



# Pro-ARIDES

Programme Agroalimentaire pour la Résilience Intégrée  
et le Développement Economique du Sahel

## Technical Note Research-Action

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# Informal financing mechanisms in Burkina Faso: prospects for Pro-ARIDES

**Authors :** SAVADOGO Yaya,  
SANGO Mohamed,  
OUEDRAOGO Touwendé Jean Parfait



Ministry of Foreign Affairs of the  
Netherlands



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## 1 Summary

Compared with microfinance institutions (MFIs), informal endogenous financing by Village Savings and Credit Associations (VSCAs) remains the most accessible and appropriate means of meeting the needs of Pro-ARIDES targets. The AVECs are initiated and set up by the target groups with the support of the interveners. However, the difficulties of survival of the AVECs at the end of the programs remain a challenge due to the poor implementation of an exit strategy by the interveners. With growing insecurity in the intervention zone, adaptive mechanisms for collecting savings and granting credit are needed. It is therefore necessary to set up networks of local supervisors to ensure the sustainability of AVECs, and to turn to Fintech (mobile banking) to collect funds.

## 2 Introduction

In order to guide the practitioners involved in the Pro-ARIDES program in the implementation of their activities, the Impact Research Institute (IRI) conducted a study<sup>1</sup> of the informal inclusive finance sector among households, micro and small enterprises, local organizations active in the agricultural and agri-food sector, and microfinance institutions (MFIs). This study drew lessons for scaling up good innovation practices. To achieve this objective, the methodology involved collecting data in several Pro-ARIDES zones, namely Imasgo, Didyr, Gomponsom and Bassi. In order to analyze the supply and demand for financing, member households of AVEC and several MFIs were interviewed. In all, 121 households and 30 MFIs were involved. This note presents the results of the study, as well as recommendations for the program.

*The Agri-Food Program for Integrated Resilience and Economic Development in the Sahel (Pro-ARIDES) is funded by the Dutch Ministry of Foreign Affairs and Danish Cooperation, and operates in 3 countries: Mali, Burkina Faso and Niger, in communes in the Sahelo-Sudanian zone. The overall aim is to contribute to increased resilience, food security and household incomes in agriculture and agro-pastoral activities, through effective decentralized institutions and organizations for improved service delivery, natural resource and land management, and overall economic development.*

## 3 Presentation of research-action results

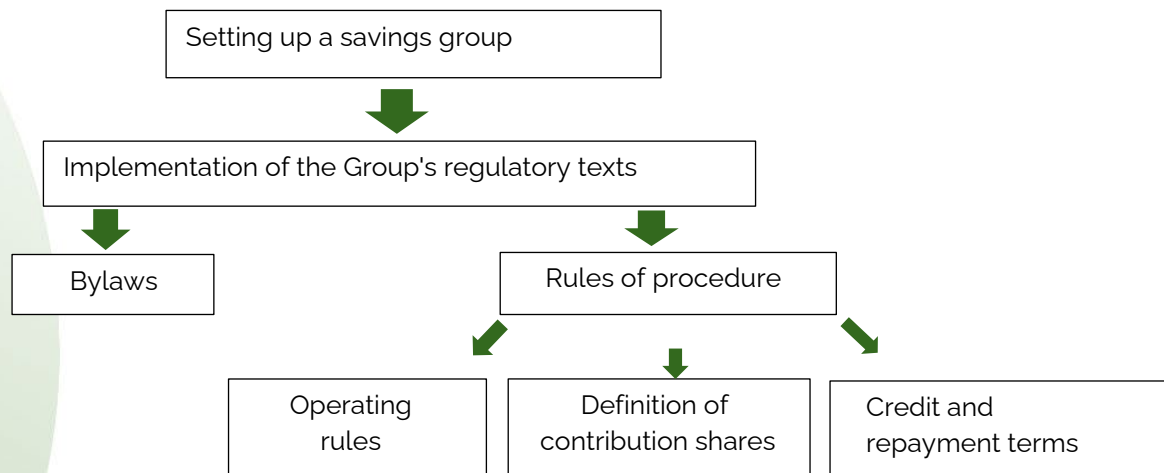
Savings and credit are essential for small producers in managing unforeseen situations and making investments to improve their livelihoods. Indeed, the loans granted by AVEC are used by members to develop income-generating activities (IGAs). However, current conditions of access to savings and credit from conventional financial institutions (banks, MFIs) still do not favor certain categories of rural communities, particularly those with low incomes, such as small producers, including young people and women. As a result, informal financing initiatives remain the mechanisms most in demand by these communities.

<sup>1</sup> Kini, J., Savadogo, Y., Nikiema, R., & Coulibaly, A. (2022). *Les mécanismes innovants de financement inclusif et décentralisé au Burkina Faso*. Rapport de Recherche-Action Pro-ARIDES, décembre 2022.



There are several informal financing mechanisms<sup>2</sup>, such as AVEC, tontines, warrantage and the indirect financing system. Tontines entrust the management of funds to a single person, and there is no coherent system for controlling the movement of funds; they therefore present a risk of deterioration in the bonds of friendship in the event of non-payment. The warrantage system is not very inclusive and is mainly accessible to large-scale producers. Moreover, financial profitability is highly dependent on the quality of the products stored and on fluctuations in market prices. As for indirect financing, this involves a company supplying agricultural inputs (fertilizers, pesticides, cotton seeds) to cotton growers with the guarantee that it will be reimbursed by them at harvest time. However, loan repayment problems arise in the event of a poor season, and there is a high probability of poor-quality inputs being supplied, which is likely to have an impact on the quantity and quality of production.

Given this situation, the AVECs, which are built around local dynamics and exist under several names (CVEC<sup>3</sup>, CECI<sup>4</sup>, CECA<sup>5</sup>, CVECA<sup>6</sup>) depending on the locality, help to promote access to financing that meets their needs. They offer multiple advantages (table 1) in terms of making funds available to members, and help to strengthen social cohesion. AVECs have an operating mechanism described as follows:



AVECs are part of the informal finance sector, as they are not regulated by the State, and even less so by the BCEAO.

An AVEC is like a development bank, mobilizing local savings and reinjecting them into the community to finance local activities such as petty trading, small ruminant breeding, small-scale processing and so on. In addition, a solidarity and training fund manages social events (christenings, funerals, illnesses) and capacity-building activities.

<sup>2</sup> For more information on informal mechanisms, cf. Rapport recherche-action FID 2022.

<sup>3</sup> CVEC : Caisse villageoise d'épargne et de crédit

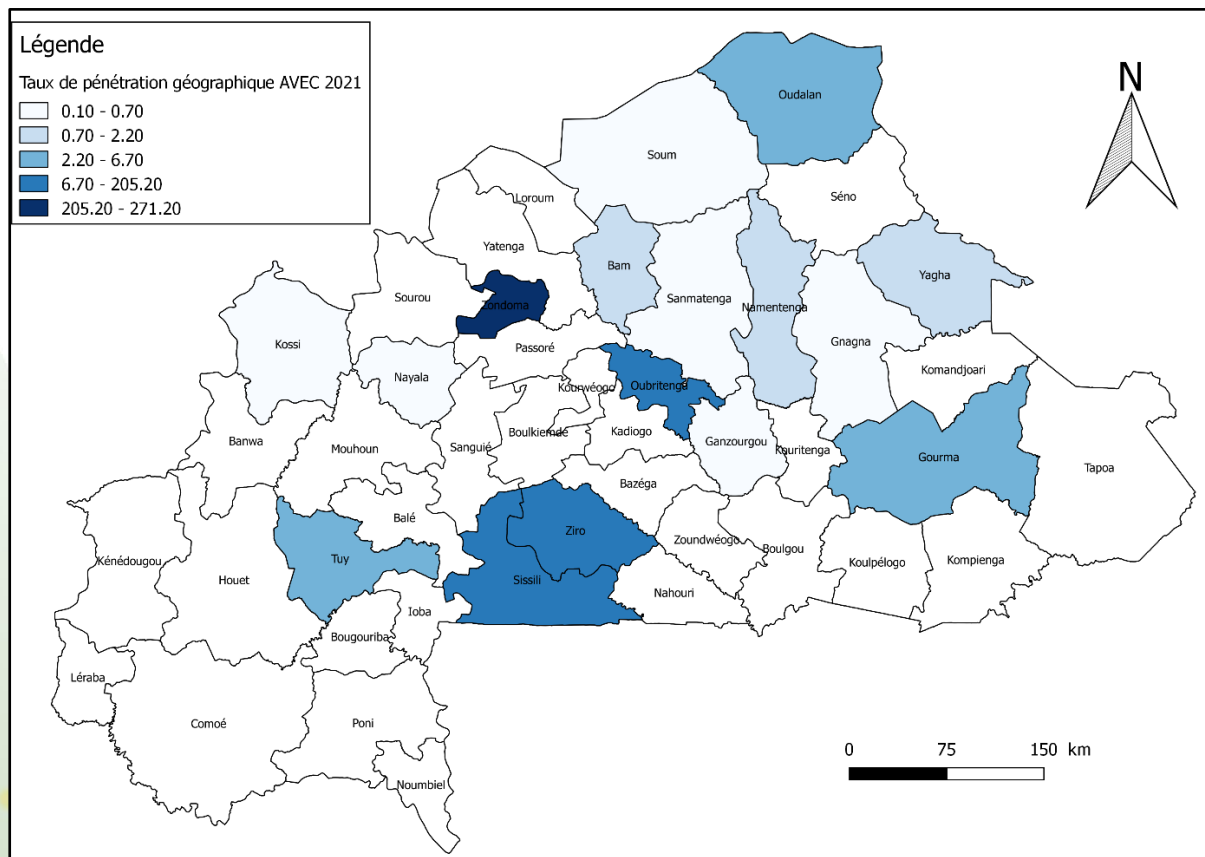
<sup>4</sup> CECI : Communauté d'épargne et de crédit interne

<sup>5</sup> CECA : Caisse d'épargne et de crédit autogérée

<sup>6</sup> CVECA : Caisse villageoise d'épargne et de crédit autogérée



Unlike Savings and Credit Cooperatives (COOPECs), AVECs do not refer to a model. Rather, they are inspired by pre-existing savings and credit practices in the farming community, which they seek to improve with a view to greater efficiency. AVECs are a response to the credit needs of vulnerable agro-pastoral populations, who have, a priori, little or no savings capacity. Analysis of secondary data shows that, in all provinces of Burkina Faso, communities are setting up village savings and credit associations. However, it is clear that most provinces still have a low penetration rate of VCAs. This is mainly due to the fact that many data concerning all provinces are not available. The map below shows the state of play for AVEC in 2022, based on CARE Burkina statistics.



**Map 1: Geographical coverage of AVEC <sup>7</sup>**

The results of the study highlight a number of advantages and disadvantages of the informal financing mechanism based on the AVEC model, as shown in the table below:

<sup>7</sup> Source : CARE 2022



**Table 1: Advantages and disadvantages of the informal financing mechanism according to the AVEC model**

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• More inclusive characteristics: their informal nature vis-à-vis financial regulators is a short-term advantage in enabling the poorest to access low-interest financing.</li><li>• Good geographical coverage: proximity to targets, existence at village level (there may even be several in one village).</li><li>• Self-managed by members</li><li>• Tailored to the specific needs of beginners</li><li>• Great solidarity between members</li><li>• Greater social cohesion</li><li>• Easier access to microfinance institutions</li><li>• Low cost of internal credit (between members)</li><li>• Strong opportunity for the poor and vulnerable to become members and co-managers of savings and credit funds</li><li>• Guaranteed financial autonomy for the group</li><li>• The model is easily replicable</li></ul>	<ul style="list-style-type: none"><li>• Low capacity to mobilize village savings</li><li>• Low financing capacity of the local economy</li><li>• Low capacity to mobilize funds from MFIs</li><li>• A problem of survival</li></ul>

In view of their advantages, AVEC represent an opportunity for financing small-scale producers, processors and traders. With this in mind, a number of players are committed to supporting these initiatives.



**Photo 1: A AVEC from Ountandeni in the Eastern region, receiving support in the form of kits (savings bank, contribution book, mats) under the Pro-ARIDES program (Source: CARE 2022).**

However, the diversity of approaches to implementing AVEC does not necessarily ensure the sustainability or durability of these local initiatives. In fact, they remain largely dependent on program support. As a result, the duration of these interventions does not allow them to acquire financial autonomy. To guarantee this sustainability, emphasis must be placed on establishing a sustainable network of local village savings supervisors. To meet these challenges, a number of recommendations have been put forward to Pro-ARIDES for the year 2023.

#### 4 Guidelines for Pro-ARIDES

In order to achieve the priority objectives and the expected systemic change, courses of action have been proposed to Pro-ARIDES practitioners for the year 2023. The conventional financial system excludes poor and vulnerable people from access to finance. To enable the inclusion of poor and vulnerable people in the financial system, Pro-ARIDES must,

1. in the short term, strengthen or create AVECs in villages around market gardens, rice-growing sites or other income-generating activities.
2. in the medium and long term, support their formalization and structuring as a network or umbrella organization.
3. through an investment fund specific to Pro-ARIDES, support formal AVEC in developing their activities through subsidies.
4. facilitate a framework for linking formal AVECs with MFIs and other partners in order to diversify their funding sources and mobilize revenue. The program must first identify the specific financing and savings needs of its members. In this way, the resulting AVECs will be better adapted and more consistent with real needs.

The AVEC informal financing mechanism remains an accessible financing system adapted to the targets of the Pro-ARIDES program. It is one of the most replicable informal financing mechanisms in Pro-ARIDES target communities. For 2023, research action should focus on mapping and analyzing the different approaches to implementing AVEC and on the use of Fintech in mobilizing their resources, especially in a crisis situation.



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**Authors :**

SAVADOGO Yaya  
Chercheur à l'IRI  
[savadogoyaya@hotmail.fr](mailto:savadogoyaya@hotmail.fr)  
+22672019859

SANGO Mohamed  
Conseiller finance inclusive et  
investissements locaux à la SNV Burkina  
[msango@snv.org](mailto:msango@snv.org)  
+22677454565

OUEDRAOGO Touwendé Jean Parfait  
Chargé Technique Suivi-Évaluation chez CARE Burkina  
[ouedraogo.touwende.jeanparfait@care.org](mailto:ouedraogo.touwende.jeanparfait@care.org)  
+22671055930

**Contributors :**

Janvier KINI

Roukiatou NIKIEMA

Adeline D. COULIBALY



Ministry of Foreign Affairs of the  
Netherlands



MINISTÈRE DES AFFAIRES  
ÉTRANGÈRES DU DANEMARK  
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