

Village Savings and Loan Associations



Members of the Rwaburegyeya women's VSLA group, Uganda.

CARE has a long history of involvement in Village Savings and Loan Associations. The VSLA model was introduced by CARE in Niger in 1991. Since then, CARE has continued to innovate and adapt the methodology to accommodate flexible savings amounts and loans of variable lengths and sizes. Since 1991, CARE has launched VSLA programs in 21 countries, for an estimated total of more than 54,000 VSLA groups in Africa, serving more than 1 million members, the majority of whom are women¹.

CARE began VSLA work in Rwanda in 1999 with the CARE's CLASSE-Intambwe (Community Learning and Action for Saving Stimulation and Enhancement) Project. Following the success of the project and considering the challenge of accessing small amounts of capital in Rwanda, EEEGL decided to build on the CLASSE project and support VSLA activities in the project area. VSLAs can provide loans and revenue that can be used for income generating activities.

Impact on Poverty

Village Savings and Loan Associations (VSLAs) help alleviate poverty in three ways: 1) assisting members to save so that they are able to accumulate a significant amount of money at the end of the cycle 2) providing members with an opportunity to request loans of small amounts 3) members earning income from interest paid by members who borrowed.

Members, on average, saved a total of RWF 6,591 (USD\$ 11) per cycle. Each loan taken was for an average of RWF 9,833 (USD\$ 16.40) and members are allowed to take loans for a maximum of 3 months. Amongst members, there is a 99.9% payback rate. Finally, members earned an average of 24% profit on their savings.

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Impact, cont

Loans are used mainly for agriculture (e.g. purchasing seeds, fertilizers, manure and other necessary equipment) and commerce (e.g. purchasing goods for resell). The undertaking of these activities provides income generation for the borrowers.

At the end of the VSL cycle, members share out and receive their savings and profit. The majority of the money is spent on purchasing livestock (which are used for manure production and to produce offspring which can be sold) and household improvements (e.g. purchase of mattresses).

Impact on vulnerable or marginalized groups

There are currently 125 VSLAs in Rwanda comprised of 3,728 members. 3,048, or 82% of these members are females. For many women, involvement in VSLAs is their first opportunity to save and to take loans. 44% of loans were spent on commerce, demonstrating that

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Approach

EEEGL decided the most effective way to implement VSLAs would be through a community based organization (CBO) who would implement the activity. Specifically, the Association pour la Promotion des Initiatives de Base (APIB) was selected for the role. A Memorandum of Understanding (MOU) between CARE and APIB was signed in December 2008 for APIB to undertake VSLA development activities in Burera, Musanze, Nyabihu and Rubavu Districts surrounding the Volcanoes National Park (VNP).

The same approach was taken in Uganda as well near Bwindi Impenetrable National Park and Mgahinga Gorilla National Park. PROMIC was selected for the role in Uganda.

The VSL method is currently² comprised of 5 steps³:

- Identification and selection of group participants: A sensitization meeting is held to inform the community about the VSL methodology. Each VSLA is comprised of 25 – 30 self-selected members.
- Supporting newly established groups and training two representatives on the VSL methodology: group members develop internal regulations and elect their management committees. Bye-laws are created by the group and the interest rate for borrowing is established. Members contribute a small amount (around 80 RWF 300 UGS or \$0.13⁴) on a weekly basis. The more a member saves, the more she/he is entitled to borrow at a later point in time. During the first year, members can borrow a maximum of three times typically at a 10% interest rate. Profits from interest accumulation are later shared with all group members.
- Learning about savings and loans methodology: trainers facilitate learning and groups are encouraged to form networks or intergroup with other groups
- Training on savings use: a three day training on selection, planning and management of income generating activities is provided.
- Graduation: group members “graduate” and share out 8 – 12 months after the start of the program. The members receive back their savings as well as an equally divided amount of revenue from the interest paid by group members.

A field officer in each district is employed to establish and train VSLAs. Additionally, in some areas, village agents have been introduced in order to establish more VSLAs at a lower cost. The village agents are exemplary members of the target community and are selected by the field agents. The village agents are trained to promote the establishment of VSLAs and are supervised by field officers over a period of 12 – 18 months. The agents are paid a small fee by the group in exchange for the provision of technical assistance and support to the group. The village agents will continue to train VSLAs and will be paid by VSLA group members, even after the completion of the EEEGL project, in order to make the process sustainable.

Impact, cont

women are using their revenue for entrepreneurship activities.

There are 30 VSLA groups in Uganda with a total of 791 members that have been supported by the EEEGL Project. 430 of these members are women.

Engaging in commerce empowers women to earn their own revenue and take control over their lives without depending on their husbands' revenue. Furthermore, being involved in VSLAs help improve women's level of confidence and their relationship at home; wives often gain more respect from their husbands when they are regularly contributing to the household income³.

In addition, the percentage of loans spent on agriculture, which is the typical sector of work for the Rwandanese women, has been decreasing and the percentage of loans spent on commerce has been increasing; trainings were held to convey the importance of using loans for income generating activities with shorter pay back periods (e.g. selling goods instead of undertaking longer term agriculture activities). The increase in loans spent on commerce demonstrates that women are spending more to engage in income generating activities.

In addition to contributing to the standard VSL savings box, VSLA members also contrib-

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¹ CARE International. “Bringing Financial Services to Africa's Poor, State of the Sector Report”. April 2009.

² The implementation of this specific methodology began in 2010.

³ CARE International. “Empowering Rwandan Communities One Step at a Time, How Voluntary Savings and Loans Build Access to Financial and Social Services”. April 2010.

⁴ September 2011 rate of 600 Rwandan Francs (RWF) or 2,500 Ugandan Shillings (UGS) per USD



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Lessons Learned

Be realistic in the numbers of VSLAs that can be properly trained and managed

Initially, EEEGL began working with 500 VSLAs in Rwanda. However, it was found that this number was overambitious and EEEGL was unable to implement the VSL methodology on this large of a scale. One major problem was that the VSLA members were not carefully selected but were formed from pre-existing community groups. VSLA members should be of the same economic level, in order to ensure that there is equality in the group, and the members of these original groups were not all at the same economic level which was problematic. It is important that the first step of the VSL methodology - proper selection - and the entire VSL methodology are closely followed.

Once EEEGL scaled down to assisting 40 VSLAs and followed the VSL methodology carefully, implementation became successful. The key factors in establishing successful VSLAs include: careful selection of members to ensure that they are of a similar economic level, members having a strong desire to be participate in a VSLA and provision of sufficient guidance for how to properly conduct regular monitoring and how to properly implement tools.

Following the successful implementation of the VSL methodology with the new groups, EEEGL decided to engage village agents. The use of these agents enabled the establishment, with the application of the VSL methodology, of a greater number of and village agents ensured that the VSLAs had sufficient support.

Proper leaders must be selected as literacy levels of members may be low so systematic and regular record keeping may be a challenge

The leader of the VSLA needs to be carefully selected to ensure that he/she has a sufficient literacy level to complete the necessary monitoring documents. As part of the VSL methodology, a list of qualities of a good leader is provided; this list includes the ability to read and write. Village agents are important in providing support so that leaders can gain confidence in their ability to complete the forms properly.

Strong monitoring of the VSLAs is necessary

EEEGL employs a management information system which records a variety of data about the VSLAs. This is important as it allows EEEGL to see whether VSLAs are operating successfully or not and, if not, what the problems are. Even if the VSLAs are operating successfully, monitoring enables EEEGL to discover any issues that should be addressed (e.g. savings are not being borrowed for loans).

VSLAs are self managing associations so it is necessary that the groups conduct proper monitoring in order to fully understand how much they are saving and lending and what problems may exist that need to be addressed.

Looking Ahead

VSLAs can be linked with micro-finance institutions (MFIs) so that the VSLA members are able to borrow larger amounts. Currently, 54 of the VSLAs in Rwanda are linked to MFIs. It would be beneficial to VSLA members if an increased number of VSLAs are linked to MFIs so that VSLA members are able to access larger loans from MFIs.

Implementing the VSL methodology is a very successful initiative and can significantly contribute to poverty alleviation. There is currently a very small percentage of the population reached by the VSLA initiative and a properly conducted scale up could improve the livelihood of a significant number of impoverished people.



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Beneficiary Profiles



Jean Pierre Munyembabazi, not pictured, is aged 29, married with two children, lives in the village of Maya, Rwanda. Munyembabazi trades sorghum beer and earns a net profit of 3800 RWF per week and contributes 800 RWF per week to the VSLA of which he is a member.

With credit that he took from the VSLA in April 2011, he combined income from the sale of pigs with the credit from the VSLA and bought a bicycle to help in his trade.



Vasta Busingya, above center, has used loans from the VSLA she belongs to in Ryakasinde, Uganda, to help in her business activities such as retailing avocados and sorghum. She also makes sorghum beer. This coming year, when she receives her re-payment of shares with interest earned, she plans to buy a goat. She is one of three keyholders (above left) to the locked box in which her VSLA keeps their savings.



Mary Beinenama of Rwaburegyeya Village is 48 years old and has five children. She has been a VSLA member for two years and invests 4,000 Shillings a month (1,000 Shillings each week). She has taken out one loan in the amount of 100,000 Shillings to pay the dowry for her son. She has repaid her loan in full. If she didn't have access to the loan, she would have sold land to pay the dowry. When she got her share last year, she used it to help pay her debts.



Nelson Byomegabe, part of the Mushanje beekeepers group, which incorporated VSLA two years ago. He is 38 years old, has six children and lives in Mukihita village. He invests 2,000 Shillings a month and has taken out two loans. The first was for the amount of 30,000 Shillings to buy pine tree seedlings to plant on part of his three acres of land. If he didn't have access to the loan, he wouldn't have been able to buy the seedlings. He has repaid his loan in full. He also took a loan of 35,000 Shillings to pay school fees. If he didn't have that loan, he would have had to sell some of his trees before they were fully mature for timbering. He also uses his yearly payout for school fees.

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ute to a box for a social fund. When a member is in need (e.g. a new child is born and the family is unable to purchase basic things to meet the child's needs), the social fund is used to donate money to the needy member.

Impact on capacity building

More than half of Rwandans report that they are saving; however, most (70%) of these savers keep cash at home or in a secret hiding place and are not using any formal or informal financial product for the purpose of saving. This indicates that what is considered "saving" may be saving only enough to have cash available to pay for daily expenses³, not for a longer term savings. Being part of the VSLA enables members to learn about the benefits of longer term saving and actually put this type of saving into practice in a safe environment.

Involvement in VSLAs teaches members about financial products, savings and loans. Furthermore, the members learn group management skills, electing officials and writing bye-laws.

Village agents learn a significant number of skills through involvement in VSLAs. Village agents are trained in the VSL methodology; financial literacy; and selection, planning and management of small income-generating activities. Village agents then train the VSLA members in the same skills.

