



Village Saving
and Loans
Associations

CARE Uganda

VSLA





Introduction

Access to financial services is a decisive factor in eliminating poverty and generating local development. The Village Savings and Loan Association (VSLA) is CARE's successful micro-finance model under which savings groups are formed at community level to reduce poverty by financially and socially empowering poor and vulnerable people.

A VSLA is a self-managed group that does not receive any external funding; it provides its members a safe place to save their money, to access loans and to obtain emergency insurance. Members can take out loans to cover expenses such as school fees and medical bills without selling productive assets, or they can use the loans to invest in income generating activities to raise household income. As a result, VSLA members experience significant improvements in household health and wellbeing, and an overall improved quality of life.

The VSLA prototype was introduced by CARE in Niger in 1991. Today CARE-founded VSLAs serve more than 2.8 million people, (of which 75% of are women), in 26 African countries. The remarkable results of the VSLAs have inspired many other organisations to adopt the approach; it is estimated that in Africa alone more than four million people are currently benefitting from the VSLA methodology. Using the VSLA approach, CARE has managed to reach all layers of rural societies including the very poor and the extremely

vulnerable by giving people the power to break the vicious circle of poverty themselves. The strength behind the VSLA methodology is that members are enabled to lift themselves out of poverty with nothing but their own funds. In contrast with many other aid initiatives, the VSLA approach is well understood by communities and the VSLAs themselves are 100% member owned, and results show that members avoid becoming dependent on aid. Furthermore, the VSLAs replicate themselves, involving growing numbers of people and surpassing the scope of the initial programme.

Over the years, CARE has continued to innovate and adapt the methodology to accommodate flexible savings amounts and loans of variable lengths and sizes. In 2008, CARE launched Access Africa, a 10-year programme designed to scale up the VSLA methodology to reach 30 million people in 39 African countries, including Uganda. With the entire household benefitting from these services, that makes a total of 150 million people moving out of poverty. The programme offers a range of basic financial services created in order to bring about a virtuous cycle of rising household incomes, improved health, better education and greater participation in their communities and nations.

In Uganda, CARE introduced the first VSLAs in 1998. Since then, CARE has implemented VSLAs across the country. This booklet is about the impact of CARE Uganda's VSLA programme.

Small amounts **BIG RESULTS**

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Photos by Tine Frank and Kristina Just

CARE Uganda's Women and Youth Financial Inclusion Programme (WAYFIP)

Since 1998, when CARE introduced the first VSLAs in Uganda, much has been achieved. Through our programming, more than 600,000 Ugandans in more than 22,000 groups have benefitted from the VSLA movement. Over the years, the programme has grown and it now focuses not only on establishing new groups but also on realising the many new opportunities that have emerged for mature VSLA groups. CARE works through and

with implementing partner organisations (IPOs) which receive mentorship and coaching so that they are capable of training and supporting VSLA groups.

The VSLA methodology is also integrated as a main component within other CARE Uganda programmes and this has contributed to a massive expansion of the overall VSLA outreach.

Key programmes and initiatives*

SUSTAIN

Funded by UK aid, the SUSTAIN programme provides poor and marginalised households with access to financial services by creating a strong foundation for the effective operation of VSLAs in targeted areas. SUSTAIN works with a network of locally based organisations using a comprehensive and coordinated approach involving funding support, technical assistance and capacity building, as well as the promotion of VSLAs through awareness raising and information sharing.

Banking on Change (BOC)

The Barclays Bank UK funded initiative scales up and deepens the VSLA methodology by linking VSLA groups to formal financial institutions and banks. By providing sustained access to savings and other financial services for the poor the VSLA technique has moved on from primarily addressing immediate needs to enhancing access, and supporting the development and growth of microenterprises among the target group.

SAVE-UP!

With funding from the Bill & Melinda Gates Foundation, CARE promotes a comprehensive integrated VSLA approach. To enhance impact, and promote sustainability and self-replication, the VSLA methodology has been strengthened by additional business skills training (Selection, Planning and Management - SPM), microinsurance consolidation and the training of village agents to establish and train new VSLAs, and to provide technical support to existing groups.

Sustainable Comprehensive REsponse for vulnerable children and their families (SCORE)

SCORE is funded by USAID and aims to decrease the vulnerability of critically and moderately vulnerable children and their families by improving the socio-economic status of the targeted families and caregivers. The programme is being implemented through a partnership between CARE, AVSI, Transcultural Psychosocial Organisation - TPO, and Family Health International 360 - FHI 360.

*Other initiatives include: the Financial Linkage Project (FLIP), Promotion of Saving and Loans Associations among Vanilla Farmers, and the Cash Transfer Programme (CAST).

Implementation Framework

AGENCY

ROLES & RESPONSIBILITIES

Donors

The donors provide funds and overall oversight and coordination of project implementation.

Access Africa

Access Africa solicits donor funding and provides overall technical support.

CARE Uganda

Care Uganda coordinates assistance and intervention by providing financial and technical support, quality control, assuring sustainability and encouraging learning.

Central and Local Governments

National and local leaders promotes VSLAs through mobilisation, by monitoring progress and quality, and by seeking to integrate VSLA activities with other development planning activities at various levels.

Implementing Partner organisations (IPOs)

IPOs mobilise and train groups on VSLA methodology and enterprise development skills. They identify and train Community Based Trainers and Village Agents, and collaborate with local governments to ensure linkages between VSLAs and government programmes.

Community Based Trainers

Community Based Trainers (CBTs) sensitise and mobilise group formations. During implementation, they provide training and give technical assistance to groups, and they report to the IPOs.

Village Agents

Village Agents, who are experienced VSLA members, trained by CARE's local partners to establish and train new VSLAs for a fee paid by the members of the groups they serve.

Communities

The communities form groups and participates in saving and loan activities and linkage innovations. They are responsible for provision of records for reporting and documentation, and periodic feedback on VSLA operation.

ADD-ON INITIATIVES

Micro Insurance

Sustainability and Self-replicability

Business Skills Development

Urban VSLA Implementation

Bank Linkages

The VSLA methodology

Establishing new VSLAs

Starting a new VSLA in a community is fairly simple: Appointed and trained community based trainers (CBTs) or village agents guide the formation of the groups and train and offer technical assistance to the groups for one cycle, typically lasting 12 months. After that the groups are self-driven. The process can be divided into three phases:

Phase 1 (Month 1-4) • Inception phase: The trainer provides support by participating in the groups weekly meetings and offers training and technical assistance whenever needed.

Phase 2 (Month 5-7) • Development phase: The trainer meets the group twice a month and gradually hands over responsibility for all the procedures to the group members.

Phase 3 (Month 8-12) • Phase-out: The trainer meets the group once a month. At this stage the group handles all the procedures by themselves.

Basic Principles

Independence of the group: No need for support after graduation. The group members are responsible for all decisions regarding the operation of the VSLA. No external groups or individuals can or should influence decisions taken by the group.

Ring-fenced box: Only group members can borrow money from the VSLA. Especially within the first two cycles of a new VSLA, no funds should enter or leave the box at other times than the weekly VSLA meetings.

Low tolerance of arrears: All arrears should be announced at the weekly meetings. Members should not tolerate fund losses caused by members' failure to repay loans.

Periodic action audits: Groups should set a date in advance at which they will carry out a periodic action audit i.e. perform a full audit over the cycle and distribute shares to all members.

The VSLA cycle



Economic and Social Empowerment

VSLAs have proven to be very effective in accelerating growth and building local capacity. VSLA members have access to highly responsive and safe financial services, and this enables them to upscale economic activities, improve household health and welfare, acquire business skills, educate their children, and improve the quality of their social lives both within the family and the surrounding community.

A new economic CULTURE

Poor and less educated people are easily intimidated by the formal, lengthy and complicated procedures at banks, just as many people distrust the banks because of the non-transparent pricing structures. When VSLAs were introduced most of these issues were addressed by offering financial services with low or no overhead costs, completely transpar-

ent and collective decision making, charge free savings and dividends from the loans.

Over the years, a new economic culture has emerged among the VSLA members. Owing to peer pressure to save, encouragement by other group members during the meetings, training and the availability of start-up capital, most members have opened up or expanded busi-

nesses. Because of the strict VSLA procedures and the immediate and tangible results, the VSLA methodology has moved people from being idle to being very productive and busy. Many participants have adopted better work ethics and habits; people work harder, keep time better and deliver on their word.

Finally, working hard pays off

"I have been a farmer all my life, but until I joined a VSLA, the income I could generate was meagre. To be honest, I think many people are demotivated by working hard and not gaining from it. That is why we have a lot of idle people in this country - because sometimes the hard toil is just not worth the effort. For me personally, the most important change after joining a VSLA has been acquiring the ability to save and prepare a budget. I have taken out loans from the VSLA several times and used the money wisely by investing in poultry and livestock. My income covers all household expenses and, most importantly, I have been able to educate my children up to university level."

Paul, Iganga District



When poor people have access to finance, they can lift themselves out of poverty.

A new life

"I always dreamed of starting a business so that I could educate my children and raise our standard of living. In 2009, I heard about something called VSLA from the community based trainer and shortly after I decided to join. As a VSLA member, I was able to borrow the money I needed to start up a vegetable shop and storage at the trading centre. I cannot describe how important the VSLA is to me as it has had an impact on almost all aspects of my life. Firstly, I have been able to provide for my five children; they are all in school and I can with certainty say that they are all going to graduate. In cases of illnesses or emergencies, I can cover the expenses with funds from the VSLA's welfare fund. It is a great relief, because it prevents me from having to take my children out of school or cut into my business assets. Secondly, besides earning a higher income, I have developed as a person. I

am the chairperson of the group and it is my responsibility to mobilise the other members and to ensure that we are following the right procedures. I feel well respected by all the other members including the men who accept being led by a woman. I think many men have a new-found respect for women because they can now match their husband's income. Men have realised that women can play a bigger role and make valuable contributions in decision making and planning for the future.

As a female leader, I hope I can inspire other women to be more confident and take advantage of the opportunities the VSLAs offer. Particularly, I think it is important that women in Uganda realise that they have a voice and that their decisions are as valid as the men's."

Mariam, Iganga District

"So much has changed"

Generating Growth by Empowering Women

The VSLA methodology has shown that poor people, and especially poor women, are good at financial management. They invest wisely, not only in income generating activities, but also in the welfare of their families. By empowering women economically, there has been an enormous increase in local growth and household welfare in all the areas where VSLAs have been implemented.

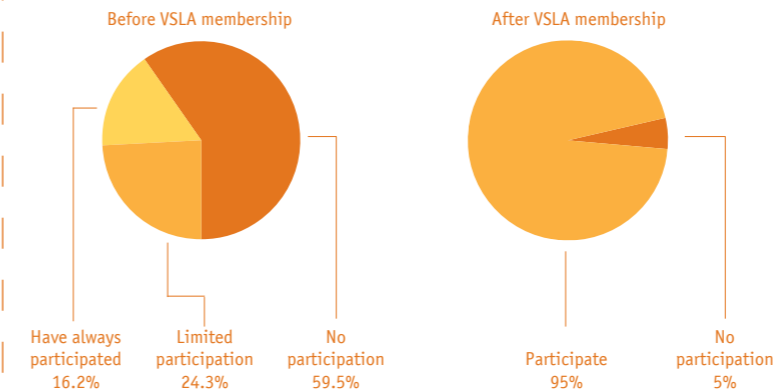
The inclusion of women in economic activities has strengthened the position of women in their communities and at home, tremendously. Besides stimulating local business life by opening up small businesses and commercialising their farming, they are now able to contribute to household improvements by acquiring assets like poultry and livestock, sewing machines, furniture, beds, bicycles and radios, by building better houses and providing larger quantities and

more nutritious food for their families, and by paying for medical bills and school fees. As a result, women have gained more respect and are increasingly included in decision making. 95% of female VSLA members report remarkable improvements in domestic relationships and an overall less violent and more harmonious life with their husbands. This newly gained respect for women has changed the former exclusively male dominated patterns in domestic gender roles and turned marriages into more equal partnerships where husbands and wives take decisions and plan for the future together.

Furthermore, as women learn to articulate their opinions at VSLA meetings and at home, a growing number of women are becoming involved in local politics.

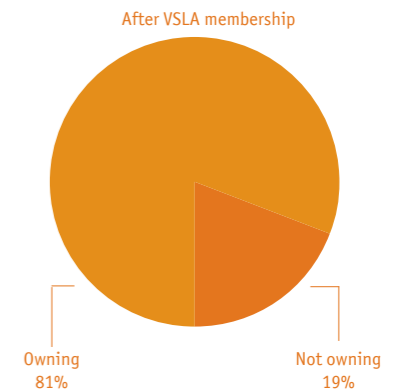
Creating equal OPPORTUNITIES

Women participation in decision making



Source: SUSTAIN II Completion Report, 2010

Women owning assets



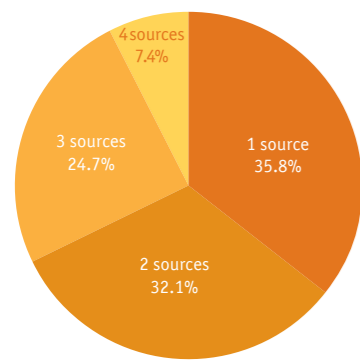
Source: SUSTAIN II Completion Report, 2010

Improving household income and welfare

The main sources of income for poor people in Uganda are farming and trading produce, petty trade, casual employment, artisan work such as tailoring, welding, stone quarrying and brick making, local brewing and food vending. To secure a regular income, VSLA members are encouraged to invest in productive assets and income generating activities to diversify their income sources. More than 60% of VSLA

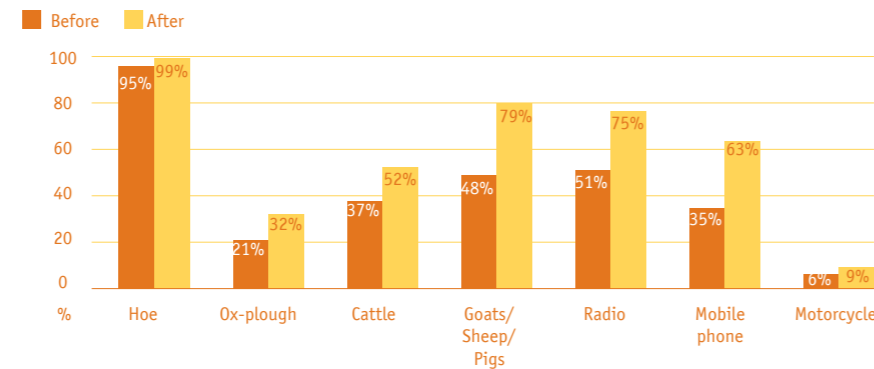
members have two or more sources of income, which is a significant improvement compared to non-members who mainly depend on only one source. Likewise, VSLA members are able, to a greater extent than non-members, to acquire assets either to increase their household income directly or to enable them to access markets (for example, by means of a radio, mobile phones, and motorcycles).

Diversity of household sources of income



Source: SUSTAIN II Completion Report, 2010

Assets acquired before and after VSLA membership



Source: SUSTAIN II Completion Report, 2010

Increasing household income

“My wife and I have been members of the VSLA since 2006. At that time it was not possible to access any financial services outside of the banks. For many years, we wanted to improve our farm by commercialising it but without capital to invest in the project, it was impossible. Through the VSLA, we have been able to borrow enough money to realise our dreams. We have tripled the size of the area under cultivation and during the planting and harvesting seasons, we hire workers to help us in the field. We pay their salary with the money from the VSLA and repay the loans with the profit we make from our produce. Sometimes, we wonder how we were ever able to survive before we became members of the VSLA.”

Patrick, Iganga District



Business investment

“I used to work in my restaurant from 7am to 10pm every day but no matter how many hours I worked I could not earn enough to provide for my four children and my deceased brother’s five children. I decided to join a VSLA group after noticing the positive experiences of other members. I started to save regularly and soon I was able to take out a loan of 150,000 shillings (\$33) which I used to buy more tables and chairs for the restaurant to expand my business and attract more customers. After a while I got so busy that I had to employ three people to help me.

My plan is to diversify my business. I want to set up a shop that will sell the same food items as the restaurant, which will help secure my income and boost my business.

Through the VSLA, I have learned to focus on my business. I have had to improve my work ethic to be able to contribute to the VSLA and save up money every week. But the effort has definitely been worth it; I remember last time we had a share-out, I could not believe the amount I had been able to save. I had never seen so much money and it was now in my hand!”

Being a member of a VSLA has really changed my life; my business is very profitable because I have had the necessary access to investment capital and as a result I can feed my family well beyond their basic needs and pay for the children’s education. I am very proud that my first son is studying at the university in Kampala. I have also acquired a plot of land and plan to use my savings from the next share-out to build a new brick house to live in.

Maria, Busia District



Household investment capacity



Source: SUSTAIN II Completion Report, 2010

Selection, Planning and Management

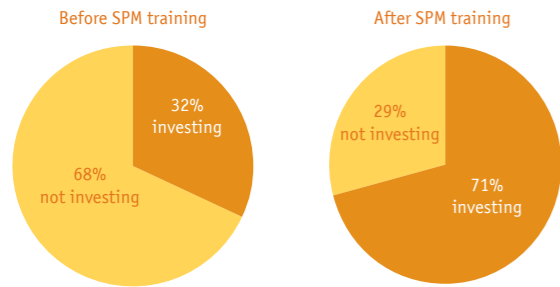
While many VSLA members already supplement their income with earnings from small-scale businesses activities, only a few have knowledge of - or experience in - saving and borrowing money for investing in businesses and other income generating activities. To address this, and to make full use of the VSLAs' enormous potential as triggers of local economic growth, CARE offers Selection, Planning and Management (SPM) training to VSLA members. The five-session training course provides the participants with skills to systematically

select income generating activities based on a set of criteria that includes the assessment of required technical skills, current market trends, profitability, etc. SPM training creates long-term livelihood security by enabling members to select income generating activities suitable for their individual circumstances, to plan for a successful launch, and by ensuring that loan takers manage their businesses effectively so that the loans are repaid on time, income matches expectations and risks are kept within a manageable limit.



Source: Impact Assessment of VSLA and SPM in Uganda, 2006

% of members investing in businesses



Planning for a better future

"I have been running the nursery for almost six years but it is only now that it is profitable. For many years my business was stagnant due to poor management and marketing skills and even though I had access to finance through the VSLA, I did not know how to utilise the capital to maximise my profit. The SPM training helped me to explore the various opportunities and select the most realistic and profitable options. My business is thriving; I have hired four full-time employees to meet the growing demand for my plants and seedlings, and I am currently looking for new land to buy for establishing an orchard and some woodlots. In a long-term perspective, I am planning to erect a workshop to supplement my income from the nursery by producing and selling furniture made of timber from the woodlots."

Elias, Kibale District (not pictured)

Micro-Insurance

In addition to the weekly savings, VSLA members pay a fee to the social fund to cover emergencies like illness, funeral expenses, house repairs, and other urgencies, or school fees for orphans of deceased relatives. Kept in a specific bag in the cash box, the social fund is managed separately from the savings and loan fund, no interest is charged for social fund loans, it is not shared out at the end of the year and can be carried over to the next year. Members make requests for help from the social fund publicly at regular group meetings, but in case of emergencies they can also seek access to this fund outside of the weekly meetings.

In 2009, CARE Uganda began to work with Micro Ensure, a multinational insurance intermediary owned by Opportunity International, to design an appropriate funeral insurance product. Groups can take out an insurance against unforeseen funeral expenses covering six people per member household including the VSLA member, one spouse and up to four children.

Preparing for EMERGENCIES

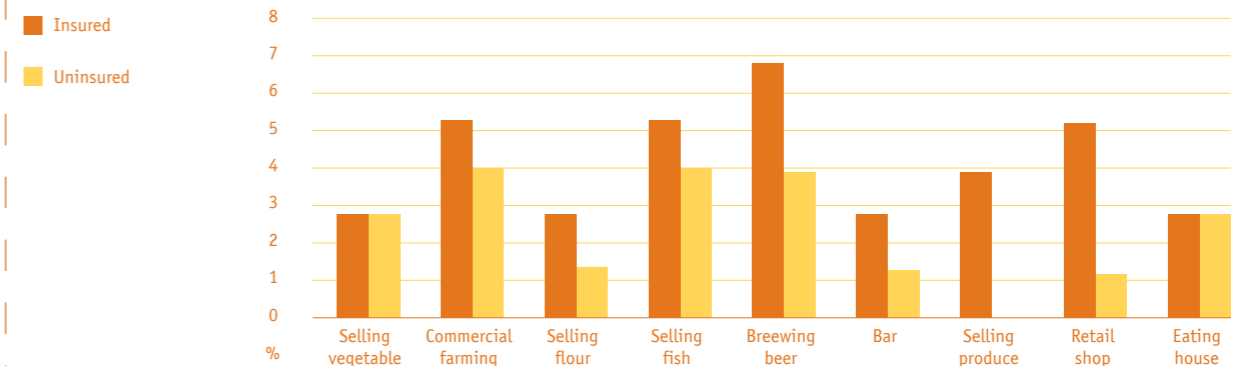
Providing group insurance for VSLA members prevents economic ruin for affected families and strengthens group cohesion by creating a sense of mutual support

among group members.

Many families frequently experience loss of loved ones and funeral expenses can run to as much as \$300 which is more than most families can afford without selling assets - even with the help from the social fund. It was discovered that there is a particular need for funeral insurance among the members.

Micro funeral insurances have yielded other benefits besides the payment of funeral expenses. The safety net provided has triggered a higher investment rate among the members since they now feel free to use their funds for productive purposes or to take out loans to invest in a business without fearing that whatever money is on hand may suddenly be needed.

Economic activities of insured and uninsured members



Source: Access Africa Technical Learning Series No 3 2011



The survival rate of VSLA groups is 95-100%

Sustainability and self-replication

The success of the VSLA model in Uganda and elsewhere can be explained by its simplicity and responsiveness, which makes it easily understood and easily replicated. The high degree of responsiveness ensures that VSLAs can thrive in just about any settings, including areas with extreme poverty and low literacy. The low overhead operations make VSLAs profitable and financially sustainable. Studies conducted among VSLA groups show that 95-100% of the groups regroup after graduation and continue operations without CARE's support. In some cases,

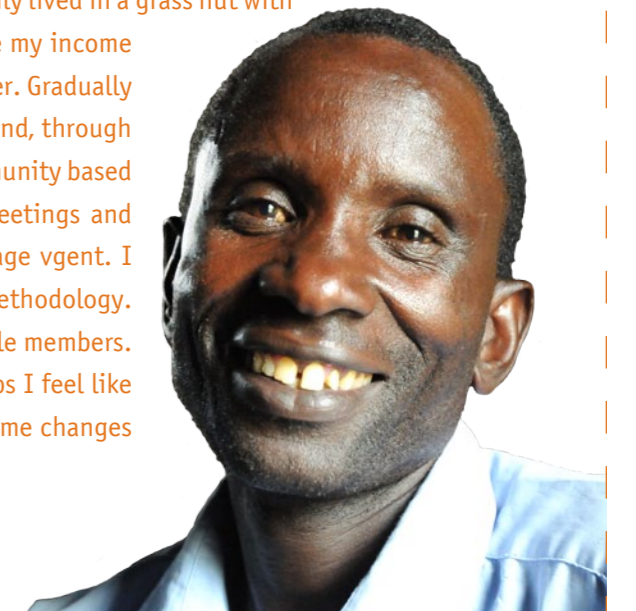
groups have even been willing to pay community based organisations for additional training and other services. The demonstrated commitment and strong sense of ownership among VSLA members underlines the extraordinary impact of the approach. To back this up, CARE has designed a low-cost model to promote self-replication of VSLAs through the use of Village Agents, who are experienced VSLA members, trained by CARE's local partners to establish and train new VSLAs for a fee paid by the members of the groups they serve.

Creating lasting RESULTS

The Village Agent

"Before I joined the VSLA, I used to drink and gamble a lot. There was no money left to save or invest and I was unable to send my son to school. At the time my family lived in a grass hut with no hope for change. Through the VSLA, I was taught how to manage my income and started saving with the help of my wife who also became a member. Gradually our life improved. I was elected to the position of group secretary and, through my efforts, I became an inspiration to the group. As a result the community based trainer, who trains groups in how to conduct savings and loans meetings and procedures, recognised my abilities and I was selected to be a village agent. I have to facilitate the formation of new groups to be trained in VSLA methodology. I have learned how to train others and how to select good and reliable members. I supervise three groups at the moment. Whenever I go to the groups I feel like I am doing a good thing, because I want others to experience the same changes that I have had in my life."

Morris, Tororo District. Morris is one of the 929 CARE trained Village Agents



Bank linkages

The rise of VSLAs has proved that poor people can fight poverty and improve their lives using their own resources but as the groups develop, new needs arise. Mature VSLAs are often faced with three kinds of challenges: Firstly, high liquidity levels put the groups at risk of being robbed. The risk is particularly high at the end of the cycle, just before the share-out. Secondly, particularly at the beginning of a new cycle, many VSLA groups lack adequate funds to allow members to take out loans to cover large investments; and thirdly, the relatively short three months repayment period restricts members from taking out large loans as it is difficult for them to repay them on time. To address these challenges, and in recognition of the limitations in the financial sector to meet the financial needs of the very poor,

CARE has launched an initiative to create sustained linkages between mature VSLAs and Formal Financial Institutions (FFI). By opening up group bank accounts, members secure their funds from theft and the increased security motivates them to save more, thereby increasing the total volume of money saved by the group. The VSLAs are able to approve bigger loans for their members and they can afford longer repayment schedules allowing members to invest in activities with a longer return on their investment than the usual VSLA repayment period. The longer term investment gives VSLA members an opportunity to invest in more productive ventures which can raise incomes at individual level. Groups can increase the VSLAs' profitability by lending members the loan borrowed from the bank at the group interest rates.

Taking it FURTHER

Embracing new opportunities

"When we heard about bank linkages from CARE, we liked the idea immediately. Many people tend to avoid banks because they do not understand our services but by establishing linkages to VSLAs, we have had an opportunity to dispel the myth that banks only exist for the rich. Community members are now reassured because they have seen that Barclays works with those who were previously excluded from banking services; we offer them free bank savings accounts, interest on their savings, we help them with transactions and make them feel welcome. The staff has built up strong relationships with the groups to the point where some have developed into personal friendships. By building these strong relationships, there is more likelihood that we can develop other financial products that the groups need, such as group credit accounts."

Emmanuel, Business Customer Advisor at the Barclays Branch, Iganga



Security and empowerment

I regularly come to deposit over one million shillings (\$400). It is a great benefit to have the bank looking after our savings rather than keeping it in the savings box in the village. As the signatory of my group, it is my responsibility to travel to the bank and deposit our excess saving. I am very proud of my title because I receive recognition for the new position of leadership within the community and in the group. I have gained new knowledge of financial administration and I am much more confident. Before the linkage, I had never set foot in a bank but now I have enough self-confidence to meet with other customers and people of different authority. I have a very good relationship with the staff at the bank which makes me feel relaxed and welcome.

As a linked group, we have been trained by the linkage banking officer from the bank (who was trained by CARE) on opening bank accounts and the different stages of the transaction processes. Before the linkage, all members signed a resolution to show their agreement. I was chosen as the signatory because the other members trust me. I had to pass a background test to prove that I did not have any previous fraud or criminal history.

I follow the instructions promptly; every time I go to the bank to make a transaction, I am responsible for collecting a stamped receipt. When I return to the group, I show it to the other members as verification of the payment.

Monica, VSLA group signatory, Katine



A woman wearing a green patterned headscarf and a maroon top is sitting on the ground, looking down at a notebook she is holding. She is holding a blue pen over the notebook. The background is a blurred green field.

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and Loans
Associations

CARE Uganda

VSLA



VSLA empowers people to mobilise their own resources to improve their livelihood and household economies with no external cash injection.