooperative to accumulate and grow capital is retained profits, meaning that some of the profits are set aside for the institutions' reserves (McKillop *et al.* 2020).

The more common sources of internal funds are shown in Table 2 with their respective advantages and disadvantages. Although there is also the possibility of accessing external finance in the form of grants or other sources, this is usually not the main source of funding.

Table 2. Main fund sources for financial cooperatives

Funds sources	Advantages	Disadvantages
Members share capital	Stable source of capital	Limited to the financial resources of members
Fees for membership and other services	Short-term cash flow Covers administrative costs	Can deter members from joining
Member contributions	Allows for expansion without diluting voting control	Limited appeal as no incentive for members
Deposits and savings	Enhances stability and liquidity Enables the provision of loans	Limited to savings capacity of members Sensitive to interest rates set and potential risks of sudden withdrawal
Retained profits	Contributes to capital and operation growth	Member expectations for profit distribution might create pressures
Loans repayment and interest	Steady income to cover ongoing costs	Risks of default on repayments and impacts of changes in interest rate

Sources: Birchall (2013); Branch and Klaehn (2002); McKillop *et al.* (2020)

A number of advantages, benefits and challenges emerge from the principles and characteristics of their funding, and these will be explained in the following sections.

2.3.1 Advantages of financial cooperatives

The principles and financing structure explained above confer a number of advantages to financial cooperatives. These are detailed in comparison to other financial institutions in Table 3. It is important to note that these advantages are dependent on a financial cooperative's origins and management. In some countries, financial cooperatives were created in a top-down manner by governments to exert political influence and, regardless of their origins, these cooperatives can be captured by interest groups, such as politicians or local elites.

Some literature suggests that cooperative principles enable them to deal better with complexity. Financial cooperatives often reorganise their operational structures, resources and strategies to adapt to the ever-changing needs and demands of their various members, as well as the changing financial environment. This forces them to be highly adaptive and dynamic organisations, with a highly interactive nature due to their democratic governance structure (Knight *et al.* 2017; McKillop *et al.* 2020; Omeke *et al.* 2019).

As self-help community-rooted organisations, financial cooperatives are able to provide tailor-made products that serve the needs of their members better than any other financial entity: for example, in the agriculture sector, offering loans that accommodate a repayment period in accordance with the first harvesting period (Mawesti *et al.* 2021). They are considered to have immense potential in financing short-term loans for agricultural production technologies and undertaking off-farm income-generating activities in areas where both the state and the private sector have failed (Tesfamariam 2015).

Table 3. Advantages of financial cooperatives

Advantages	Description
Locally founded and led	Often started locally without major external support and structured around a common identity responding to members' needs
Prevent conflict of interest	Member ownership prevents interest groups from exploiting customers, and members are savers and borrowers for which they need to find a balance that benefits both
Have an informational advantage	Strong local presence and member knowledge enable financial cooperatives to have a better understanding of the needs and risk profiles of borrowers, lowering the costs of screening processes
Provide an efficient, low-cost model of banking	Without the need to pay external shareholders, financial cooperatives can reduce the margin between interest rates and pay savers while attracting more deposits increasing their liquidity
Have a stable capital base that is more resilience to shocks	Members are likely to maintain their savings and shares in the cooperative during periods of uncertainty
Long-term vision	Without pressures for immediate returns, financial cooperatives focus on building long-term relationships with members, often including education and training programmes

Sources: Birchall (2013); Branch (2005); McKillop *et al.* (2020)

Without the need to maximise profits for external shareholders and with lower operating costs, financial cooperatives are usually able to provide savings and loans with better and more competitive interest rates than traditional banks (Branch 2005; Gordon Nembhard 2013). Even on rare occasions when the interest rates are not lower, some people still prefer to use the services of a financial cooperative as traditional banking services are not widely available in rural areas. Moreover, interest rates are not perceived as too burdensome since a significant part of the interest will flow back to the cooperative members in different ways (Mawesti *et al.* 2021).

In the rural sector, financial cooperatives tend to offer assistance services that make access to financial products easier. For example, they can provide education on financial products and general financial literacy (Gordon Nembhard 2013; Muhaya Kadagi *et al.* 2015). In addition, some financial cooperatives provide technical assistance for their members' businesses. Some will even have a separate unit that provides technical support for sustainable productive activities and 'green' value chains (see Box 2).

Box 2. The case of Semandang Jaya Credit Union (CUSJ)

CUSJ is a credit union in Indonesia that in 2017 established a Social Performance Management (SPM) unit that specifically provides productive loans and technical assistance towards a green economy. A green economy loan targets farmers who are starting small-scale agriculture and fisheries businesses. Most loan recipients are small-scale horticultural farmers (chilli, corn, cucumber, watermelon, green mustard and peanuts), fish farmers (catfish, parrot fish, goldfish), and chicken breeders who produce food supplies for the local market. The SPM provides coaching sessions in business management, accounting and marketing. It also coordinates with other stakeholders, including relevant government officials to conduct training, facilitating access to markets to sell products.

It also offers a variety of services to enable members and local businesses to access its financial products. These include simplifying administrative procedures and requirements for loan applications, accepting savings accounts as collateral and speeding the approval process according to the amount requested. In some cases, CUSJ assists members to apply for the required documents such as identification and business and land ownership documents.

Source: Mawesti *et al.* (2021)

Similarly to savings groups, financial cooperatives often provide solidarity funds, through which members can access immediate resources in case of emergencies. Solidarity funds and other related services are among the non-financial benefits that help maintain and increase membership, strengthen social cohesion and increase the well-being of their members and communities (Sumarwan and Kusuma 2018).

These are just a few examples of the benefits that financial cooperatives bring to their members, but due to their nature and structure, they also bring a number of benefits to the wider economy and society. The following are some of these benefits with references that provide specific examples:

- Fostering social capital and local economic development by mobilising savings and investing primarily in small local businesses, compared to larger banks (Birchall 2013; Bedard *et al.* 1993; McKillop *et al.* 2020).
- Promoting financial inclusion, enabling people to access financial services, particularly in rural areas (Birchall 2013; Branch 2005; Sumarwan 2017).
- Increasing entrepreneurship and financial literacy through training for members (Gordon Nembhard 2013; Mawesti *et al.* 2021; Muhaya Kadagi *et al.* 2015; Sumarwan 2017).
- Providing loans and support specifically tailored for local small and micro enterprises, often using 'soft' information (such as a borrower's stature in the community) and relationship lending over 'hard' readily quantifiable information (such as sales, profit, cash flows and leverage) to agree terms (Birchall 2013; Mawesti *et al.* 2021; McKillop *et al.* 2020).
- Supporting members' businesses and asset growth through loans, technical assistance and savings accounts (Gordon Nembhard 2013; Muhaya Kadagi *et al.* 2015; Sumarwan 2017).
- Driving rural development and greater adoption of agricultural technologies and input use (Abate *et al.* 2016; Assunção *et al.* 2020).
- Building solidarity through shared common objectives by the members and a community-oriented approach (Mawesti *et al.* 2021).
- Working as a system to amplify their impact through the formation of federations and providing diversity to the financial system (Birchall 2013).

Having reviewed the various advantages of financial cooperatives, the next section focuses on the challenges that can hinder their potential.

2.3.2 Challenges and how to tackle them

As with any institution, financial cooperatives face limitations and challenges that can prevent them from functioning well, growing or expanding. There are, however, different actions that the literature suggests financial cooperatives can take to tackle some of these challenges and thrive. Table 4 lists the main challenges and some suggested actions that can contribute to addressing them.

Table 4. Challenges faced by financial cooperatives and suggested actions

Challenges	Suggested actions
Difficulty in raising capital	▪ Mobilising savings ▪ Expanding membership and customers
Governance issues	▪ Sound and clear governance policies ▪ Transparency and accountability mechanisms ▪ Effective communication
Weak financial management	▪ Use of methodologies such as WOCCU's PEARLS[4] ▪ Digitisation of operations
Lack of enabling regulatory frameworks	▪ For governments: align regulatory frameworks with known best practice, fostering institutional strengthening along with regulation and supervision with a clear division of roles ▪ For financial cooperatives: form federations to establish apex bodies

Sources: Birchall (2013); Branch (2005); Branch and Klaehn (2002); Cuevas and Buchenau (2018); IFAD (2023); McKillop *et al.* (2020); Messabia *et al.* (2023); Tesfamariam (2015).

Most literature highlights the challenge of the limited ability to raise capital. This can sometimes result in liquidity constraints that pose a challenge for the cooperative to grow or even to finance its operations. To tackle this challenge and strengthen the capital resource base, some efforts are proving successful by increasing members' affiliation and mobilising savings in rural and urban areas (Tesfamariam 2015). Mobilising savings means encouraging savings habits in members and offering robust savings account products for members to deposit their savings and use them to fund loan portfolios, and give a return to savers upon withdrawal.

To do this more successfully, financial cooperatives must expand their outreach and offer voluntary products that are attractive to members and clients of varying income levels to generate the level of funds required to finance their loan portfolios entirely with savings (Branch and Klaehn 2002). This is what enables financial cooperatives to evolve into true financial intermediaries.

Weak governance and other related issues are a common challenge for many financial cooperatives. They are usually governed by a volunteer board of directors elected by and from the membership. The one-member vote system arguably means that members have insufficient incentive to engage in monitoring as their ability to exercise control is weak and potential rewards are low (Birchall 2013; McKillop *et al.* 2020). As a result, in some

4 PEARLS (protection, effective financial structure, asset quality, rates of return and costs, liquidity, and signs of growth) is a financial performance-monitoring system designed to offer management guidance for credit unions and other savings institutions. See www.rfilc.org/library/a-technical-guide-to-pearls-a-performance-monitoring-system

cases, community elites or net borrowers are able to dominate the structure for their own benefit (Branch 2005).

To address this challenge, some studies suggest that, regardless of governance norms required by law, cooperatives should invest in sound policies and monitoring tools, as well as establishing clear oversight and reporting responsibilities. Furthermore, a combination of transparency and accountability mechanisms builds trust with the members (Messabia *et al.* 2023), which is also a key aspect for a cooperative to be able to mobilise savings (Branch and Klaehn 2002). Finally, to avoid elite capture, effective communication with members is a base for engaging them in decision-making and ensuring the rotation of managers through regular elections (Tesfamariam 2015).

Another main challenge is weak financial management. Small and young financial cooperatives are often staffed entirely by volunteers who have limited knowledge about financial management (Branch 2005; Tesfamariam 2015). As these cooperatives grow, more sophisticated and risky operations require professional managers. Specialised bodies, such as the World Council of Credit Unions (WOCCU), have developed international standards, guidelines and tools specific to financial cooperatives. The use of these and the ongoing training of staff are some of the measures suggested to strengthen financial management. Additionally, there is evidence that digitising the cooperatives' operations increases productivity, efficiency and profitability (see Box 3).

Box 3. Digitising SACCOs in Uganda

Mercy Corps have partnered with Ensibuuko to develop a mobile banking and information system (MOBIS) to improve efficiency in the operation of SACCOs and to increase access to financial services and information by smallholder farmers in Uganda.

In 2018, they evaluated the impact of digitisation on Rukiga SACCO Limited in South Western Uganda (a well-established and fully digitized SACCO), Nakasero Market WatermelonTraders SACCO (a young early-stage SACCO that is partially digitised), and Kigagate Kamwe Kamwe Community SACCO (a mid-stage SACCO that is fully digitised). Impacts of digitisation across all evaluated SACCOs included:

- Increase in productivity: Reduction of 2 to 4 hours in the working day, 60–80% reduction in processing payment times, 70–80% reduction in reporting and auditing time, 40–50% reduction in time needed by members to make a deposit
- Increase in profitability: 4% marginal increase in year-on-year revenues above pre-digitisation, 11% increase in net profit margin
- Increase in sustainability: 49% increase in return on equity and 61% increase in return on assets

Source: Nanambi Wakyiku and Adong (2018)

A key challenge for the financial cooperative sector is the lack of enabling regulatory frameworks. A good legal framework governing financial cooperatives should empower them, enabling their development and encouraging outreach towards their target population. But it should also ensure that financial-sector rules are appropriately applied to protect members against poor financial management (Tesfamariam 2015).

The way to achieve the right balance for cooperatives to thrive depends on each particular country and how developed its cooperative sector is (Birchall 2013), but there are countries with recognised best-practice systems such as Brazil, Mexico and Colombia, among others. These should be taken as examples for other governments, albeit with the modifications required for each country's distinct circumstances. Institutional strengthening should always be part of any reform and regulation and supervision should be commensurate with the scale and level of sophistication of the institution (Cuevas and Buchenau 2018). From the cooperatives' side, advocating for more enabling policies and regulations as a movement through apex bodies will be more effective and will strengthen them as a system (Birchall 2013).

These are only some of the ways in which financial cooperatives are tackling the challenges mentioned, but there certainly are many more. In many countries, these organisations are growing and are the leading financial providers. For example, in Thailand, financial cooperatives have become the major source of finance for local people in villages, both for consumption and productive purposes (Mawesti *et al.* 2021). In Kenya, 81% of the population relies on SACCOs to access financial services (Chepkwei 2018) and in Ethiopia, the number of SACCOs has grown at an exponential rate of 18% per annum since 1997 (Guja 2022).

At the global level, by 2021, there were almost 88,000 credit unions, serving almost 400 million members in 118 countries (WOCCU 2021). This figure, however, certainly understates the global presence of financial cooperatives, as not all are affiliated with WOCCU.

Following this brief review of the benefits and challenges of financial cooperatives, the next section describes how these organisations federate to provide further advantages to their members amplifying their impact (Birchall 2013).

2.4 Federations of financial cooperatives

Financial cooperatives nearly always form federations, organising themselves in a two- or three-tier system, with a federation at national or regional level and primary organisations serving members at the local level (Birchall 2013; Huppi and Feder 1990). Together, they provide an alternative system for financing smallholders in the rural sector through a more democratic, solidarity-based and welfare-oriented model.

Federating provides various advantages, such as political influence and benefitting from economies of scale (Birchall 2013; Cuevas and Fischer 2006). Through apex-level federations and confederations, financial cooperatives are able to advocate for a more appropriate legal and fiscal environment (Huppi and Feder 1990). This also enables cost-effective provision of common services such as information technology (IT) support, data processing, training, accounting, marketing and product development.

The process of federating can reach the stage of establishing a central cooperative body, enabling the group of cooperatives to reduce risk (Birchall 2013). Central bodies can expand the range of business thus making the group's collective income more stable. Frequently, the federal central body is granted supervisory powers that provide a common set of standards for local cooperatives to aspire to, as well as the training to reach those standards (Birchall 2013; Cuevas and Buchenau 2018).

Federations, therefore, play a variety of roles for the benefit of their members including promotion, representation, training, financial analysis, coordination and facilitating central liquidity (Bedard *et al.* 1993). Through these roles, many financial cooperative federations in the world are pushing forward the social and solidarity economy, where the production of goods, services and knowledge prioritises social and environmental aims and fosters solidarity through collective ownership and care for all stakeholders (Serrano *et al.* 2019).

Many of the case studies presented in this report show the establishment of financial cooperatives at the local level that have joined existing federations or have, over time, established their own. The former is the case of Santa Anita, the savings and credit cooperative of the Union of Peasant and Indigenous Organisations of Cotacachi (UNORCAC) that joined the Federation of Savings and Credit Cooperatives of Ecuador (FECOAC) to leverage opportunities for complementarity, exchange services, and knowledge, and to apply shared strategies to maximise impact (see Section 3.4). The latter is illustrated by Cresol in Brazil, which started as a first-tier credit union and is now a national-level federation of credit unions advancing the solidarity economy (see Section 3.6).

Having described savings groups and financial cooperatives, the next section explains how FFPOs are well-placed to set up these as internal financial mechanisms.

2.5 The role of FFPOs in mobilising internal finance

FFPOs are set up for a variety of reasons, but often because smallholders, who operate in relative isolation, see the value in organising themselves to reduce costs, share knowledge, increase the scale of production, and improve their bargaining position in markets and policy advocacy (Macqueen *et al.* 2006; Pasiecznik and Savenije 2015). They usually have a degree of financial self-reliance and their sources of revenue are usually membership fees, payments for services, and profits from value-adding activities (deMarsh *et al.* 2014).

FFPOs facilitate access to credit for their members, with research showing that where the number of producer organisations increases, their members' access to credit from private and public banks also increases (Benson and Faguet 2023), but many FFPOs also offer basic financial services to their members.

As soon as FFPOs can pay members in advance for their products and sell to buyers with a profit margin, they can mobilise the profits to establish a robust internal financial mechanism. Therefore, a way towards tackling the lack of financial access for smallholders is for FFPOs to consider themselves as investors in their members' businesses through the provision of financial services.

Although a significant amount of the finance invested in smallholders' land comes from the producers themselves, most studies are unable to quantify this (Castrén *et al.* 2014). A recent report (IFAD 2023) based on surveys of 220 farmer organisations across 12 countries on access to finance, shows that Southeast Asia is the region where most farmer organisations provide financial services to their members (87% of the organisations surveyed) and is also the region with the smallest financing gap. In this region, 39% of the finance comes from community savings groups and financial cooperatives. One of many financial cooperatives in this region is the Semandang Jaya Credit Union from Indonesia described in Box 2.

In Western Africa, around 75% of producer organisations provide these services to their members and 31% of financing comes from the reinvestment of the farmer organisations' own equity and funding from other producer groups (IFAD 2023). In Eastern and Southern Africa, 45% of the organisations surveyed reported providing financial services to their members (ibid).

In Latin America, financial cooperatives have a strong presence in remote rural areas where they provide services to forest and farm producers. The financial cooperative sector makes up around 3.5% of total financial assets, according to the German Cooperative and Raiffeisen Confederation (DGRV), but in some countries, their presence is more significant, with the percentage exceeding 10% in Ecuador, Costa Rica, El Salvador and

Paraguay (Pianese 2023). The same source shows how the sector's economic relevance becomes even more evident when looking beyond market share. For example, the Confederation of Savings and Loan Cooperatives of Mexico (Conamex) represents 2% of assets but its 9 million associates constitute 15.5% of the economically active population.

There is a range of different experiences of FFPOs mobilising internal finance. FFPOs can organise savings groups across their membership. The Self Employed Women's Association (SEWA), one of the FFPOs case studies presented in the next section, sets up these groups in each new village where they start work as a first step (see Section 3.5). These groups are later linked to their cooperative bank.

In other cases, there are savings groups across the membership of an FFPO, which then organises the groups to collectively establish a financial cooperative. This is the case of Kassena Nankana Baobab Cooperative Union (KANBAOCU) in Ghana (see Section 3.2). Some FFPOs start providing small loans as an agricultural cooperative, for example, and then later set up a financial cooperative as a separate institution. In some cases, they use some of the accumulated profits from their business in combination with shares from their members as the starting capital. This becomes an additional business for the FFPO, serving as an additional income-generating activity and serving its members at the same time.

There are different pathways that these organisations follow, proving that FFPOs can mobilise their internal finance towards establishing investment mechanisms such as SACCOs with positive impacts (Chisika and Yeom 2020). An FFPO can start providing microfinance to its members and move towards filling the 'missing middle'. Through offering their members financial services they are also building a credit record for their members to be able to access other credit sources. The FFPO itself becomes a more attractive candidate for external sources as it shows strong financial performance and it is then able to channel more funds to its members (IFAD 2023; Twumasi *et al.* 2020).

The case studies presented in the following section show the important role that FFPOs can play in mobilising finance through savings groups and establishing successful formal financial cooperatives that boost businesses and foster local development.

Members of the Jwa Ngwaane Community Cooperative Credit Union standing in front of the offices
© Clifford Amoah Adagenera

3

Mobilising internal finance: six case studies

FFF operates as a partnership with the aim of empowering FFPOs to drive positive transformations in climate-resilient landscapes and livelihoods. A core aspect of this partnership involves co-creating knowledge alongside the FFPOs it supports. This process follows a series of steps (Covey *et al.* 2021):

1. Identifying a topic of interest with FFPOs, such as the mobilisation of internal finance through some form of demand survey that allows FFPOs to collectively prioritise future knowledge generation.
2. Ensuring a shared commitment to the topic involving the selection of exemplary FFPOs and sites from which valuable lessons can be learnt.
3. Conducting a researcher-led literature review on the topic to help contextualise any new knowledge and inform discussions with FFPOs on how knowledge might best be attained and shared. The analysis presented in the preceding chapters presents this literature review.

4. Compiling case studies written by or in close partnership with FFPOs, offering insights into their experiences. These case studies are presented in a summarised form in subsequent sections.
5. Organising a collaborative learning event to facilitate the exchange and integration of findings.
6. Developing initial knowledge products including case studies reports, a more extended research report and a policy-oriented briefing paper.
7. Testing and refining the knowledge products to ensure effectiveness and that different versions are developed as necessary.
8. Finally, conducting co-learning events to implement training or further enhance knowledge products before considering alternative methods of dissemination.

In essence, FFF engages in a dynamic process of co-producing knowledge with FFPOs, involving stages of identification, commitment, research, documentation, learning exchange, product creation, testing and refinement. This approach fosters a collaborative and holistic approach to learning and capacity building.

The six case studies featured in this research report were selected following this process. Each case study was selected based on the belief of FFF country facilitators and FFPO leaders that these organisations successfully mobilised their internal finances. These cases can then offer valuable insights to other FFPOs. Table 5 summarises the case studies and shows their scale measured through their assets value as of 2022–2023, ranging from US$2,320 to US$4.7 billion. The cases are presented from the smallest mechanism to the largest and most advanced.

Table 5. Summary of the six case studies of FFPOs mobilising internal finance

Country	FFPO name	Internal financial mechanism	Estimated initial capital (US$)	Assets 2022–23 (US$)	Reference
Zambia	Masopo Women's Club	Savings group and mobile money business (2020)	85	2,320	Ngulube and Ziba (2023)
Ghana	KANBAOCU	Jwa Ngwaane Community Cooperative Credit Union (2020)	6,830	22,000	Adagenera and Kuudaar (2023)
Bolivia	El Ceibo	Alternative Finance for Development (AFID) communal financial entity (2011)	700,000	2.5 million	Usnayo Ramos and Fernández Arancibia (2023)
Ecuador	UNORCAC	Santa Anita Savings and Credit Cooperative (2001)	331,500	38.1 million	Carrera Rueda and Vallejo Rojas (2023)
India	SEWA	SEWA Cooperative Bank (1974)	4,817	55.6 million	Pathak and Rathod (2023)
Brazil	Cresol	Credit union system (1995)	130	4.7 billion	Alessio *et al.* (2023)

Comprehensive information about each case study can be accessed online through the references provided in Table 5. The following sections include an introduction to each FFPO, a description of the process of mobilising internal finance, an overview of the current internal financial mechanism, and a brief description of its impacts.

3.1 Zambia: the Masopo Women's Club

3.1.1 General overview of Masopo Women's Club

The Masopo Women's Club is a formally registered female-led FFPO with a total membership of 34, of whom 29 are women and five are men, including four youths. The club is located 20km from Choma district in the Southern Province of Zambia. The purpose of the club is to improve the livelihoods of its members and its mission is to be the best provider of forest and agricultural products in the nearby Siachitema village.

The club was formed from five individual farm businesses that in 2015 attended a training organised by the Choma Forestry Department and supported by FFF. The training was on the various benefits of aggregating their products to improve access to markets and of doing business as one producer organisation. The meeting had a total of 73 participants from the five clubs. After the training, a total of 26 members from the individual businesses came together and formed the Masopo Women's Club, formally registered in 2019.

The club members were initially involved only in the business of basket and bushel making. However, now it has several other businesses including running mobile money booths, agroforestry, managing 10 hectares of community forest, and small livestock production.

3.1.2 How the club is mobilising internal finance

To start their organisation, the members agreed on a membership fee equivalent to US$2.50 and an initial contribution of US$5 to buy materials for making bushels and baskets. The first years were difficult due to a lack of expertise in production, but after some training in market analysis and development (MA&D), the group conducted an analysis in Choma of competitors running businesses similar to theirs, including the various patterns that were used in making baskets and bushels. They also learnt how to produce a business development plan. As they improved their products, they also started to earn a better income from their business and the profits were shared equally among the members.

In 2020, the club later learnt about savings groups but lacked enough information on how to establish one. Later, FFF linked the club to the Cotton Association of Zambia (CAZ), a higher-level member-based organisation, to learn more about savings. CAZ had been conducting savings and loans group training among its farmers and trained the Masopo Women's Club. With the learning from this training, the club established its own savings and loans group and developed a constitution that detailed the structure and rules of the group.

Later that same year, with the support of CAZ and the Zambia National Forestry Commodities Association, the club was connected to Zanaco (the Zambia National Commercial Bank) to start operating a mobile money business. To start operating this business, the club had to invest some initial resources, and the club members agreed to use US$82 from the savings and loans group.

This is how the club became Zanaco Xpress agents and began to operate a mobile money business.[5] This partnership enabled the club to generate profits through commissions made on mobile money transactions that then could be reinvested into its members' other enterprises. This also enabled the group to open a bank account where they could keep the funds from the savings groups, previously kept in a box.

The club soon expanded to link to two other companies offering mobile money services, Airtel Money and MTN Mobile Money, investing an additional US$200 from their collective savings. With this investment, their monthly profits from this business increased from the equivalent of US$15 to US$40.

3.1.3 Internal financial mechanism used

The savings and loans group enabled its members to save together and access loans in an organised and systematic way. Members and trusted community members can take small loans from their savings and repay them at a monthly interest rate of 10% for club members and 20% for non-members. Each member earns interest on their savings at a rate of 10% each month. The scheme runs in six-month cycles, after which the accumulated savings and profits from the interest repaid on loans are redistributed to members at a share-out meeting according to how much each member saved during the period. Members then invest their savings in their own individual enterprises.

In this way, the club builds its own fund through efficient savings and the interest made from loans, and the members agree on how to use the funds according to the club's objectives. The savings group also has a social fund, where each member has to pay a very small amount each week, and it is often used to support members of the club and the community in times of need.

The savings and loans group enabled the club to invest in the mobile money business as an additional source of internal financing. This business consists of a booth located in the market with youth from their community serving customers who want to make bank transactions, withdrawals or deposits with any of the three providers (Zanaco, Airtel and MTN). The business profits come from the transaction fees. The key to the business's success is having enough cash to use as a float for transactions made (for example, for customers to withdraw cash from their bank accounts).

5 According to Zanaco's website, Zanaco Xpress is a partnership with many agents in urban and rural areas through which Zanaco customers can deposit cash into a Zanaco account or withdraw money from their own account at Zanaco. See www.zanaco.co.zm/personal-banking.php?p=79

Commissions earned are between about US$75 for a slow month and above US$100 in a good month and are invested in the club's other businesses and starting new businesses, such as livestock production. As these businesses improve, the club is able to increase the float for the mobile money booth, which increases the number of transactions they are able to make and therefore their profits.

Although the mobile money banking business operates separately from the savings and loans group, any cash not disbursed as loans at the weekly meeting is then transferred to the mobile money transaction business to be used as a float. Between the collective savings of the group and the amount raised to use as a float in the mobile money business, in 2022 the Masopo Club's internal financial mechanism had about US$2,320 in assets compared to the initial capital of US$85.

3.1.4 Impacts of the financial mechanism

The savings and loans group helped the club to support other income-generating activities and also raised the capital required to start its mobile money business. The club has increased its profits from their businesses due to the increased investments in the businesses from the mobile money booth. This mechanism has helped to greatly improve the livelihoods of the Masopo Women's Club's members.

Before the mobile money business, the club used to make 36 bushels and 16 baskets per week to sell at the town market. From these sales, the club made an estimated US$165 per month. However, after investing in its mobile money business, the club was able to generate more profit, which was used to revamp the basket and bushels production business and now it makes US$290 per month. The club was also able to start livestock production and gardening by investing in buying chickens and goats, seeds and other equipment.

In 2020, there was a serious drought in Zambia but the club experienced few negative impacts because its members had multiple sources of income from different businesses and were not only dependent on farming. The way in which the club designed its internal financial mechanism enhanced its resilience to extreme weather events and other shocks.

The foundation of the club and establishment of its financial mechanisms have generally increased the social cohesion in the community as members take care of each other's wellbeing as well as the wellbeing of other community members through its social fund. The savings group acts as a platform for members to learn from each other about how to make good investment decisions using the money they save and earn.

3.2 Ghana: Kassena Nankana Baobab Cooperative Union (KANBAOCU)

3.2.1 General overview of KANBAOCU

Kassena Nankana Baobab Cooperative Union (KANBAOCU) is a member-based FFPO located in the town of Paga in the Upper East Region of Ghana. It was formed and registered in 2013 in response to weaknesses identified by its members in the shea and baobab value chains.

KANBAOCU has over 12,300 members, almost 14% of the population in Paga, and 90% of its members are women. Its members are mainly smallholders who are collectors of non-timber forest products (NTFPs) or farmers involved in mainstream agricultural cash crops and livestock value chains.

The main business of KANBAOCU and its members is shea butter processing and baobab production and marketing. Its mission is to contribute to sustainable livelihoods for its members through advocacy, capacity building, environmental management, business development and partnerships.

KANBAOCU member working on the farm © Clifford Amoah Adagenera

3.2.2 How KANBAOCU is mobilising internal finance

Realising that its members did not have access to conventional financial services, KANBAOCU aimed to establish a mechanism to enable its members to save money sustainably and provide low-interest credit at fair and competitive rates.

KANBAOCU's members were involved in weekly savings activities through VSLAs. Although helpful, VSLAs limited the amount members could save and borrow for investment. Thus, KANBAOCU realised there was a need to build its own trusted and credible financial institution that could respond to the needs of its members.

In partnership with the Organisation for Indigenous Initiatives and Sustainability Ghana (ORGIIS Ghana, a local NGO), KANBAOCU assisted its members in analysing the quantities of the VSLAs' share-outs. The analysis of a five-year period (2017 to 2021) revealed that share-outs had grown from the equivalent of US$340,000 to US$780,000 along with the number of VSLA groups, which had grown from 372 to 429. The increase in savings was largely influenced by the increase in trade in the baobab and shea commodity value chains by members, which helped them to increase their share value over the period. The analysis showed members that by harnessing their strength in numbers, they could establish a sustainable financial institution for members to invest in.

With this information and through a series of meetings and awareness-raising activities with the members, it was collectively agreed that the best solution was to establish a credit union. To raise the capital for this, members were encouraged to purchase shares to join the credit union at a minimum fee equivalent to US$90 per member. In line with the democratic nature of credit unions, it was agreed that an individual's shares shall not exceed 20% of the union's total shares.

In 2020, through a broad consultative process with KANBAOCU members, the Jwa Ngwaane Community Cooperative Credit Union was officially formed in accordance with the Cooperative Societies Decree, National Liberation Council Decree (NLCD) 252 of 1968 of Ghana. A total of 96 VSLAs consisting of 2,920 members joined the credit union, purchasing shares with their individual funds and, in some cases, using the resources from the social funds of the VSLAs.

3.2.3 Internal financial mechanism used

The Jwa Ngwaane Community Cooperative Credit Union is owned and governed by members from six local FFPOs (members of KANBAOCU) who are organised in VSLAs. All members can participate in organisational decision-making through voting at the general assembly, which is the highest decision-making body of the credit union.

The credit union is managed by a committee of 14 members, a manager and three field officers. The overall management committee includes the board of directors, a supervisory committee, a loans committee and an education committee. The credit committee analyses all loan requests and makes the final decision on granting loans. The manager of the credit union is responsible for the day-to-day decisions, while the ultimate control of the organisation belongs to the general assembly of members. This is the highest decision-making body and every member is admitted to participate. The general assembly is used as a forum to discuss the results and performance of the organisation as well as planning for the future. The education committee is part of the growth strategy, with the responsibility of educating KANBAOCU members about the benefits of belonging to the credit union and encouraging new members to join. Additionally, to increase its credibility, the credit union has joined the national and regional chapters of the Ghana Co-operative Credit Unions Association (CUA).

The various products provided by Jwa Ngwaane include savings accounts, fixed deposits, loans and agribusiness support. The loans are tailored to the needs of its members, who now have access to low-interest credit to invest in value chains such as shea, baobab, moringa and general agricultural commodity farming. The agribusiness support is given in the form of inputs provision, mechanised irrigation and enterprise development.

Jwa Ngwaane grew its membership by 116% in three years, and now includes 198 VSLAs with 6,326 members, of whom 89.2% are women. This growth is further reflected in the growth of savings deposited in the credit union in the same period, starting with the equivalent of US$3,000 and increasing to US$25,000. By 2022, the credit union had US$22,000 in assets, compared to US$6,830 in 2020.

During its first two years of operation, the credit union decided not to advance credit to members but to focus on mobilising capital to stabilise its operations and develop robust systems before loans were made available. However, in 2022 the credit union established its loans committee and developed the procedures for accessing loans for its members (both VSLAs and individuals). Members are not permitted to access credit more than three times the value of their savings and they must have made uninterrupted savings for at least six months.

The loans are for three main areas: investing in agricultural activities (main season and dry season irrigation), petty trading (which includes shea nut, shea butter and baobab purchasing), and loans for the payment of medical bills. The total amount advanced in loans to members is US$24,000 out of which 55.5% was for agriculture, 41.5% for petty trading, and 2.9% for medical payments.

3.2.4 Impacts of the financial mechanism

Currently, the credit union is the single most trusted source of funding for its members. Members have seen their savings grow and now have an increased willingness to save. Individual members who have been able to access credit from the credit union through their VSLA were able to start new businesses and improve others. For example, the Bugani community, a member of the credit union, was able to invest in new technology for their shea nut processing facility, which has increased their production capacity from 7.5 tonnes of shea butter per month to 22.5 tonnes a month.

Aside from investing in value chains and agricultural activities, some beneficiaries have also been able to access credit to pay for family healthcare. Others have said that in times of emergency, the credit union has enabled them to access financial assistance quickly. Another important impact is that it has increased the number of women in leadership positions, with the founding members being mainly women, as well as eight out of the 14 management committee members.

The close relationship between the credit union and KANBAOCU has increased social cohesion among its members, as they see themselves as benefiting members as well as owners. According to the board members, the establishment of the union has increased their connection to the various VSLAs that they work with. They interact with them on a daily basis and offer members direct support during funerals and other communal activities.

The good performance of the credit union has attracted some attention from conventional banks who see it as a good institution to partner with. For example, Fidelity Bank Ghana has partnered with the credit union to act as an agent to serve its customers in a town where they have better reach based on commission, which will increase the reserves of the credit union.

Jwa Ngwaane Community Cooperative Credit Union still has plenty of potential to grow. KANBAOCU has over 12,300 members and of those, 6,036 in the Builsa North and South districts and some parts of the Kassena districts have yet to join the credit union due to distance. KANBAOCU is actively engaging its members and raising awareness of the credit union via mass media, especially via the local radio station.

3.3 Bolivia: Regional Centre of Agricultural Cooperatives (El Ceibo)

3.3.1 General overview of El Ceibo

Founded in the 1970s by 12 first-tier cooperatives, El Ceibo is a second-tier cooperative of forest and farm producers. It is located in the town of Sapecho in the municipality of Palos Blancos, in the department of La Paz. Sapecho is the geographic centre of the most important cocoa-producing area in Bolivia.

El Ceibo was created to support its members in the commercialisation of their cocoa production. Over time, it established different specialised areas of support including an agroindustry unit for processing and value adding, a technical assistance unit, and a financial entity for its members. Through these services, El Ceibo succeeded in well positioning its members' cocoa-based products in both national and international markets. It is currently owned by 48 first-tier cooperatives representing more than 1,300 producer families (around 8% of farming families in Palos Blancos) who produce organic and Fairtrade-certified cocoa.

3.3.2 How El Ceibo is mobilising internal finance

Since 1994, El Ceibo has been testing different financing models that would work within the organisation. In Palos Blancos, there were at least seven financing entities, but none of them offered loans that were appropriate for cocoa production. There was a need to create credit services to support the increase in cocoa production in volume and yield. Thus, El Ceibo established a US$100,000 revolving fund with its own saved funds from profits to provide credit to its members.

In its first phase, it provided loans in kind with cocoa seedlings and in its second phase it provided cash credits. The fund operated between 1994 and 2006 through El Ceibo's unit for providing technical assistance to its members. However, managing credit was a new experience for El Ceibo, which faced challenges related to defaulted loans and covering administrative costs.

El Ceibo continued to explore appropriate financing models to further channel resources to its members and, in 2008, it partnered with Pro-Rural (the Bolivian Association for Rural Development), a non-profit organisation that works to strengthen social and environmentally sustainable business. Initially, El Ceibo asked Pro-Rural to administer its revolving fund, but this was not possible as Pro-Rural did not operate as a financial intermediation entity. Together, the two organisations agreed to establish a rural investment fund, Alternative Finance for Development (AFID), under the shared risk modality.[6]

The shared risk contract to establish AFID was signed in December 2008 and operations began in 2009, comprising contributions of US$214,500 from El Ceibo (68%) and US$100,000 from Pro-Rural (32%). These resources were complemented with US$400,000 from the Inter-American Development Bank (IDB) Group's Multilateral Investment Fund that was channelled to AFID by Pro-Rural as a loan.

Initially, AFID operated within El Ceibo and was fully managed by its leaders. Over time, it established its own protocols, procedures and systems to manage and assess risks, with technical support from Pro-Rural. Once AFID was sufficiently developed, it became an autonomous entity with the legal status of a civil association, allowing for the gradual departure of Pro-Rural support. AFID concluded its relationship with the Pro-Rural/IDB Group Multilateral Investment Fund in 2012.

Once it became autonomous, AFID joined the National Organisation of Community Financial Institutions of Producers (FINDEPRO), a higher-level member-based organisation. Through this organisation, AFID developed more capacity, professionalised its staff and acquired a digital system for managing its loan portfolio and other operations. Through FINDEPRO, the organisations liaised with the government and regulating agencies to advocate for a legal form and legislation for their type of organisation. In 2013, the government promulgated the Legislation for Financial Services N°393 recognising communal financial entities, which would fit AFID and other similar mechanisms.

3.3.3 Internal financial mechanism used

AFID has been operating for years as a civil association and it is now in the process of becoming formally a communal financial entity, which is similar to a credit cooperative, but as per Bolivian legislation it is constituted by producer organisations with communal capital. AFID is formed by the members of El Ceibo, and any new member of AFID has to comply with the same conditions as El Ceibo requires of its members, which includes having at least three hectares of cocoa in production or development and being involved in organic production of cocoa and/or other agricultural products.

Most of AFID's credit products are tailored to the needs of El Ceibo members with the purpose of supporting cocoa production and other agricultural activities. There are other loans known as unrestricted loans that can be used for any purpose. AFID follows a conventional credit process, similar to that of other financial institutions, and where

6 'Shared risk' means distributing the potential negative consequences or uncertainties associated with an investment or financial transaction across different participants, rather than having a single party bear the entire risk. In this case, Pro-Rural is sharing the risk with the producer organisation, El Ceibo.

the applicant does not fulfil conditions, AFID proposes some modifications in terms of lowering the size of the loan or extending the repayment period.

The management structure of AFID is similar to a cooperative, including a general assembly, board of directors and oversight committee. AFID's board of directors consists of members who have previously been board members of their first-tier cooperatives. Candidates must have a track record of good management, and be up to date with all contributions and obligations.

To increase its share capital, AFID requires its members to pay a one-off membership fee equivalent to US$100. El Ceibo has also made an important contribution to AFID's assets in the form of a donation. AFID mobilises savings and fixed-term deposits of members to fund loans and generates profits from this as another source of finance. Additionally, as an established organisation El Ceibo also channels funds from external sources, such as banks and governmental organisations.

AFID has grown significantly since its foundation, increasing its assets from almost US$700,000 in 2011 to US$2.5 million in 2021. At present, all of AFID's profits are reinvested with the purpose of continuing to grow and serve its members.

3.3.4 Impacts of the financial mechanism

The success of AFID cannot be understood without understanding the success of its parent organisation El Ceibo and the technical and financial support it has provided, which has allowed AFID to grow and consolidate over time. The creation of AFID made it possible to mobilise funds from El Ceibo's cooperatives to offer appropriate credit products to its members who greatly contribute towards tackling climate change and achieving food security through organic agriculture and agroforestry.

Thanks to AFID, cocoa producers of Sapecho are able to access financial products with favourable borrowing conditions specifically tailored to their needs and conditions, informed by El Ceibo which has this specific knowledge. The credit provided by AFID has enabled producers to increase the production of good-quality cocoa that is marketed by El Ceibo.

Cocoa producers who have obtained credit from AFID and who later apply for credit from private banks have the advantage that the private financial system takes into account their positive credit experiences with AFID. In addition, the fact that they are members of the El Ceibo cocoa cooperative is evidence for banks that the credit applicant already has access to a good market for their cocoa. In addition, financing from AFID enables them to access the benefits of the National Cocoa Programme, where the government provides equipment to improve the production. An AFID loan provides the producers with the funds required to access the programme.

3.4 Ecuador: Union of Peasant and Indigenous Organisations of Cotacachi (UNORCAC)

3.4.1 General overview of UNORCAC

The Union of Peasant and Indigenous Organisations of Cotacachi (UNORCAC) is a second-tier producer and territorial organisation, created in 1977 and gaining legal recognition from the Ministry of Agriculture and Livestock on 21 April 1980. It is made up of 45 Andean Kichwa Indigenous communities and 3,500 families who mostly work in agricultural production. UNORCAC manages an Andean landscape located in the Cotacachi canton, Imbabura province of Ecuador.

Since its foundation, UNORCAC has supported its members in many areas including advocacy for land, infrastructure and basic services, as well as providing technical support for productive activities, and incubating enterprises to self-finance the organisation. Over the last two decades, UNORCAC has expanded its operations to promote the sustainable use of agrobiodiversity and agroecological production to guarantee food sovereignty, focusing also on health and revitalising ancestral medicine.

Over the years, UNORCAC has consolidated itself as a leading organisation in the country through strong internal governance, social cohesion and its democratic culture. Initially, it was a beneficiary of development projects led by other institutions. By leveraging this support, it has evolved to become a self-reliant organisation that builds strategic alliances with external partners to achieve its objectives.

3.4.2 How UNORCAC is mobilising internal finance

Due to existing barriers to accessing finance from conventional entities and the intention to increase the productivity of its members' enterprises, UNORCAC set out to offer financial services to its members.

To work towards this objective, UNORCAC started incorporating a component of facilitating access to finance in the development projects it was implementing in partnership with external partners and with ODA funding. In this way, UNORCAC gained knowledge related to financial management, and specifically managing credit. For example, between 1998 and 2002, UNORCAC worked with Codesarrollo Bank to set up a small credit fund for its producer members. UNORCAC personnel participated in the process of selection, analysis, delivery and monitoring of credit, which was a valuable learning experience. Later on, UNORCAC secured some funding from the Inter-American Foundation with the objective of creating a mechanism for accessing credit for producers of rural Indigenous communities.

From these experiences, UNORCAC decided to establish a SACCO. To come up with the initial capital, UNORCAC encouraged its members to buy shares, known as certificates of contribution in Ecuador. The founding members were 20 individual leaders of group members of UNORCAC, who purchased certificates at US$15 per member. UNORCAC itself as a legal entity also contributed a total of US$30,000. Lastly, UCODEP (Unit of Cooperation and Development of People, now Oxfam Italy) contributed US$5,000 in certificates of contribution, but although this made it a founding partner it did not remain as a member and the amount was treated as a donation without any attached conditions, thereby not interfering with the management of the cooperative, which remained democratically governed by its members.

UNORCAC member working on the chakra © Pareto Paysages

Santa Anita was founded in December 2001, through Ministerial Agreement 347 and registered in the National Directorate of Cooperatives (No 6,467). A few months later, in a small office in the city of Cotacachi, the Santa Anita cooperative began operating. It had two staff – an administrator and an accountant secretary – and the support of two peasant technicians from UNORCAC who encouraged producers from the Indigenous communities to become new cooperative members.

3.4.3 Internal financial mechanism used

The Santa Anita cooperative operates in compliance with Ecuador's Popular and Solidarity Economy Law as well as its own internal regulations. It is regulated by the Superintendency of Popular and Solidarity Economy and Segment 3 of the Cadastre of Popular and Solidarity Economy Institution, which is a government institution acting as a technical body for the supervision and control of entities within this specialised financial sector. The governance, management, administration and internal control of the cooperative is managed through a general assembly, board of directors, supervisory board, management team and special commissions and committees.

Its members can access a range of financial and non-financial products and services, such as financial education. Its financial products include savings accounts, fixed-term deposits, microcredit for business and agriculture, and credit for general purposes besides productive activities.

UNORCAC and the Santa Anita cooperative have formed strategic alliances with networks of intermediary microfinance institutions at national and regional levels. Some of these include the Federation of Savings and Credit Cooperatives of Ecuador (FECOAC), the National Popular and Solidarity Finance Corporation (CONAFIPS, a second-tier cooperative bank), and others. This enabled them to leverage opportunities for complementarity, exchange services and knowledge, and apply shared strategies to maximise impact.

The cooperative raises funds from savings and fixed-term deposits and from offering microcredit loans to its members. Income from services provided to its members constitutes the main source of funding for the cooperative, and its membership has grown in parallel with the expansion of the cooperative's coverage of new territories. However, the saving capacity of families in this sector is low and to ensure liquidity, the cooperative has also established strategies to attract additional resources, for example from members in better-off urban centres. Through savings and fixed-term deposits from the urban areas, it funds loans to provide credit to the rural sector, establishing a financial flow between urban and rural areas within the territory.

Another strategy to attract additional funds was the continuous strengthening of its network of allies and partners and active participation in rural credit projects, thus channelling external funds from ODA, the government and second-tier financial cooperatives to its members in the rural sector. For example, Santa Anita offers its members access to 'green' credit for sustainable productive activities from CONAFIPS at a very low interest rate.

The Santa Anita cooperative has now provided 22 years of service to rural populations living in the provinces of Imbabura and Carchi. By the end of 2002, the Santa Anita cooperative had 153 members and by 2010, 4,500 members: today, the cooperative has 15,000 members, which accounts for 37% of the population in the Cotacachi Canton.[7] Its headquarters are located in the city of Cotacachi, with an additional five offices in other towns, as well as three extension booths in rural areas at two other locations.

Since 2002, Santa Anita has grown its assets exponentially, starting with US$331,500 in 2002 and rising to US$38.1 million by the end of 2022. Currently, the cooperative manages a loan portfolio of US$11.3 million with a low rate of default of 5%.

3.4.4 Impact of the financial mechanism

Many Santa Anita members have expressed how useful the loans have been for improving their individual businesses. The credits have been used for agricultural inputs, land, livestock and equipment, among other uses. Since Santa Anita was born from UNORCAC, their direct collaboration has also proven beneficial to its members and has increased impact.

A good example of the impact of this was the creation of the community tourism company Runa Tupari Native Travel, a community tourism company that offers travellers the opportunity to stay with Indigenous families. Participating families first had to adapt their homes and train in hospitality skills. To do this, families were able to access loans from the Santa Anita cooperative. Joining Runa Tupari enabled the families to increase their income by 40%.

The cooperative has also contributed to increasing financial literacy among its members, increased the participation of Indigenous women in leadership roles, and contributed to the development of the community through small projects related to education, health and campaigns against violence against women. Lastly, UNORCAC has greatly benefitted in the long term from its initial investment in Santa Anita as the returns gained from this have also contributed to its financial self-reliance.

7 Based on 2010 census.

3.5 India: Self Employed Women's Association (SEWA) and Shri Kheda District Association

3.5.1 General overview of SEWA

Formed in 1972, the Self Employed Women's Association (SEWA) is a national-level trade union in India with 2.5 million women members. Its members are all women workers in the informal economy engaged in a wide variety of occupations, with a high proportion working in agriculture and animal husbandry. The purpose of SEWA is to achieve full employment and self-reliance for all its members, and it achieves this through a combination of advocacy, forming grassroots organisations, offering integrated training, facilitating access to finance, and growing women's enterprises.

While SEWA is a national entity, it has a decentralised institutional model with autonomous and independently registered associations, often at the district level. It is these district associations where individual members are registered and pay annual membership fees. Although these district associations are independent, they federate at the state and national levels.

This case study uses the example of a district-level association to illustrate how SEWA offers financial services to its members. The Shri Kheda District Association was registered officially in 1995. Its remit was to provide local women workers with both organisational support rooted in the local context and access to much-needed financial services. All members are women from the Anand and Kheda districts, most of whom are smallholder farmers and farm workers, tobacco workers, animal husbandry workers and weavers. Other occupations include running microenterprises such as handicrafts, food processing, small trades and services.

Although the association is an independent legal entity with its own workforce, infrastructure, services and functions, it is very closely connected with SEWA and receives constant support from it.

3.5.2 How SEWA is mobilising internal finance

In the 1970s, a group of members of SEWA realised they needed their own financial institution because existing financial products were not accessible to them. They decided to establish a cooperative bank specifically for self-employed women and mobilise members at the national level to contribute a small amount for share capital. Around 4,000 women contributed the equivalent of US$0.20 each and with this, they established the Mahila SEWA Cooperative Bank. The bank is formally registered, and under the dual control of the Reserve Bank of India and the state government, with assets valued at US$55.6 million in 2023.

In the same way, in the districts of Anand and Kheda, access to finance was unavailable for self-employed women. SEWA started working in these districts in the 1990s through a woman leader who would approach women in the district and share information with them about the benefits of membership. Slowly, SEWA started growing organisations at the village level and then at the district level. These groups evolved over time to form the Shri Kheda association.

At the village level, women started savings groups organised by trade, such as farming. These groups enabled them to save collectively, take out small loans when needed, and served as a space to share experiences, learn new skills and generally benefit from peer support. SEWA started in these districts with one savings group of 11 people and there are now over 1,300 groups, which range from 10 to 15 members. New members contributed by paying a one-time membership fee of US$1.20 and then US$0.20 annually, which provided the initial capital for the association to formally establish itself.

SEWA member showing the RUDI mobile business app © SEWA

3.5.3 Internal financial mechanism used

The Shri Kheda association worked with SEWA to develop a number of services available to the association's members, including microfinance services such as savings, loans, revolving funds, fixed-term deposits and microinsurance. The association funds itself from the small fees for these services and from membership fees.

As the association has grown over time, so has the number of its members and the need to offer more financial services. To cover this demand, the Shri Kheda association bridges the gap between its members at the district level and the SEWA bank. The SEWA Bank offers a variety of tailored financial products including savings accounts, recurring and fixed deposits, pensions and loans. The Shri Kheda field team provides members with active training on financial services, including financial literacy, as well as information on the financial products and related facilities offered by the bank.

There are high levels of trust between the field team and the association's members, which makes it easier for members to feel at ease and confident to start using the SEWA bank as a trusted intermediary. Many women in the sector do not have bank accounts and distrust the formal financial sector and consequently lacked knowledge about the benefits of opening a bank account. By acting as a bridge, the association has contributed to the financial inclusion of its members through the SEWA Bank.

The main goal of the SEWA Bank is to inculcate savings habits in its members to increase their resilience. The Shri Kheda association helps to achieve this goal by providing ongoing financial literacy training for its members. To help its members cope with small financial difficulties, the Chinta Nivaran Yojana scheme (meaning 'savings to overcome your worries') was started in 1999. It was designed specifically for savers who only make small monthly deposits of 40, 80 and 120 Indian rupees (around US$0.50–1.50) for up to five years. After one year of joining the scheme, members can take out an overdraft loan to cope with emergencies, such as natural disasters, accidents or illness. The association with the SEWA Bank currently provides a service of fixed-term deposits from 90 days to more than five years. Generally, trained field teams promote these products to members who have already established good savings habits and are ready to take the next step (such as increasing their savings to help expand their businesses).

As much as possible, SEWA Bank aims to inculcate the idea that loans should be for productive purposes only. However, where needed, the association covers loans for other purposes that are deemed important for women's empowerment. For example, the Shri Kheda association also offers loans to pay for home renovations or for housing, which is important as it promotes homeownership for women. To access bank loans, the association works with the savings groups to understand their needs and facilitates the loan application for its members. A minimum of one year of savings is mandatory for members who wish to take out a loan. During hard times such as the pandemic or flooding, the association has a special programme that offers loans with low or zero interest rates.

Beyond its work with the SEWA Bank, the Shri Kheda association's loans programme is also linked to some projects offered by its partner organisations. For example, the association facilitates financing solar energy by identifying several green energy products that can be used by households, farms and businesses such as greener cooking systems, lighting and water irrigation pumps, and finding funding sources to provide special loans for this. These include usually additional services and benefits such as extended credit repayments, training and demonstrations.

3.5.4 Impacts of the financial mechanism

Members of the Shri Kheda association have greatly benefited from the financial services it offers. These services are simple to use and trustworthy, helping the association's members not only generate savings but also helping them to come up with new ideas for developing their businesses. SEWA at the national level has various women's enterprises that have expanded throughout the districts with the help of the district associations. Access to financial services is only one of the many services offered and is very well complemented by the business-incubating nature of SEWA.

For example, SEWA's Rural Urban Distribution Initiative (RUDI) is a rural distribution scheme that enables the direct promotion and marketing of agricultural commodities procured through the Farmer Association of Gujarat, a rural retail network of farmers and agricultural labourers. RUDI is an agricultural cooperative owned and operated collectively by groups of SEWA members. The scheme procures produce from smallholder farmers, adding value to their products and then selling the products to the local community through a network of women sales agents known as *rudibens*. Many members of the Shri Kheda association have become *rudibens* and have increased their income by using their loans to purchase equipment (such as a rickshaw or setting up a kiosk) to improve their coverage.

In addition to the business and income improvements, the ongoing and in-depth training in financial literacy and focus on creating savings habits is one of the cornerstones of SEWA's approach to financial services, and it greatly increases their member's resilience.

3.6 Brazil: Cresol Credit Union System

3.6.1 General overview of Cresol

Cresol is a Brazilian cooperative and is recognised as a cooperative financial institution by the Brazilian National Financial System. The structure and operation of Cresol is based on the General Law of Cooperatives 5764/1971. This is a basic model that focuses directly on providing the best services for the benefit of its members and for strengthening the cooperative network. Its mission is to provide financial solutions with excellence by fostering close relationships in order to generate development for its members, their companies and communities.

Cresol currently consists of one third-tier (apex) confederation, four second-tier central credit union organisations, and 72 first-tier credit unions. Through its 734 local branches distributed across 18 Brazilian provinces and states, Cresol provides financial services to more than 786,000 member families. Of these, 245,000 are involved in agricultural activities and make up for 4% of all rural families in Brazil.

3.6.2 How Cresol is mobilising internal finance

The founding of Cresol was in response to the exclusion of family farmers from the traditional national financial system, which at the time was made up of large banks located far from rural populations. Its initial purpose was to be an instrument to strengthen family farming through access to credit.

In the 1980s and 1990s, two farmer organisations contributed to the development of Cresol: the Association for Rural Guidance and Assistance Studies (Assesoar) and the Rureco Foundation. These two organisations were responsible for managing revolving funds financed from ODA resources. Managing these revolving funds prompted discussions in the farmers' unions and associations about the issue of access to credit. They identified the challenges and constraints of maintaining the operation of the funds: the limits to attracting more resources to finance farmers, and the legal limitations of operating credit lines and producing a profit. The decision of the farmers, farmers' associations, farmers' unions and the leaders of the revolving funds was the constitution of a credit union.

In 1995, 27 smallholder farmers in the southwest of Paraná founded the Cresol Rural Credit Union System with an estimated total capital of US$130 dollars after various discussions between small farmers in the region. The name reflects the interaction and solidarity among the cooperatives in the network. Their goal was to provide credit and other financial and non-financial services to smallholder farmers in the region.

The main objective was to organise a network of cooperatives that could become an alternative financial system, with the participation of farmer organisations as members, and contributing to the democratisation of rural credit and effective social control. In the same year, another four Cresol credit unions were founded in cities of the west, southwest and centre of Paraná.

The first resources managed by Cresol came from the mandatory initial contribution made by each member on joining the cooperative. Founding members contributed the equivalent of 10 bags of corn (equivalent to approximately US$13). In turn, each member could borrow a maximum of 20 times their share of the capital.

With this initial equity, Cresol began to operate in the Brazilian financial system, offering its members initial checking and savings account services, long-term loan applications, personal credit, revolving fund management, and access to productive credit available from Pronaf (Brazil's National Programme to Strengthen Family Farming). Cresol's efficiency in the operationalisation of Pronaf was essential for the expansion of the system, in terms of numbers of members and managed assets. This is important because the demand for credit from its members is greater than the financial investment capacity of the members themselves.

From 1995 to 2015, Cresol provided its financial services exclusively to farmers in rural areas of Brazil. However, in 2015 its strategic planning provided new guidelines to serve all people living within Cresol's coverage areas. This decision was taken by Cresol in consideration of the changes experienced by Brazilian family farming, especially the decrease in the number of farmers and the continuing rural exodus of farmers' sons and daughters to the cities. Thus, in 2015, Cresol opened its doors to the general public, both rural and urban. Agriculture continues to be the main destination of Cresol's credit portfolio, which offers microcredit to its rural and urban members. Currently, more than 245,000 farmers and more than 100 farmers' organisations are Cresol members.

3.6.3 Internal financial mechanism used

By 2022, Cresol's assets had grown to US$4.7 billion, making it one of the biggest credit unions in Brazil. A part of its funding comes from the contributions of its members in terms of savings and investments. However, since its foundation, Cresol has also developed strategic relationships with national and international actors, receiving support from other organisations, such as private and development banks, and international funds, including the Brazilian Development Bank (BNDES). For example, Cresol helps facilitate farmers' access to BNDES agricultural credit lines. By the end of 2022, Cresol was the financial institution with the largest number of indirect BNDES operations, with 81,437 operations and a total placement of US$880 million.

To access Cresol's financial services and products, natural persons or legal entities must apply to join a first-tier Cresol cooperative and make an initial contribution of US$20. This contribution is still owned by the member but is also now an asset of the cooperative. If a member leaves the cooperative, they recover their share capital.

To access credit, members must first undertake a credit risk assessment to assess their current financial, legal, social and environmental situations. In general, for the first three, the following criteria are used: economic/financial situation, degree of indebtedness, ability to generate results, payment punctuality and delinquency, contingencies, sector of economic activity, credit limit, wealth and income. To reduce the risk of members defaulting on repayments, Cresol has a good scoring system and offers complementary technical activities to help make the investments viable. Currently, the delinquency rate of the Cresol Credit Union System is below 3%.

By having operations in 18 Brazilian states and in different Brazilian biomes, Cresol has had to develop financial products and services for the most diverse agricultural sectors. In 2021, Cresol financed 265 different agricultural activities, from traditional soybeans to silkworm moth production. The main agricultural value chains to benefit from the credit offered by Cresol include corn, soybeans, wheat, beans, coffee, fruit trees, vegetables, dairy cattle and meat cattle, chickens and pigs. The types of financing are also very diverse. For example, among many others, Cresol provides finance for seeds, agricultural inputs and machinery, photovoltaic panels, irrigation, farm structures, livestock, services and working capital.

3.6.4 Impacts of the financial mechanism

Cresol's main positive impact is that it provides access to adequate productive credit, investment credit and working capital to farmers' organisations and farmers directly. Cresol understands the realities of and challenges facing its members and their communities, and so has developed solutions to adequately meet their needs.

Cresol has its own technical assistance programme called Rural Entrepreneurship, which provides technical assistance to farmers for the development of agricultural value chains. Through improvements in management, better utilisation of natural resources, and strategic investments in technology and sustainable practices, the programme achieves a higher income for farmers. For example, a group of milk farmers from the Cresol Liderança Credit Union was supported by the programme between 2020 and 2021. They had a 28% increase in milk production and a 56% increase in income. With an annual investment of US$800,000, Cresol benefited 1,430 farmers in 2022 and more than 30 farmers' organisations.

A second very important impact of Cresol is that it provides farmers with access to the government's Agricultural Activity Guarantee Programme (Proagro) (which provides insurance for small and medium producers) and other private agricultural insurance. Family farming is a segment that suffers the worst effects of climate change, with floods and prolonged droughts becoming commonplace in Brazil. For this reason, Cresol is an important ally to farmers and farmer organisations in helping to reduce the climatic risks of their agricultural activity. In 2021, 14,877 applications for the use of Proagro were registered, with a total compensation of US$85 million to farmers. This guarantees farmers some financial protection against the impacts of climatic events, enabling them to continue producing food.

Finally, the increase in the participation of young people and women in Cresol's portfolio is notable. In 2021, Cresol reached US$750 million in the total portfolio for young people (up to 29 years of age) – an increase of 52% compared to the previous year. The presence of women in the total portfolio in 2021 grew by 49.7% compared to the previous year, totalling US$400 million. Proportionally, 23.2% of Cresol's members are young people and 38.7% are women.

SEWA member working on the farm © Isabela Núñez del Prado Nieto

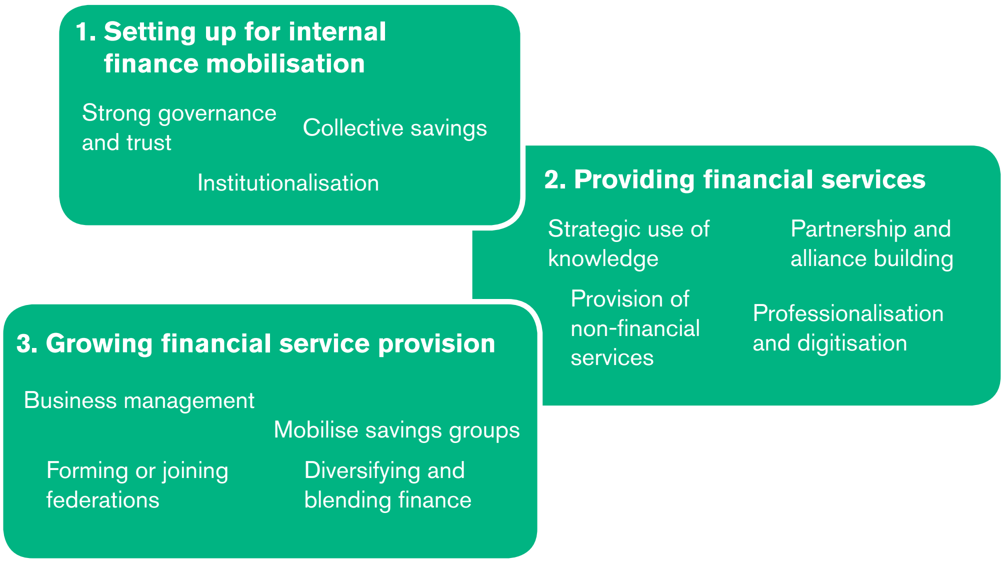
4 Insights from the six case studies

It is estimated that over 70% of demand for smallholder finance goes unmet and one quarter of all financing for smallholders comes from informal and community-based financial institutions (ISF Advisors 2019). Most of these institutions are funded through smallholders' own finances and, although there are many positive and innovative financial mechanisms advanced by many actors, the potential of FFPOs' internal finance has not yet received sufficient attention and investment.

These case studies show that there are ways in which FFPOs have mobilised their resources to provide financial services to their members at scale. This has many benefits beyond closing the existing finance gap, as financing institutions created and managed by FFPOs themselves are better suited for the needs of their members. More appropriate financing institutions will ensure that their collectively owned businesses, that have broader visons of prosperity (Macqueen *et al.* 2020), will be able to thrive, rather than being forced to change to accommodate the requirements of the existing financing sector.

Although the FFPOs in the case studies show different pathways for mobilising internal finance, they all share some common elements. The following sections describe these elements organised in 3 stages and 11 steps (see Figure 2).

Figure 2. Stages and steps for mobilising internal finance



4.1 Setting up the basis for internal finance mobilisation

The case studies show that there are various ways in which FFPOs can start mobilising their internal finance, but there are common starting conditions that will enable them to be more successful and sustainable in the long term.

For starters, recognising that mobilising internal finance is widely and frequently possible is essential for FFPOs and their support partners to act. Often, FFPOs will gain some profits from selling their produce, which can later be used as seed-funding for establishing a small financial mechanism that can grow over time. They can also mobilise their members' finances through savings groups, which can later save enough collectively to establish a credit union, as KANBAOCU did.

FFPOs have the ability to pool their resources, grow them and mobilise them to scale. The case studies presented here show only six examples – from a much larger pool – of groups that started saving a few hundred dollars together, and overtime created much larger financial cooperatives that manage hundreds of millions of dollars. The case of Cresol is a very good example of this. Founded as a local credit union in 1995 by 27 smallholder farmers with an estimated total capital of US$130, Cresol is now a third-tier confederation of credit unions with national reach and with almost US$5 billion in assets by 2022.

Strengthening internal governance and building trust is key to mobilising internal finance. In most of the case studies, the FFPOs were working as an organisation for a long time before they were able to establish an advanced financial mechanism. They first agreed a common shared purpose, and built trust among the members by establishing reliable organisational structures, processes and practices, and especially covering areas such as organisational management and financial accountability related to production. Once these are in place, members have more confidence in investing more resources and trusting their savings with an organisation. UNORCAC and El Ceibo were very established producer organisations that had solid structures and institutional procedures. They also experimented with different financing options first. For example, El Ceibo managed a revolving fund for some years before establishing AFID, while UNORCAC had a small credit fund for its members.

These experiences were fundamental to building the trust of their members, and once they were able to set up a financial cooperative, their members had the confidence to invest in shares for the starting capital. For apex-level organisations, setting up or working with existing savings groups at the village level was the best approach, as members had already built trust between themselves, such as in the cases of SEWA and KANBAOCU.

Organising collective savings mechanisms and cultivating savings habits among members is a solid starting point and should be an ongoing practice as an FFPO expands its membership. A proven good practice is setting up savings groups. As the literature suggests, savings groups increase members' ability to save and half of the case studies show that a first step to mobilising internal finance is setting up savings groups. This is the case of the Masopo Women's Club, SEWA and KANBAOCU. The Masopo Women's Club started mobilising funds through the establishment of a savings group. Later, with the raised funds, they were able to set up a mobile money business as a different income-generating activity. SEWA's first step when starting to work in new villages is to set up savings groups and, overtime, link them with the SEWA Bank.

Increasing savings' ability is a way of building liquidity among members, which can then enable them to invest in the financial mechanism of the FFPO. The case of KANBAOCU shows very clearly the benefit of working with savings groups, which made it possible to harness the strength in numbers of collective savings to establish the credit union.

Additionally, savings habits will provide the conditions for sustaining any financial cooperative in the long run, as one of the main sources of liquidity are savings and deposits made by members (Birchall 2013; McKillop *et al.* 2020). Mobilising savings to fund loan portfolios is key to the success of any financial cooperative (Branch and Klaehn

2002). In many cases, cooperatives will use the savings habits of members as collateral for them to access loans. This is the case with both KANBAOCU and SEWA Bank. For all these reasons, cultivating a savings habit is necessary as a base to build on.

Institutionalising the mechanism in line with a suitable option is essential. No matter the scale of the financial mechanism, it is important that there is a level of institutionalisation with agreed rules and assigned roles. For the Masopo Women's Club, for example, the key to generating collective funds was to establish a savings group with a constitution that explained the rules for all members.

For more advanced financial cooperatives, it is important that the FFPO investigates the available options for these entities, in line with the country's regulatory framework. Each country has a different context in terms of financial cooperatives (Cuevas and Fischer 2006) and, in some cases, there will be the need to advocate for new regulations. The case studies illustrate some institutional forms available. In India, SEWA established a cooperative bank, KANBAOCU and Cresol chose to form a credit union, and UNORCAC formed a savings and credit cooperative. The case of El Ceibo was different because they did not seem to find a suitable institutional form for their needs and advocated for the introduction of a different legal figure within the regulation.

4.2 Providing financial services

Once these conditions are established, FFPOs can build on them to start mobilising their resources by offering basic financial services to their members. Some common strategies have emerged from the case studies.

Strategically using the knowledge the FFPO already has about its members to tailor its financial services will ensure the services are beneficial and is also a way of managing risk. This knowledge enables the FFPO to determine the size and timeline of loans: for example, in the case of agriculture, this might mean establishing grace periods and repayment schedules according to harvesting times. For savings groups, knowing the members and their income-generating activities is key for trust building and the functioning of the group (Frölich and Nguyen 2020). Leveraging information from the savings groups can be instrumental for moving towards creating financial cooperatives. For example, understanding the share-out cycles and quantities of funds managed by VSLAs was key for KANBAOCU to assess the feasibility of establishing a credit union.

In the case of financial cooperatives, the knowledge of its members and customers is a key informational advantage that cuts down costs in loan screening processes and to reduce loan-default risk at the same time (Birchall 2013; McKillop *et al.* 2020). When FFPOs establish financial cooperatives, they already have a good knowledge and close technical familiarity with the members' portfolio of income-generating activities and opportunities.

Building strategic alliances and partnerships with other organisations is a helpful way to build capacities, access enabling investment, and generate and share knowledge. Many of the FFPOs in the case studies had a supporting partner providing in some cases enabling investment, but also capacity building in terms of financial management. ORGIIS Ghana and Pro-rural in Bolivia were key partners that provided support in different ways to KANBAOCU and El Ceibo throughout their journey of establishing their financial cooperatives.

It is important that the FFPO has a clear objective and strategy regarding their financial mechanism ambitions and seeks out partners that align with these, as they understand better their members and their circumstances. UNORCAC is a particularly good example of this: as a known organisation, it was a beneficiary of ODA projects led by other organisations, but when it set the objective of providing financial services, it started to incorporate this objective in all its ODA projects and looked for additional partners that would work with them towards it.

Provision of non-financial services to members has proven key for savings groups and financial cooperatives to strengthen cohesion and manage the risk of loan defaults. Most savings groups and some financial cooperatives have a social fund where members can quickly access funds in emergencies, which strengthens solidarity and trust among the members.

Financial literacy is a common and particularly important service as this lowers the risk of members mishandling their finances, and it also creates a supply for the financial cooperative to grow. Most of the financial cooperatives in the case studies provide financial literacy training to their members in different ways. SEWA, for example, has field teams within its district-level associations that provide members with financial literacy training. KANBAOCU has an education committee which, among other things, provides financial literacy as well.

Complementing loans with the provision of technical assistance for business and production is very helpful to reduce default rates. Most FFPOs have a business or technical support unit that complements the financial services, ensuring business success and loan repayment. For example, Cresol has its own technical assistance programme called Rural Entrepreneurship that provides support on various agricultural value chains.

One key benefit is that when FFPOs establish financial cooperatives, they already have a very good knowledge of the technical side of their members' productive activities needs and potential. As such, these financial cooperatives can work in close coordination with the technical side of the FFPO to achieve better results for their members' businesses. A good example is the case of UNORCAC, which started its community tourism company Runa Tupari Native Travel, while its savings and credit cooperative Santa Anita provided the loans for participating families to adapt their homes and train in hospitality skills.

Investing in the professionalisation of staff and digitisation of processes is essential to ensure the financial health of any mechanism. For savings groups and small credit services provided by FFPOs, ensuring staff have a basic level of accounting and management skills can be enough but it is important that there is a good level of skills and expertise within the management staff. For financial cooperatives, it is necessary to ensure staff include professionals with expertise to successfully manage loans, savings and other financial products. In some countries, the regulations and laws stipulate a certain level of training for staff.

Often, financial cooperatives struggle with financial management (Tesfamariam 2015), but there are ways in which they can overcome this challenge. UNORCAC, for example, implemented capacity-building projects in partnership with other organisations to learn about financial and credit management before establishing the Santa Anita Savings and Credit Cooperative, and El Ceibo looked for support from a higher-level federation to improve their systems and methodologies.

As financial cooperatives grow, it is necessary to establish rules and procedures for different types of products – such as instant access savings funds, longer-term deposit funds or loans of different sorts – with strict structures and limits. Evidence shows that it is good practice to take the time to professionalise staff and processes before starting to offer loans, and KANBAOCU is a really good example of holding back on offering credit until they had the appropriate systems in place. In the case of Cresol, as it grew and started offering a variety of products for different activities, it also started to make its screening and risk-management processes more sophisticated, such as developing a scoring system that worked for Cresol and its members.

From savings groups to financial cooperatives, digitisation has proven beneficial to build trust among members, to save time and to better manage finances and profits (Nanambi Wakyiku and Adong 2018). It is a good way of mitigating any finance mishandling and increase transparency, which also strengthens trust among members. Most of the FFPOs in the case studies have taken their operations to a level of digitisation. In Bolivia, AFID joined a higher-level member-based organisation, which enabled it to acquire a digital system to manage its loan portfolio and other operations. In the case of Cresol, it has a full online banking system to serve its members that was launched in 2021, and SEWA has a mobile app to support the operations of all savings groups.

4.3 Growing financial service provision

FFPOs offer financial services to their members at different scales, but to move from small financial mechanisms, such as savings groups, it is necessary to take different actions. The case studies offer some insights on how to grow the provision of financial services.

Managing the provision of financial services as an additional business or means of profit generation is crucial for growing a financial cooperative. Among many other products and services that an FFPO might sell, financial service provision is also a service. For example, UNORCAC was one of the main investors of the Santa Anita Savings and Credit Cooperative and because it has done so well, the returns have also increased UNORCAC's internal funds.

As a starting point for generating profits, providing loans should come with an interest charge, meaning that as the financial mechanism expands there will be more sources of profit. Therefore, it is key to continue expanding membership. Governance structures must include both managerial and administrative leadership and good accounting skills, but must also include outreach staff to offer the financial products to their members. Both KANBAOCU and SEWA have dedicated staff for this task with an 'education committee' in the case of the former and field teams and leaders in the case of the latter.

Mobilise savings groups to establish or link to financial cooperatives is a way of growing the provision of financial services. Evidence shows that savings groups have very positive impacts on their members, but their growth is constrained by the nature of the group and the duration of its savings and shareout period. Nonetheless, the literature and the case studies show that savings groups can establish financial cooperatives and this has positive impacts on savings and increasing the incomes of members, and advance financial inclusion (Kim and Kwak 2021).

This can happen in different ways. There are experiences where one relatively large savings group will decide to establish a financial cooperative, which in turn will attract other savings groups and their members (Seibel 2017). The case of KANBAOCU shows that an FFPO can mobilise different savings groups among their members to collectively establish a financial cooperative. Another way is for savings groups to link with existing financial cooperatives, which can be facilitated through an FFPO, which is illustrated in the case of SEWA.

It is also possible to first start with financial cooperatives and then promote the creation of savings groups which can be later linked to the cooperative. This was the case of another FFPO not included in this report but part of FFF called the Network of Groups of Farmers and Breeders of Arusha (MVIWAARUSHA) in Tanzania, made up of 12,500 members. MVIWAARUSHA established eight SACCOs to provide financial services to its members but realised only later that these were not able to reach all members at the farm level. Therefore, they trained their members to form savings groups and linked them to the SACCOs once they were well-established.[8]

8 This case will be described in more detail in a forthcoming publication by IIED. See also Kayombo *et al.* (2023).

Diversifying funding sources and blending finance enables financial cooperatives to have more capital stability which lowers risk and also provides a vital conduit for private and impact investment. Financial cooperatives benefit greatly from diversifying their sources of funding. In terms of mobilising savings, which is how they evolve into true financial intermediaries, often they start taking deposits from urban clients with higher ability to save (Branch and Klaehn 2002). Santa Anita and Cresol are good examples of this. Both started serving only members in rural areas and eventually started taking savings and deposits from urban residents to increase their capacity to fund loans for rural areas, establishing a financial flow between urban and rural areas within the territory they serve.

Once FFPOs consolidate a financial cooperative, they can also seek partnerships to access external sources of funds to channel to their members, and in some cases earn commissions to increase profitability. For example, Fidelity Bank Ghana partnered with the Jwa Ngwaane Community Cooperative Credit Union to act as an agent to serve its customers in a town where they have better reach. Jwa Ngwaane provides this service on commission, which increases the reserves of the credit union. In a similar way, the Masopo Women's Club has also established partnerships with other financial entities after initially partnering with Zanaco, enabling it to grow its mobile money business and increase its profits.

The experience of establishing Santa Anita and AFID show clearly how financial cooperatives can be a good example of blending finance. For example, both UNORCAC and El Ceibo leveraged enabling investments to mobilise private capital from their profits and their members to increase access to credit for their smallholder producers to invest in their businesses. Once established, financial cooperatives can also provide a channel for private banks to invest in the activities of their members. Cresol is a good example of this, as it has various partnerships with private banks that allows it to increase its credit offerings to members.

For financial cooperatives to channel external funds as on-lending agents of external lines of credit successfully, it is important that they are well established, have a solid and transparent financial management and a consolidated democratic governance. The literature suggests that external finance in the form of credit will not strengthen weak SACCOs and can actually harm them by exposing them to risks such as elite capture and mismanagement, but strong SACCOs can become even stronger when these partnerships follow best practice (Fiorillo 2006; Morris, 1995; Ndiege *et al.* 2014).

Forming or joining federations creates impact at scale and harnesses strength in numbers. Often, financial cooperatives federate to form higher-level financial cooperatives to amplify their impact and to reduce risk (Birchall 2013). In some cases, they grow from the local level to a national federation and in others, they join existing apex-level organisations. Federating gives them various advantages, such as access to training, tools and services. It also enables them to advocate for policy change and to push the cooperative and solidarity economy forward.

A good example of these advantages is AFID in Bolivia, which joined the National Organisation of Community Financial Institutions of Producers (FINDEPRO), a higher-level member-based organisation. Through this organisation, AFID developed more capacities, professionalised its staff, and acquired a digital system to manage its loan portfolio and other operations. Through FINDEPRO, the organisations liaised with the government and regulating agencies to advocate for a legal figure and legislation for their type of organisation. In 2013, the government promulgated the Legislation for Financial Services N°393 that recognised communal financial entities.

Santa Anita and KANBAOCU also joined higher-level federations. Cresol set out to create its own alternative financial system: it started with one first-tier credit union and now comprises a third-tier (apex) confederation, four second-tier central credit union organisations, and 72 first-tier credit unions.

4.4 How internal finance supports FFPOs as change agents

Mobilising internal finance provides an additional source of income for FFPOs because they manage their financial cooperative or any other financial mechanism as another business. FFPOs in the cases presented have used various ways to earn profit from their financial services provision. They not only charge interest on loans, but also diversify sources of funds and often charge a service fee to increase their profits.

A good complementarity between the technical assistance provided by an FFPO and the credit products of the financial cooperative is also a way in which FFPOs can increase their pool of internal finance. The example of the Runa Tupari Native Travel company set up by UNORCAC illustrates well this complementarity. Because UNORCAC members can access loans from Santa Anita, they can join the tourist business and, as they join, the business grows and UNORCAC increases its internal finances.

If an FFPO's financial cooperative business becomes profitable and also improves FFPO's other businesses, then FFPOs are better able to continue delivering a myriad of global environmental and socioeconomic benefits (Bowler *et al.* 2010).

Unlocking access to external sources of finance by building a financial track record for members and increasing financial literacy is another key benefit. One of the reasons smallholders struggle to access conventional banking finance is their lack of a financial track record or credit history (Elson 2012). Therefore, when FFPOs provide their members with financial services through financial cooperatives, their members will start building a credit history which will in turn enable them to access loans and investments from other sources.

Additionally, financial cooperatives often provide financial literacy trainings to their members (Gordon Nembhard 2013; Muhaya Kadagi *et al.* 2015). This increases the ability of members to better manage their businesses, and to seek and secure funding through other sources beyond the FFPO. The case studies show how FFPOs provide financial literacy and for some of them, this is a key part of their financial service provision, such as SEWA.

The case of AFID illustrates very well how its service provision has enabled its members to access finance from other sources. Private banks take into consideration the credit record cocoa producers have with AFID and also their membership with El Ceibo as evidence of good market access, and this is seen an advantage when producers apply for loans.

Accelerating adaptive experimentation helps diversify businesses for climate resilience. Increasing the internal funding of an FFPO and for their members can also improve climate resilience. Linked to the above, the favourable terms of loans offered by financial cooperatives and savings groups enable their members to experiment with different productive activities. Since financial cooperatives know their members and their various income-generating options, they can grant loans for more experimental purposes, confident that the member has a sufficient portfolio of income generation to repay the loan. This means that trust-based loans can be made without requiring an exhaustive business plan for each experimental new venture – which allows rapid experimentation and adaptation that may be critical for climate change resilience. When FFPOs and their members have a variety of thriving businesses, they are better able to cope with the changing climate that is affecting agricultural activities.

A good example is the Masopo Women's Club. After establishing its savings group, it was able to start new businesses and set up an internal financial mechanism to invest in them. Before the mobile money business, the club used to make bushels and baskets to sell at the local town market. After investing in its mobile money business, the club was able to generate more profit, which was used to improve the basket and bushels production business but also to start livestock production and gardening by investing in chickens and goats, seeds and equipment. In 2020, there was a serious drought in Zambia but the club experienced few negative impacts because its members had multiple sources of income from different businesses and were not only dependent on farming.

Empowering women and youth through access to financial services and leadership positions: Most of the case studies presented here show how women and youth are benefitting directly from the provision of financial services offered by FFPOs. Often, women are particularly excluded from accessing finance from the conventional banking sector and savings groups have been very successful in empowering them (Brody *et al.* 2015; Karlan *et al.* 2017; Maganga 2021). The cases of financial cooperatives also show how they have increased women's and youths' access to finance. Cresol is a notable example: 23.2% of its members are young people (up to 29 years of age) and 38.7% are women.

Beyond access to financial services, the case studies also show that in some of the financial cooperatives (such as Santa Anita and Jwa Ngwaane Community Cooperative Credit Union), women have accessed leadership positions.

Building social cohesion and enhancing sustainable productive activities: Savings groups and financial cooperatives often offer services beyond loans and savings, such as solidarity funds or other services that are suited to their members, which builds social cohesion between its members and the FFPO (Sumarwan and Kusuma 2018). This has been further confirmed by all case studies, which show how the process of establishing savings groups and then later financial cooperatives has brought the members and leadership teams closer, particularly in KANBAOCU and the Masopo Women's Club.

Additionally, the activities funded are usually aligned with sustainable agricultural and other productive activities that are climate friendly and help tackle food security, such as organic agriculture and agroforestry in the case of El Ceibo members. Cresol, the largest organisation in the case studies, has specific environmental risk assessments for all loans disbursed and also provides assistance through its Rural Entrepreneurship programme for better utilisation of natural resources, and strategic investments in technology and sustainable practices.

The literature suggests that a combination of different financial products such as savings, credit and insurance, complemented by technical assistance and business support, contribute greatly to upscaling climate-smart agriculture practices (Ruerd *et al.* 2019). The case studies show how FFPOs' financial cooperatives often offer this combination and thus have the potential to contribute towards transitioning to climate-smart agriculture.

Diverse agroforestry system of El Ceibo © Boris Fernández Arancibia

5 Recommendations

Unlocking the full potential of FFPOs goes beyond their role in providing financial access to smallholders: it extends to their significant capacity to channel climate and nature finance directly to the local level. Approximately 25% of financial support for smallholders originates from informal and community-based financial institutions (ISF Advisors 2019) and the substantial yearly investments made by smallholders in climate adaptation reaches US$368 billion: this dwarfs commitments made by governments (US$230 million in COP27) (Hou-Jones and Sorsby 2023). FFPOs' financial cooperatives possess a pivotal role in effectively financing climate adaptation and resilience. Recognising and supporting FFPOs and their financial cooperatives can harness this vast potential. The following recommendations, drawn from the literature and case studies, offer actionable steps for FFPOs and other stakeholders to contribute to and support these efforts.

5.1 Recommendations for FFPOs

- Set the conditions for mobilising internal finance by strengthening the internal governance of your organisation, building trust and saving collectively to be able to invest in establishing an internal financial mechanism (see Section 4.1).
- Start providing financial services through a suitable financial mechanism, using your organisation's existing knowledge of your members needs and activities, establishing rules and procedures, and identifying and working with partners where needed to continuously improve services (see Section 4.2).
- Support the formation of savings groups and over time facilitate their merging or linking to a financial cooperative. Once these groups are established and working well, manage them as an additional business that has to be profitable (see Section 4.3).
- To ensure growth in financial cooperatives, aim to provide non-financial services, diversify sources of funds and blend finance, as well as federate with similar cooperatives so that you can strengthen each other and amplify impact (see Section 4.3).

5.2 Recommendations for ODA, donors and practitioners

- Recognise and build the capacities of FFPOs to mobilise finance through the provision of technical assistance to strengthen the financial management capabilities of FFPOs. This can be done through different project activities where FFPOs practice credit management, for example (see Section 3.4 Ecuador).
- Support FFPOs in facilitating the formation of savings groups and their eventual transformation or linkage to financial cooperatives. This can be done through capacity-building, facilitating dialogue spaces among various savings groups, and assessing the quantities handled by savings group in line with the needed amount for establishing a financial cooperative (see Section 3.2 Ghana).
- Complement FFPOs' internal funds with enabling investment to establish their own financial cooperatives through different blended finance modalities, such as shared risk and guarantees (see Section 3.3 Bolivia).
- Partner with FFPOs to support them in strengthening their financial cooperatives through technical assistance and enabling investments for the professionalisation of staff and digitisation of procedures (see Branch 2005 for general guidelines).

- Channel funds for nature and climate action through existing strong FFPO financial cooperatives with established and transparent governance and financial management structures.

5.3 Recommendations for policymakers

- Provide an enabling regulatory environment for financial cooperatives to thrive in dialogue with cooperative federations, following best-practice legal systems and ensuring institutional strengthening, while ensuring regulation and supervision is commensurate with the scale and level of sophistication of the institution.
- Facilitate national development banks and relevant programmes to partner with existing strong and well-established financial cooperatives to increase their scale and coverage and amplify their impact. Most cases in this report show good examples of this.

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Knowledge Products

Research Report

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Forests; Food and agriculture

Keywords:
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There is very limited access to finance for rural communities comprising smallholders, family farmers and Indigenous Peoples. Smallholder and family farmers comprise 90% of the total farms worldwide, and account for an estimated 80% of world food production. The finance gap hinders these rural communities' effective action on climate, nature, livelihoods and food security.

This research report delves into the critical role of forest and farm producer organisations (FFPOs) in mobilising internal finance to close this gap. By examining case studies from six countries, this report sheds light on how FFPOs can effectively leverage internal resources to offer financial services to their members, ultimately enabling sustainable development. It maps a set of practical steps that FFPOs follow to establish internal financial mechanisms, such as savings groups and financial cooperatives. These are accessible, trust-based financial mechanisms that meet diverse member needs, strengthen solidarity, empower women, increase climate resilience and fund sustainable, productive activities, often at significant scale.

With nearly a quarter of all finance directed towards smallholders channelled through informal and community-based mechanisms, there is immense potential to drive financial inclusion under terms that work well for smallholders and forest producers while benefitting nature and climate. Written for representatives of FFPOs and their technical support partners, as well as practitioners and policymakers in the land-use and finance sectors, this report offers a practical guide to support FFPOs and their financial mechanisms to harness this potential.

IIED is a policy and action research organisation. We promote sustainable development to improve livelihoods and protect the environments on which these livelihoods are built. We specialise in linking local priorities to global challenges. IIED is based in London and works in Africa, Asia, Latin America, the Middle East and the Pacific, with some of the world's most vulnerable people. We work with them to strengthen their voice in the decision-making arenas that affect them — from village councils to international conventions.

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The Forest and Farm Facility (FFF) is a partnership between the Food and Agriculture Organization of the United Nations (FAO), the International Union for the Conservation of Nature (IUCN), the International Institute for Environment and Development (IIED) and the European Agri-agencies (Agricord). FFF strengthens the organisations of Indigenous Peoples, forest communities and family smallholders to secure their rights, organise their businesses, sustainably manage their forests, and provide social and cultural services to the poor and marginalised.

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