



# RESILIENCE GOOD PRACTICE



PIA 2: Market Access, Trade and Financial Services

## Development and harmonization of financial services

### Building resilience through VSLA and access to credit

#### Introduction

Reducing risk to shocks and stresses requires innovative financial services which enable individuals to invest in adaptive strategies and savings structures that allow for recovery. Loans allow households to buffer themselves against a range of shocks by enabling them to invest in income generating activities and accumulate income and assets. Savings can support efforts to recover from shocks and stresses. However, access to banking services and credit facilities in Karamoja is extremely limited. Of the seven districts in Karamoja, Amudat, Nakapiripirit and Napak do not have banks. Nearly 90 percent of the population in Karamoja is not banked, implying very limited access to formal financial institutions. Of these, 32 percent rely on informal banking institutions like Village Savings and Loan Associations (VSLAs).<sup>1</sup>

VSLAs attempt to overcome the difficulties of offering credit to the rural poor by creating groups of people who can pool their savings to capitalise a source of lending funds. Members make savings contributions to the pool fund and can also borrow from it at a modest interest rate. Typically, a VSLA is composed of 20–30 members. Some are women-only groups while others are mixed. VSLA was introduced to Karamoja from elsewhere.

#### Methodological approach

- Mobilise the community to form groups.
- Elect leaders of the group, typically a five-person management committee.
- Register the group with the local district administration (sub-county).

#### Location

Karamoja

#### Stakeholders

Pastoral communities (both men and women)

Supporting development partners including donors and NGOs e.g. ACDI/VOCA and Oxfam

District Local Governments

<sup>1</sup> WFP, 2017. Karamoja Region Market Assessment in Uganda. Kampala.

- Train the group on record keeping using a ledger book, passbook and group dynamics.
- Groups meet weekly and members save through the purchase of shares at a price decided and fixed by the group at the beginning of the 12-month saving cycle. At each meeting, every member must purchase between 1 and 5 shares.
- Savings are maintained in a loan fund from which members can borrow in small amounts, typically up to three times their individual savings and repaid in instalments over a period of three months. Loans are borrowed at a modest rate, typically 10 percent in Uganda.
- The system of maintaining accounts is very simple. The closing balance of the loan fund is simply counted, announced, remembered by all members, and noted in a ledger at the end of each meeting. In order to track the individual savings and loan liabilities of its members, VSLAs use a simple passbook that is appropriate for groups with limited literacy and numeracy skills.
- Each group should have a strong box to keep the money, ledger and passbooks. The strong box is locked with three padlocks and keys held by three members of the group who are not members of the management committee to ensure that there can be no manipulation of the group's passbooks, ledger or funds outside of group meetings. The group box-keeper safeguards the strong box between meetings.
- At the end of every cycle, the accumulated savings and earnings from the loans are shared out amongst the members according to the amount each member has saved. The annual share-out also resolves any outstanding issues.
- After the share-out, members who do not wish to continue may leave the group and new members may be invited to join. Members who plan to continue to the next cycle may all agree to use some of their savings to make a contribution to the loan fund for the next cycle.

## Result

Farmers mobilised resources to meet their basic needs and invest in businesses thus creating other income sources. Using credit from VSLAs, the beneficiaries were able to diversify their income sources into small business activities and within two years, the number of households without a third source of income<sup>2</sup> had dropped from 42 percent to 9 percent. Household income and asset value also more than doubled, including female headed households, which was partially attributed to VSLAs.<sup>3</sup>

## Impact

- Improvement of financial inclusion of households belong to a VSLA.
- Access to credit has enabled farmers to invest in micro and small scale businesses such as buying and selling produce, marketing livestock, petty trade or brewing and selling local brew.<sup>4</sup>

<sup>2</sup> Sale of own livestock and crop are the two main sources of income.

<sup>3</sup> Brewin M., 2013. *Building Viable, Resilient Livelihoods for the People of Karamoja. Evaluation Report.* Oxfam / Trocaire Uganda.

<sup>4</sup> ACDI/VOCA (undated): *RWANU Market System Interventions and Resilience Report.*

- Alternative sources of income have reduced reliance on firewood and charcoal burning to obtain cash. This has translated to less stress on the environment.
- Profits from the VSLAs stimulated increases in livestock and household asset holdings. This is attributed to the reduced need to sell to obtain cash and livestock purchases using loans from the VSLA.
- VSLAs have fostered social networks which are useful in times of stress.
- Access to VSLAs led to increased savings and credit access, improved microenterprise outcomes, and increased women's empowerment.

## Innovation and success factors

- Allowing members to mobilise resources amongst themselves as seed capital instead of relying on donor funds
- Training members on cash management
- Mentoring of VSLAs members

## Constraints

- If not well managed, fraud by the leaders or members may occur.
- It takes 9 – 12 months for VSLA groups to become established, and during this period they require continuous support, back-stopping and encouragement.

## Sustainability and replicability

- The practice can be easily replicated elsewhere as demonstrated in Sembabule District in the central cattle corridor.<sup>5</sup>
- The sustainability of the VSLAs depends on good management and members using their own resources for start-up instead of a donor seed fund. Members are encouraged to borrow from the group and the interest charged enables the savings fund to grow.

## Additional information

- Oxfam Uganda [kampalaoffice@oxfam.org](mailto:kampalaoffice@oxfam.org)
- FAO Uganda [FAO-UG@fao.org](mailto:FAO-UG@fao.org)
- Concern Worldwide
- <http://www.vsla.net/aboutus/vslmodel>

<sup>5</sup> FAO, 2015. *Uganda Information Bulletin Oct-Dec 2015.* FAO Uganda.

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