

THE IMPACT OF VILLAGE SAVINGS AND LOANS ASSOCIATIONS (VSLAs) ON LOW INCOME HOUSEHOLDS, IN CHILIMANYAMA AGRICULTURAL CAMP OF PETAUKE DISTRICT.

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Abstract

The purpose of the study was to establish how Village Savings and Loans Association had impacted positively on low income households especially in rural parts of the country where formal financial services were not available. The study examined the impact of VSLAs among rural families and it was ascertained that their Social Status of VSLA members in the community (i.e. Income Levels, access to loan funds, savings levels etc.) had improved. On the other had, it was observed that savings pay-outs among VSLA members were used for agricultural related activities.

The researcher focused on 5 zones of Chilimanyama Agricultural camp in Petauke district of Eastern province, with each Zone having estimated households of between 1500-2500. Purposive technique method was used to select key informants from district community development office using an interview guide and a simple cluster random sampling technique was used to select VSLA respondents and questionnaires were administered for data collection. The quantitative data collected was analyzed using SPSS and later imported on a Microsoft Excel sheet while the qualitative data used the narrative form

According to the research findings, it was observed that the majority of the total respondents were females which clearly showed that most women in these areas were actively involved in income generating activities at both community and household level. The survey also reviewed that 100% of the respondents accessed VSLAs loans and 57% of these women actively participated in decision making in terms of how their incomes should be spent at household level. At least 60% of the pay-outs were used to purchase farming inputs such as Fertilizers, seed, ploughs as well as herbicides. It was further reviewed that 20% of the respondents used the pay-outs to construct/improve their houses in order to have a decent housing unit in the villages.

Key words: *Impact, VSLAs, Loans, Pay-outs, Savings, Petauke.*

1.0 Introduction

Village Savings and loans Associations (VSLAs) are community-managed groups whose members come together and contribute weekly/monthly savings in form of shares which act as loan funds for the group. The group normally consists of between 10-25 members with common interest of serving the group members rather than serving individual or personal interests.

VSLAs are created on the concept of trust and honest among all members of the group in order to maintain and sustain mutual relationships among each other and much more importantly, to attract the attention of who would be members of such groups in future.

The promotion of Village Savings in rural areas has been attributed by lack of formal financial services in most parts of rural communities due to lack of collaterals or high interest rates which commercial banks offer. Saving groups provide an alternative to existing informal financial services and provide more flexibility, transparency, and security to the members (Collins et al. 2009). VSLAs essentially provide a simple, community based commitment savings product with an option to borrow attached.

Members or Clients are able to save as little as K10 (\$1) a week in some cases, and can borrow as little as K50 (\$5) or above depending on member's levels of shares in the group and the purpose of such loan.

In a Zambian scenario, VSLAs on average the minimum savings amount a member can save is usually approximated at K10 (\$1) per week (Care Zambia Survey Report, 2012).

Therefore, since VSLAs work on a share system, which allows members to purchase between 1 to 5 shares per meeting, with good mathematical calculation it is assumed that a member is able to save between K10 (\$1) and K50 (\$1) per week . Hence a group with a total membership of 25 would save an amount ranging from K250 (\$25) to K1250 (\$125) per week and can raise a loan fund of between K1000 (\$100) to K5000 (\$500) per month taking in consideration that all members were active. Final report (2011). The midterm review for rural finance programme.

2.0 Statement of the problem

With only 18% of the people in rural areas in Zambia having access to formal banking services, the majority of the people in rural areas have no access to any form of financial services (FinScope 2009 survey). Formal financial services maybe available but in many cases these tend to be available only at exorbitant interest rates which low income household in rural areas cannot afford to access. In such scenarios the promotion of community based financial services become

suitable alternative in ensuring that people in such areas have also access to financial services provided by Village Savings and Loan Associations (VSLAs). The concept of community based financial services such as VSLAs has proven to be flexible and less burden to the members involved as it provides low interest rates on the loans and it builds ownership to members of the group. VSLAs do not restrict members to have collateral in order for them to access the loan funds but instead it is built on the concept of trust and honest (Helmore 2009).

Hence the findings of this research add to scarce body of knowledge on how village savings can positively impact the lives of many rural households in Petauke district of Eastern province.

3.0 Purpose/objectives

The purpose of the research was to establish the effects of Village Savings and Loans Associations on low income households especially in rural parts of Zambia where financial services were not available. The overall objective of the study was to examine the impact of VSLAs among rural families.

The specific objectives of the research were:

- To investigate the Social Status of VSLA members in the community (i.e. Income Levels, access to loan funds, savings levels etc),
- To ascertain the main uses of savings pay-outs among VSLA members and finally
- To establish the challenges VSLA members face in their groups.

4.0 Literature Review

- According to Data from the **SUSTAIN** project impact assessment (2008) in Uganda demonstrated improvement in the livelihoods of the VSLA members due to VSLA involvement. After saving and borrowing through VSLAs, data showed that most members were able to increase their engagement in productive enterprises such as petty trade, fish mongering, beer brewing and livestock rearing, as well as start up new business ventures.
- According to CARE Baseline Report, 2010, it reviewed that on average, VSLA members in Malawi, Uganda, Tanzania and Zambia received around 30 percent return on their savings, representing a significant return through saving in a VSLA which could not be offered by banks or MFIs. Anderson and Baland, 2002 further pointed out that VSLAs disbursed savings once a year at a ceremony called share-outs (pay-outs) and it normally coincided with periods when most households needed lump sums for particular investments, facilitating such commitment or even use in farming activities

- Since the 1980's, the high incidences of poverty remain one of the greatest challenges faced by the Zambian Government and its citizens. The 2004 Living Conditions Monitoring Survey undertaken by the Central Statistical Office revealed that 68% of the population lived below the poverty datum line. Two thirds of the people were living on US\$1 (K10) per day.
- The Finscope survey of 2008 revealed further that the low level of access to financial services in Zambia had contributed to poverty levels in the country where 66% of adults in Zambia had no access to any formal or informal financial services
- According to Development of Rural Finance Policy and Strategy in Zambia Final Report (2012), Government was promoting the development of the financial services sector particularly in rural areas. The Poverty Reduction Strategy Paper had recognized the need for the development of micro, small and medium enterprises.
- For this initiative to be realized, there was need for provision of financial services by locally facilitated Community Based Financial Institutions (CBFIs) such as Savings and Credit Cooperatives (SACCOs), Village Savings and Loans Associations (VSLAs), Accumulating Savings and Credit Associations (ASCAS) and any other savings groups. **Source** (Bank of Zambia (2011): progress report on the implementation of the financial sector development plan phase II, Bank of Zambia).

5.0 Research design/materials and methods

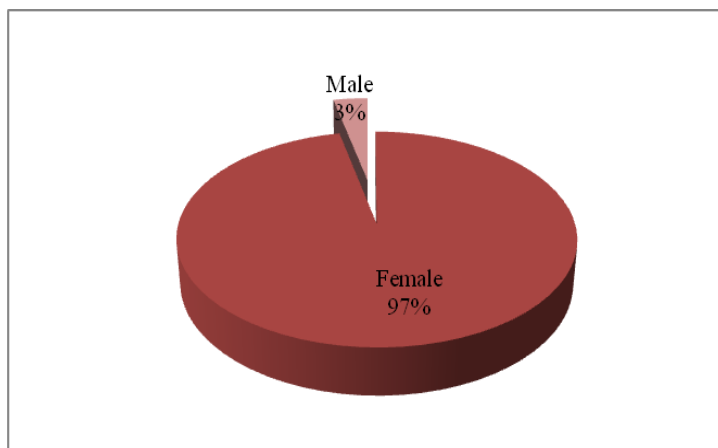
- A descriptive study design of Chilimanyama Agricultural Camp in Petauke District was undertaken in this study.
- The sample size was 36, 1 key informant from Community Development, 5 Focus Group Discussion and 30 VSLA members (respondents) from 5 Zones of Chilimanyama Agricultural Camp.
- Cluster Random and purposive sampling technique was used for selecting respondents
- The instrument of data collection which was used for key informant from Community Development was the in-depth interviews using an interview guide.
- The instrument of data collection used for group operation from the 5 groups was in form of group discussion through well structured questionnaires called Focus Group Discussion Format.
- For the 30 respondents, semi-structured questionnaires were used.
- These instruments contained both open-ended and close ended questions. The data that was collected from the open ended questions was coded and later closed.

- The respondent's questionnaires were distributed to the various geographical locations within Chilimanyama Agricultural Camp for data collection.
- The quantitative data collected was analyzed using SPSS and later imported on a Microsoft Excel sheet while the qualitative data used the narrative form.

6.0 results/findings

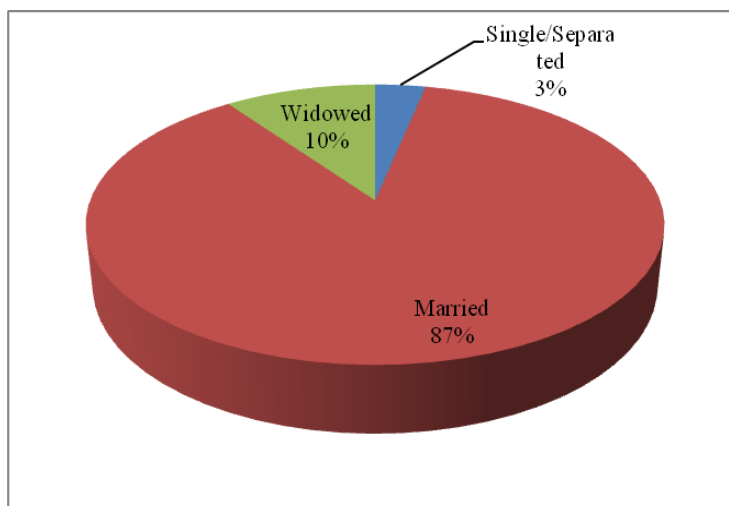
6.1 Sex distribution

Figure 6.1 VSLA Member Sex Distribution



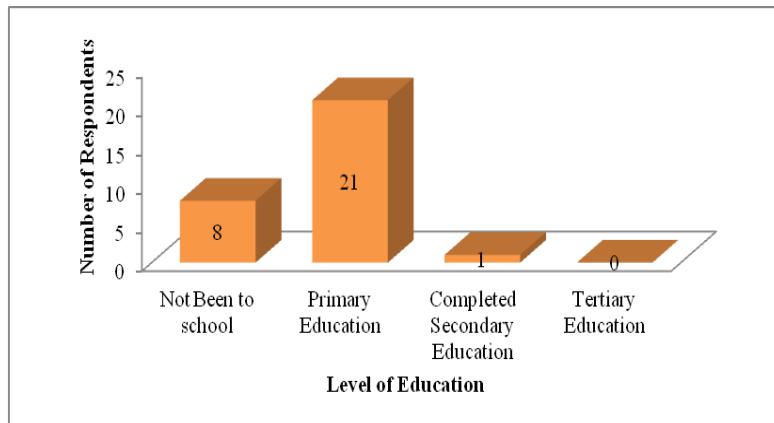
According to the research results, (29) 97% respondents were females while (1) 3% of the respondents were male. Figure 6.1 gives a detailed analysis of the respondent's sex distribution. This clearly shows that many women were involved in income generating activities such as farming as well small businesses.

Figure 6.2 VSLA Members Marital Status Distribution



The results further revealed that 80% of respondents were married, 10% were widowed while another 10% of the sample were either single or on separation respectively. Figure 6.2 gives a detailed analysis of the respondent's marital status.

Figure 6.3 VSLA Member Level of Education



According to research findings, out of the 30 VSLA members interviewed, more than half of the VSLA members had attended Primary School representing 70% of the total respondents while 27% of them had never been to school and only 3% of the respondents had been to secondary school. Figure 6.3 further illustrates the levels of education of the respondents.

7.0 Social and Economic statuses of VSLA members

Figure 7.1

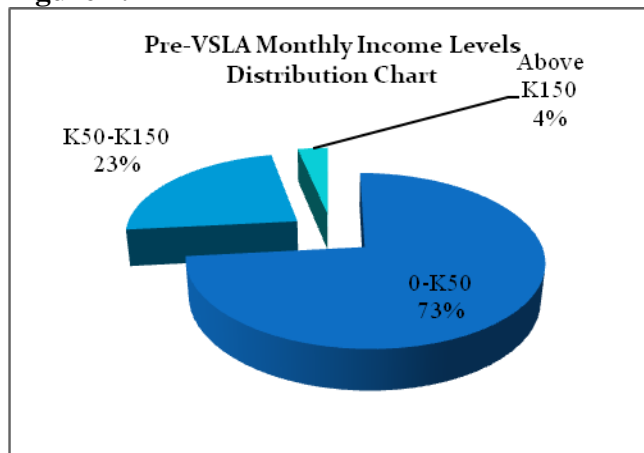
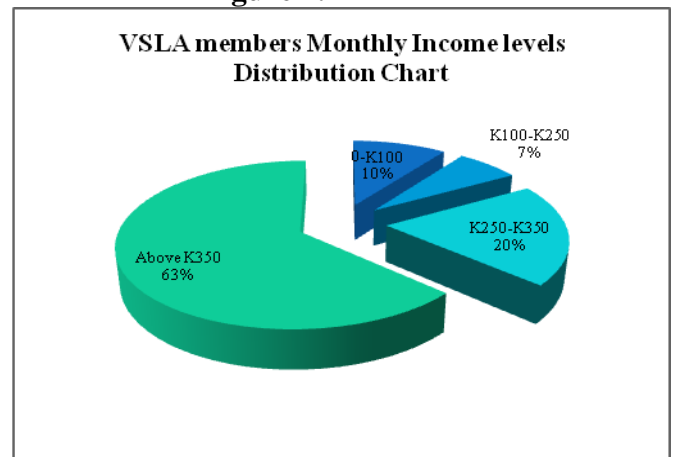


Figure 7.2



According to the research findings, it was observed that the monthly income levels of VSLA members had increased ever since the coming up of savings groups in these communities. As indicated in figure 7.1 above, community members before joining the savings groups had on average 0-K50 representing 73% while only 23% of the total respondents had monthly income between K50-K150 and only 4% of the respondents had monthly income above K150. Figure 7.2 gives a different scenario after the introduction of VSLAs in these communities, the monthly income had risen from the majority category of 0-K50 to above K350 represented by 63% while those with the least monthly income of 0-K100 was represented by 10% as indicated in the above figure 7.2.

Figure 7.3 Savings Levels before VSLAs

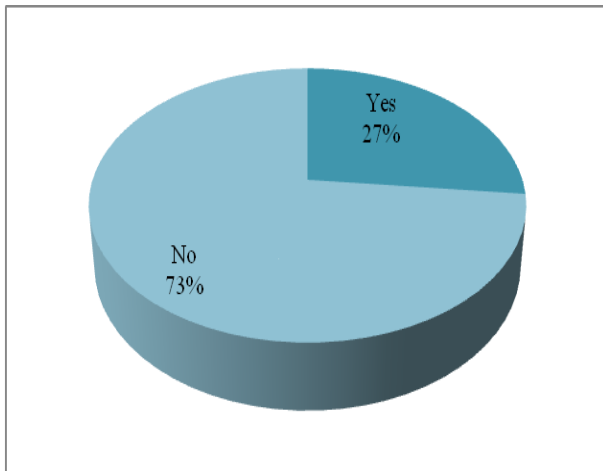
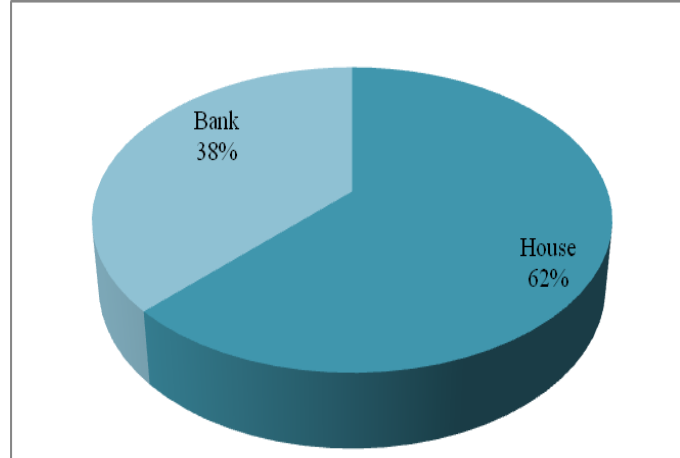


Figure 7.4 Forms of Savings before Joining the VSLAs



When asked whether members of the VSLA had any savings before joining the group, out of the 30 respondents surveyed about 27% had savings while 73% had no any form of savings prior to the joining of the VSLA as shown in Figure 7.3. The results also revealed that for members who had savings before joining the VSLA, approximately 62% of them kept their money in the house and 38% had bank accounts with banks like Micro Finance as indicated in figure 7.4 above.

Figure 7.5. Level of Savings for VSLA Members



According to the survey conducted, 23 of the respondents had savings ranging from K500-K1500, while 5 had savings between 0-K500 and 2 of the respondents had savings above K1500 as indicated in figure 7.5

8.0 The Most Use of Pay Outs (VSLA Members)

According to sample surveyed on the use of pay-outs, 18 (60%) respondents said they used it to purchase farming inputs and 6 (20%) of them used it to celebrate/house project. Another 6 (20%) respondents said the pay-out was used on food and school fees as illustrated in table 3.0 below; When asked if VSLA members and any household members involved in any IGA, 2 (7%) said they were not involved in any IGA while 28 (93%) said they were involved in IGA as illustrated in figure 8.1 below.

Table 8.1 The Most Use of Pay-outs Distribution

| Pay-out Usage | Frequency | Percentage (%) |
|--------------------------------|-----------|----------------|
| Food and School Fees | 6 | 20 |
| Celebrations and House Project | 6 | 20 |
| Purchase of Farming Inputs | 18 | 60 |

Figure 8.2 Members Involvement in IGA

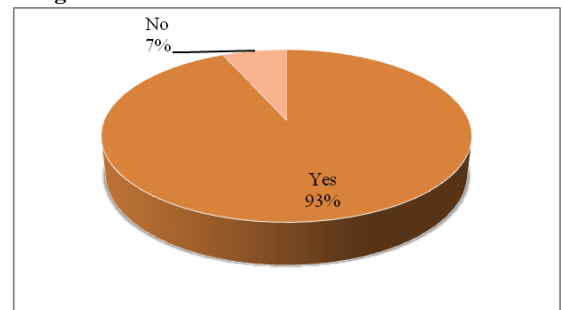


Table 8.3. Forms of IGAs Undertaken by VSLA Members

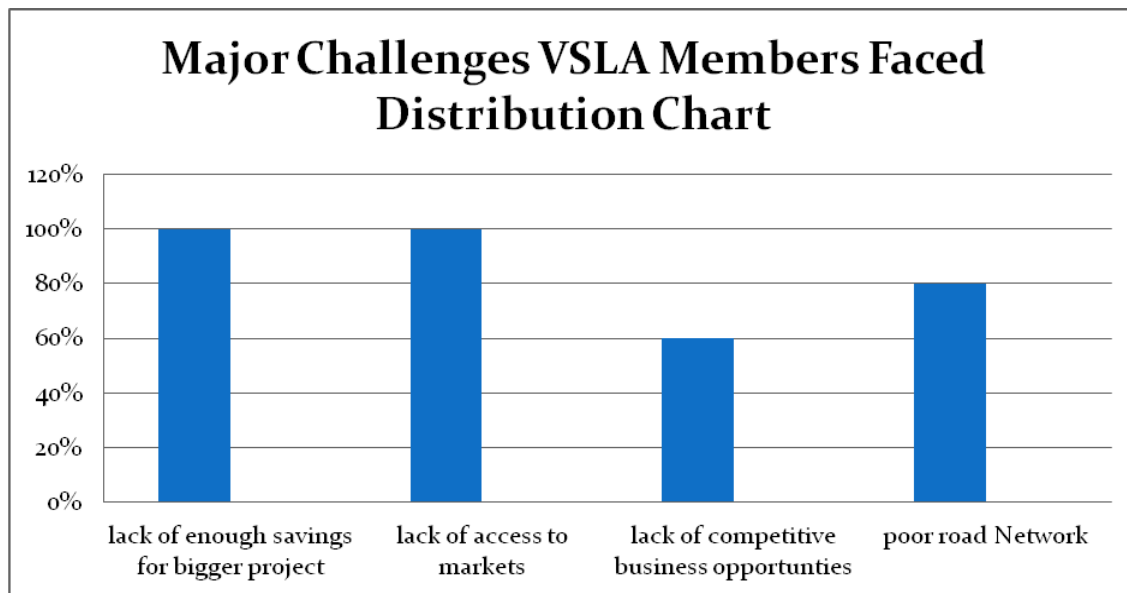
| Form of IGA | Number | Percentage (%) |
|-----------------------------------|--------|----------------|
| Agriculture (Farming & Livestock) | 6 | 20 |
| Agriculture & Business | 22 | 74 |
| Not in any IGA | 2 | 6 |

When asked about the form of IGA they were involved in, about 74% (22) of the respondents were into both agriculture (Farming & Livestock) and business (trade & sale), 20% (6) were only involved in agriculture and 6% (2) of the respondents were not involved in any IGA. This is further indicated in Table 8.3.

9.0 CHALLENGES VSLAs FACED

VSLAs like any other organizations were not prone to challenges. The researcher through this research revealed some major challenges VSLA member faced during their operations and indicated in the figure below;

Figure 9.1 Challenges of VSLA members



Above were the most prominent challenges VSLAs faced during their term of saving which is commonly known as a cycle. According to the figure above, 100% of the respondents lacked enough savings to do bigger projects and they were lacking access to market facilities in order to conduct their daily business activities effectively. Poor road network was another major challenge faced represented by 80% of the total number of VSLAs interviewed. Lastly lack of competitive business opportunities was another challenge representing 60% of the all VSLAs interviewed.

10.0 Discussion of findings

Looking at the sex distribution chart of the respondents, it was reviewed that the majority of VSLA members were female. This meant that vulnerability in rural areas was so high among women who in most cases endured hardship which comes as a result of lack of certain services such as finances to start up small businesses. As indicated in figure 6.1 it is clearly indicated that the male respondents was represented by only 3% while 97% respondents were females.

The information gathered during the survey showed that the social status of VSLA members had improved tremendously looking at the services VSLAs were able to offer. According to the findings of this report, it was observed that VSLA members before joining the savings group their monthly incomes was as little as K50 per individual and when VSLAs were introduced in

these communities member's monthly incomes had risen to above K350. This is a clear testimony to the number of business activities happening in these communities compared to previous times when VSLAs were not so prominent.

The research findings also reviewed that savings levels for VSLA members had improved since each member in the community had some savings in the group ranging from K500 to K1500. Before the coming of VSLAs, members had little or no savings at all due to lack of safety of their money. For those who had some savings they agreed to have kept their money in houses either through digging of a hole or keeping it under the pillow. Such scenerios possed a danger to the safety of their money and many people did not have interest to keep money but now things have changed ever since VSLAs were introduced and many member could safely keep their money in Savings group for a period of one year without any problem.

According to the findings of this report, it was further reviewed that VSLA members do their share-out (pay-out) every after 12months. During this celemony, a members of the group have a chance to share their annual savings and this was shared according to the total savings each member contributed for the rest of the year plus the total interest contributed on the savings. It was reviewed that the share-outs/pay-outs were usually used on productive investments such as farming activities, start up small businesses, build houses, pay school fees and pay for medical expenses. However despite these benefits a VSLA offered to the communities, it had some challenges which members faced, some prominent challenges VSLA members faced include lack of competitive business opportunities, poor road network for transporting farm produce. Some other challenges included lack of access to markets as well as lack of bigger capital to do bigger projects within the communities.

11.0 Conclusion

In a nutshell it could be concluded that VSLAs, played an important part in wealth creation at community level especially for people with low income levels in rural areas.VSLAs offered affordable loan funds for low income households where the interests put on the loans were given back to group members as a way of increasing their savings in a group. Pay-outs were also one of the critical part in as far as motivating VSLA members was concerned since members were using the pay-outs as a source of income to buy farming inputs or invest the money on business related activities. The pay-outs were also used as a source of income to settle school fees, medical expenses and food related expenses. The researcher concluded that VSLA was a way to go in as far as rural financial service provision was concerned, this was due to its proven records in providing simple and affordable loan funds to members at community levels. It was also one way in which members' savings were safely kept and at the end of the day the money was used on productive investments such as farming as well as on petty business activities.

12.0 Recommendations

Nevertheless, the respondents recommended that the VSLAs should be linked with other service provider in the area of Agribusiness development and rural entrepreneurship, VSLAs should be helped by the ministry responsible for community development to form credit unions to act as a registered body to provide loan facilities to all community members including civil servants, there should be a deliberate policy by ministry of community development to provide trainings to VSLAs on business identification and leadership and finally there should be an improved collaboration between NGOs and the Ministry of Community Development in promoting this concept to the rest of the district.

13.0 Acknowledgment

Every successful work is made possible through exchange of knowledge, support and resources from individuals across the society therefore; this research was based on the concept of consultation with few individuals with vast knowledge on the subject. My appreciation goes to these individuals for extending their helping hands and ensuring that this research stands a taste of time.

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