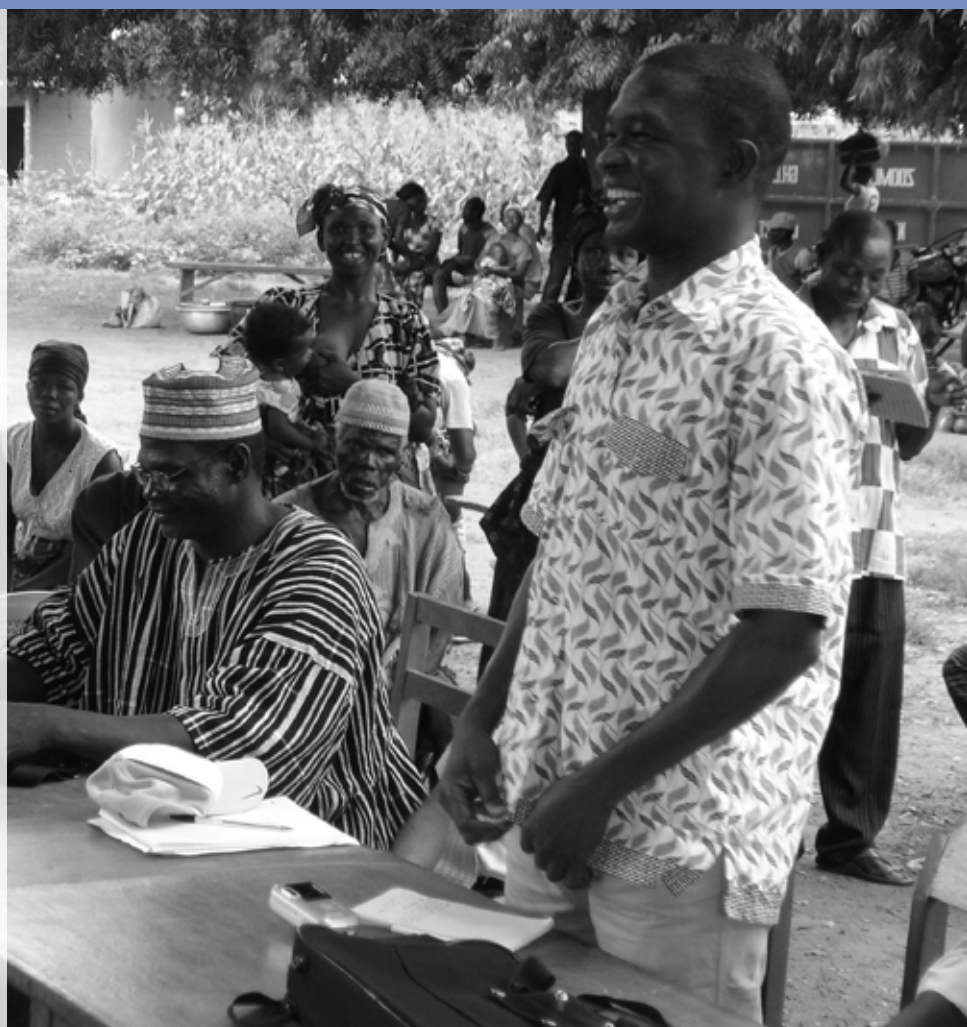


# Harnessing the Power of Savings and Lending Communities to Drive Agroenterprise Development in Ghana

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June 2011

CRACKING THE NUT CONFERENCE  
OVERCOMING OBSTACLES TO RURAL AND  
AGRICULTURAL FINANCE



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Printed in the United States of America

Cover photo: SILC group in Ghana. Tom Shaw/CRS

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ISBN: 978-1-61492-048-9

## Background

Agriculture accounts for 33.5% of Ghana's GDP and employs about 65% of the country's workforce. The vast majority of farmers are smallholders with 90% of farm holdings less than two hectares in size. Throughout Ghana, agricultural production and productivity vary with the amount and distribution of rainfall, level of investments made by the farmers, and the ability of farmers to access quality agricultural extension support.

For smallholder farmers in Ghana, limited access to agricultural finance and quality agriculture extension support are the two most binding constraints to achieving increased production and productivity.

In rural areas, even where there are formal financial institutions (commercial bank branches) and microfinance institutions, the financial services remain largely out of reach for smallholder farmers.

In addition to challenges in accessing finance for agriculture, farmers struggle to find reliable and qualified agricultural extension support. The Ministry of Food and Agriculture's (MoFA) Agriculture Extension Service has difficulty fulfilling its mandate to reach out to smallholder farmers to improve agricultural production within the country.

In the districts of Nadowli, Jirapa, Lawra, and Wa East in the Upper West Region (Figure 1), there is currently an average of 13 extension officers per district, giving an extension officer to farmer ratio of 1:5,000. This is more than 16 times greater than the accepted standard of 1:300<sup>1</sup>. As a result, thousands of smallholder farmers lack access to the support needed to implement proven best practices to ensure that their scarce resources, inputs, and implements are used to maximize productivity, production, and income.

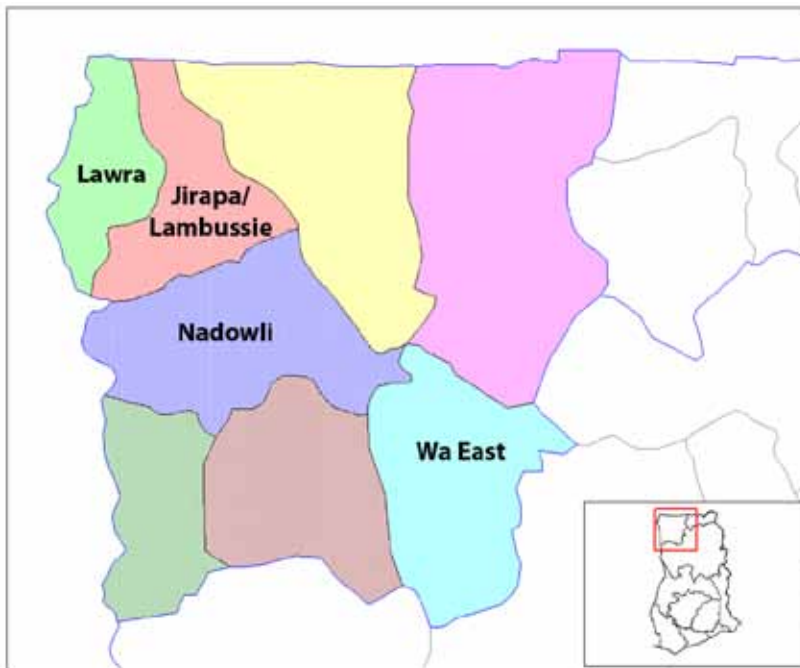
The problem is further aggravated by the logistical difficulties for the agricultural extension officers (AEO) to perform efficiently. Some of the problems, which have inhibited the AEOs abilities to effectively reach farmers are: a) unrealistic expected coverage areas hence inability

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1 [http://www.ghanadistricts.com/districts/?r=2&\\_id=147&sa=776](http://www.ghanadistricts.com/districts/?r=2&_id=147&sa=776)

to mobilize sufficient farmers, b) poor road conditions to farming communities making it impossible to reach them during the most critical parts of the growing season, c) inadequate means of transport to reach the farmers, and d) lack of motivation for the AEOs. As a result, smallholder farmers widely regard the MoFA's agricultural extension service as unsatisfactory.

**Figure 1. Project Districts in the Upper West Region, Nadowli, Jirapa, Lawra, & Wa East**



To overcome these challenges, CRS and its partners have implemented a strategy that mobilizes farmers into small groups with the dual purpose of:

1. Improving access to finance for agricultural investment through savings and internal lending communities (SILC); and
2. Enhancing the outreach of the extension officers, in terms of the number of farmers reached, without increasing their workload.

The innovative initiative has provided smallholder farmers with knowledge, skills, and finance needed to overcome longstanding constraints to local agricultural development. This paper shares highlights of this innovative approach.

## Program description

The Upper West Region of Ghana is the poorest of the country's ten regions.<sup>2</sup> The region has an annual mean rainfall of 900-1100mm, which occurs between April and September. Agriculture is the main source of income as 86% of its working population is farmers. The major crops cultivated are yams (385,820 MT), groundnuts (200,712 MT), sorghum (121,420 MT), cowpeas (79,255 MT), millet (71,836 MT), maize (70,660 MT), soybean (19,652 MT), and rice (7,605 MT).<sup>3</sup>

The region regularly records low agricultural productivity as a result of limited or lack of mechanization, limited use of high yielding seed varieties, virtually no water management or irrigation systems, and limited application of fertilizer.<sup>4</sup> Adding to these problems is the near non-existence of credit facilities for farmers. The region's few commercial financial institutions are located in towns that are far from most farmers. As such, some are obliged to take out in-kind loans from richer farmers, in the form of seeds, because they have already consumed what little they produced from the previous growing season. Then, at harvest time, these farmers repay the loans with double or more what they borrowed. This further reduces their ability to feed themselves and have sufficient seed for the next season's crop cycle. In 2009, only 10% of the region's farmers had access to credit from banks and other formal financial institutions.<sup>5</sup> This is attributed to the high interest rates, cumbersome application processes, lack of collateral, and low financial literacy rates. The few farmers who are able to borrow get their loans from friends, relatives, savings and credit cooperatives, and some NGO-managed microfinance institutions.

2 Ghana Living Standards Survey Report of the Fifth Round, 2008

3 Statistics Research and Information Directorate (SRID), Min. of Food & Agriculture, Dec. 2009

4 [http://www.cepa.org.gh/researchpapers/Upper\\_West\\_Socioeconomic\\_Development\\_WRP17.pdf](http://www.cepa.org.gh/researchpapers/Upper_West_Socioeconomic_Development_WRP17.pdf)

5 Investing in Smallholder Agriculture for Optimal Result: The Ultimate Policy Choice for Ghana (2009)



Rice production in Jirapa, Ghana. Tom Shaw/CRS



The agricultural sector in the four districts targeted (Nadowli, Wa East, Jirapa, and Lawra) is estimated to be growing at only 2.1% per annum. This is well below the national target of 6% per annum. Even though a number of efforts have been made to try to boost this sector, production continues to remain low. Crop production, by order of importance, is focused on maize, rice, cowpeas, yams, sorghum, and millet.<sup>6</sup> About 75% of farmers rely on traditional farming methods and are solely dependent on rainfall. Low production and low income is an annual reality for these smallholder farmers, who as a result have a low standard of living and face perennial food insecurity.

## **Integrating savings-led microfinance with agricultural extension**

In the “Integrated SILC, Agriculture and Water and Sanitation (ISAW)” project, CRS Ghana and the Diocese of Wa have introduced the Savings and Internal Lending Community methodology, which is an innovative savings-led microfinance approach. The purpose of the project is a) to encourage SILC participants to generate financial resources that can be invested in agricultural productivity, and b) to provide a link between SILC groups and the MoFA’s agricultural extension services.

The desired outcome is that smallholder farmers use the financial resources generated through their SILC groups to invest in farming and use the agricultural knowledge and skills they have acquired from the MoFA’s AEOs to increase their production and thus profitability (net income).

Prior to the implementation of the ISAW project, CRS and the Dioceses of Wa had already developed a strong relationship with the MoFA. The MoFA AEOs have been actively working to increase the capacity of a limited number of farmers on modern rice farming practices as part of the Emergency Rice Initiative (ERI), a project developed in response to the 2008 food price crisis in West Africa. This initiative created the basis for integrating agricultural training into the SILC methodology so as to have a greater impact on the lives of participants.

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<sup>6</sup> CRS internal data collected from the four project districts

## What is SILC and how does it operate?

The Saving and Internal Lending Communities methodology is a holistic approach that provides a strategy to increase low household income by providing people, primarily women, with access to loans for investment in income generating activities, using self-managed savings services. Because women are generally more vulnerable to food insecurity than men, it was decided to focus the SILC promotion on women without excluding men. As such, 75% of project participants are women. Women contribute significantly to agricultural production in Ghana, especially food production. Statistical data shows that women in Ghana account for about half of the agricultural labour force and produce around 70% of Ghana's food crops.<sup>7</sup>



SILC group in Jirapa, Ghana. Tom Shaw/CRS

SILC offers groups the opportunity to put their savings together into a fund, from which they borrow at an interest rate set by themselves,

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<sup>7</sup> Gender and Agricultural Development Strategy, 2001



and invest their loans in profit-making ventures. After a period of 8-12 months (considered a cycle), the groups share out their accumulated funds, including the interest earned on loans; i.e., through the payment of a dividend in addition to the return of their accumulated savings. This serves as seed capital for investments in other profitable activities that members identify. The SILC methodology has been tested by CRS in 27 countries in Africa. As of March 31, 2011 there were a total 537,050 active and graduated SILC members. The 313,139 active SILC members currently being trained and mentored have a cumulative savings of \$4,742,277 and a total outstanding loan portfolio of \$4,340,638 for these 27 countries.

The SILC methodology empowers people to better manage their own scarce financial resources. Specially trained SILC field agents (FA), selected from the communities themselves, mobilize and sensitize community members on the methodology and encourage them to form SILC groups. Once formed, the SILC groups are trained on the SILC operations. The training helps to ensure that SILC members understand the importance of each part of the methodology and enables the groups to develop a set of rules, (e.g., constitution) to guide the groups' activities. In the ISAW project, aspects of acceptable modern agricultural practices were introduced during the training period, in addition to the core SILC practices.

After SILC formation and the establishment of the group constitution, members began to contribute their savings during weekly meetings. Each member contributes the amount that she or he can afford. In most cases, this varies from one to three cedis per week (US\$0.70 - \$2.11). From the pooled resources members borrow to meet their various consumption and investment needs. Members are encouraged to invest in agriculture, as it is already their main livelihood strategy. After the regular SILC meetings, MoFA extension officers train farmers on improved agricultural practices. Topics include land preparation, selecting good seed for better yields, best harvesting methods for the local crops, and storage of grains.

## Results to date

*Agricultural Extension Officers and SILC FAs take on new role:* At the beginning of the project, the MoFA AEOs participated in a cross training with the SILC field agents. This was done for two reasons. The first reason was to equip the SILC FAs with a basic understanding of modern agricultural practices and to show them what technical support was available through the MoFA, thus enabling the FAs to provide more useful information to the SILC groups. The second reason was to provide the MoFA's AEOs with an understanding of the SILC dynamics and thereby enable them to focus their support services on exactly what would be useful to SILC members. After the cross training, it became evident that the MoFA's AEOs should participate in mobilizing the SILC members alongside the FAs. This joint mobilization process created an essential technical and "trust" linkage to farmers, who joined the SILC groups. The agricultural extension officers in the four districts therefore assumed new roles, which included joint mobilization, joint sensitization, and joint training of SILC groups. Likewise, the SILC FAs' exposure to technical training by the MoFA extension agents on improved agricultural practices has built their capacity to educate the SILC members on the use of these practices and to ensure that they can effectively link SILC groups with the MoFA's AEOs.

*Experienced farmers as catalysts:* The farmers who had interacted previously with MoFA extension agents in the Emergency Rice Initiative were among the first to join the SILC groups. These ERI farmers have been active participants in SILC activities since the beginning and have catalyzed interactions with the MoFA's extension officers. These individuals have helped convince other farmers to join the SILC groups since they were recognized as better farmers and thus others wanted to emulate them.

*Bridging the knowledge gap:* SILC members use their meetings as forums to discuss and share ideas on the investment of their loans, which includes farming and animal husbandry. The MoFA's AEOs participate in these discussions and help the SILC members to understand how best to invest their loans. In addition to the increased agricultural knowledge and skills

that have been acquired by SILC farmers, the participation of the MoFA's AEOs has helped bridge the knowledge gap that had previously existed between the rural poor farmer and the extension officers, as more and more farmers in SILC groups are receiving the extension support than was previously possible.

*Performance of SILC groups:* As of March 31, 2011 the ISAW project had mobilized 5,525 SILC members (4,143 women and 1,382 men) in 233 SILC groups (Table 1). Cumulative savings were GH¢ 93,591 (US\$ 66,377). 40.5% of the SILC members have already taken loans (at an interest of 10% per month set by the group) and invested in varying profit oriented activities.

**Table 1: ISAW Project SILC Group Performance as of March 31, 2011**

<b>SILC Groups</b>	<b>Total</b>	<b>%</b>	<b>Avg. per group</b>
Members	5,525	100	23.7
Women	4,143	75	17.8
Men	1,382	25	5.9
Number of groups	233	100	
Attendance rate		99.7	23.6
Retention rate		99.1	99.1
<b>Liabilities (L) in GH cents</b>			
Social Fund	26,782	19.5	114.94
Equity (E)			
Shares	93,591	68.0	401.68
Retained earning	17,196	12.5	73.80
Total L + E	137,569	100	590.42
<b>Assets (in GH cents)</b>			
Cash	65,226	47.4	279.94
Loans outstanding	62,293	45.3	267.35
Other	10,050	7.3	43.13
Total Assets	137,569	100	590.42
Loan to members	2,240	40.5	9.6
Fund utilization rate		68.1	

*Use of loans:* A simple random survey carried out in March 2011 in the four project districts found that of the 210 SILC members surveyed 41.9% invested their loans in agricultural activities, including animal husbandry (Table 2). The primary agricultural activities were dry season vegetable gardening, ‘pito’ brewing (local millet beer). Some farmers have bought and stored improved seeds (rice, maize, and groundnut) for future production and for resale to their neighbors for profit. In addition, loans were used for petty trade activities, for school fees, and to pay the family’s national health insurance premiums.

**Table 2: Actual Loan Usage for a Random Sample of 210 SILC Members**

<b>Loan Type</b>	<b>Number</b>	<b>Percent</b>
Farming	88	41.0
Petty trade	62	29.5
School Fees	19	9.0
National Health Insurance Premium	6	2.9
Other	18	8.6
Declined to say	17	8.1
<b>Total</b>	<b>210</b>	<b>100.00</b>

During a series of focus group discussions carried out in May 2011, the ISAW project was found to be on track to achieving the desired results. With access to SILC loans, farmers have increased their crop yields by making agricultural investment decisions based on the new knowledge acquired from the AEOs. Among other things, it was found that the SILC members are investing in fertilizer and insecticides for the first time, as well as using the new agricultural and animal husbandry techniques taught to them by the AEOs.

The survey further revealed that 90.5% of the 204 SILC members (6 of the 210 did not respond to this question) intend to invest

their share-out funds in agricultural production (Table 3). Share out will occur in early to mid June 2011 to coincide with the beginning of the rainy season. Unfortunately this publication was completed before the actual share-outs have occurred so it is not yet possible to compare the intended fund uses with actual investments in agriculture. It is; however, still significant that such a high level of members expect to invest in the production of maize, groundnuts, rice, cowpeas, yams, sorghum, and millet, as this would not have been the case in the absence of SILC for these farmers.

Table 3: Expected Investment of Accumulated Funds at Share-out for a Random Sample of 210 SILC members

Expected Investment	Number	Percent
Will invest in agriculture	190	90.5
Will not invest in agriculture	14	6.7
Did not respond	6	2.8
Total	210	100.00

Promising practices

Good practices: The ISAW project has demonstrated that a number of critical elements were necessary for the success of this innovative approach to financing rural agriculture in the Upper Northwest Region of Ghana. These are:

1. Cross-training of the MoFA's AEOs and the locally recruited SILC FAs to better leverage the combined value of the two interventions and create strong partnerships;
2. Provision of agricultural extension support directly through the SILC groups during regularly scheduled meetings to develop strong levels of trust with the AEOs and to facilitate

better responses to the SILC members' expressed agricultural needs;

3. Using the SILC meeting as a forum to share ideas on proper farming methods; and
4. Leveraging previous experiences working with AEOs, such as those of the ERI farmers, to attract other community members to join the SILC groups and thus benefit from the transfer of knowledge and skills from the AEOs to the other SILC members.

## Successes

*Integration of finance with agricultural extension:* The integration of savings and lending with agricultural extension has successfully addressed two of the major bottlenecks faced by smallholder farmers in Ghana. Within the ISAW Project poor farmers now have access to new agricultural knowledge and skills to improve their production. At the same time they have built a capacity to save and make loans, which they can and are using to invest in agricultural production.

*Elimination of costly in-kind loans:* The introduction of SILC has eliminated the need for farmers, who have had to consume all that they produce, to borrow seed from local 'richer' farmers. These farmers are now able to access funds to buy improved seeds, at a lower cost than before, and in a few cases, can even afford to pay for oxen to plow their fields, increasing the yield from their investment even more.

*Public sector-NGO collaboration:* CRS and its partner, the Dioceses of Wa, have involved the four district MoFA's offices in the ISAW project from the start. The introduction of the SILC methodology created the ideal platform for the MoFA to intervene in the project



area. It has allowed them to reach out to a larger number of smallholder farmers, who are not only eager for knowledge, but empowered through SILC to save and invest in their agricultural activities. Even though CRS and the district MoFA's offices are autonomous, the two are now seen as a "family," which brings unique capacities to facilitate positive changes in the lives of the smallholder farmer in the Upper West Region of Ghana.

## Lessons learned

While a number of critical lessons have already been learned from this project, it is expected that it will generate further lessons between now and the end of the project in December 2011. So far the lessons are:

First, that there is the value in linking SILC and agriculture. SILC, a savings mobilization methodology, increases the financial assets of the farmers. The farmers invest a significant portion of these assets into agricultural production, using the increased knowledge and skills provided by the intentional linkage to the MoFA's extension services. As a result, they are achieving a higher level of production (yield) and thus a higher gross income from the sale of the crops than previously.

Second, that it is important to connect the agricultural extension officers and the rural poor farmer through the SILC groups. This is essential to creating an opportunity for the MoFA's staff to reach out and support a larger number of poor farmers than normally possible, creating a bridge to mutual understanding. This bridge enables the flow of knowledge and skills to groups of farmers, who are empowered to save and invest in agriculture to improve their lives.

Third, this relationship contributes to positive behavioral change in the rural farmers participating in this project. More of these

farmers are now using SILC financial resources for improved seed and fertilizer. At the same time, the new knowledge is modifying their farming techniques. For example, these SILC group farmers are now harvesting their rice before it dries, avoiding crop loss that has been commonplace in the past.

While this experience has been very positive, the fact remains that there are insufficient numbers of agricultural extension officers in the project region. If one were to use this cross-training approach in other areas then there is a greater potential to mobilize a significantly larger number of farmers into SILC groups, enabling the MoFA's agricultural extension officers to be considerably more effective in providing more farmers with the knowledge and skills to make improvements to their agricultural production practices.



*About the author:*

Robert Asambobillah is CRS Ghana's Savings and Internal Lending Communities (SILC) Program Officer. Robert has a Bachelor's degree in Community Nutrition from the University for Development Studies, Tamale. After completing his B.S.c. degree, he spent 11 months in a National Service placement with CRS Ghana, where his key responsibilities were project implementation and coordination; partner capacity building; and monitoring and supervision of the CRS health unit programs for the Community Initiative on Maternal, Child and Newborn Survival Project in Kasena Nankana and Talensi Nabdam Districts in Upper East Region. Robert currently serves as CRS Ghana's microfinance program coordinator for savings-led initiatives.



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