Impact of Village Saving and Loan Associations (VSLAs) in Rubengera Sector – Rwanda

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The study aimed at studying the impact of VSLAs on sustainable development of rural population of Rubengera Sector in Karongi District. A sample of 92 respondents were selected from the study population of 2400 members of VSLAs in the study area using–Alain Bouchard formula. The respondents were selected with the help of simple random sampling techniques. Data collection instruments included observation, focus group discussion, questionnaire and documentation. After the collection of data, it was processed through editing, coding and tabulation; then analyzed with comparative and statistical methods with the help of SPSS. After data analysis and interpretation of the results, the researcher found out that VSLAs helped in the financial inclusion of different categories. According to the profile of the respondents, the researcher found that VSLAs included women, men and youth, people with different academic levels and professions.

In conclusion, all 92 sampled, 100% of the respondents confirmed that since the adoption of VSLAs, there have been positive changes that have characterized the socioeconomic development of the rural population in the study area. The sampled members of VSLAs confirmed that after joining VSLAs, livelihood status have improved such as improvement in school enrolment, better health status, better housing and improvement in income level. Furthermore, findings revealed that after joining VSLAs, most of the members have shifted to upper categories of Ubudehe program.

Key words: Impact, VSLA, Rubengera Sector, Rwanda.

INTRODUCTION

The vast majority of the world’s poor live in rural areas of developing countries with very limited infrastructure. Rural economies are characterized by long time spans between input and output of the agricultural production, uncertainty and weather dependency. This makes the ability to smooth consumption, to access credit and to employ risk coping strategies very important for household living under such circumstances (Conning and Udry, 2007).

Seventy percent of the world’s poorest live in rural areas in developing countries with poor access to finance. Village Savings and Loan Associations (VSLAs) have become an increasingly widespread intervention aimed at improving local financial intermediation (Christopher, 2013). Although during the last decades’ microfinance institutions have provided millions of people access to financial services, but provision of access in rural areas remains a major challenge.

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It is costly for microfinance organizations to reach the rural poor, and as a consequence the great majority of them lack any access to formal financial services. Traditional community methods of saving, such as the Rotating Savings and credit Associations called ROSCAs can provide an opportunity to save, but they do not allow savers to earn interest on their deposits as a formal account would. In addition, ROSCAs do not provide a means for borrowing at will because each member makes a regular deposit to the common fund, only one lottery-selected member is able to keep the proceeds from each meeting. Nevertheless, the history of rural financial intermediation is not encouraging and the recent explosive growth in microfinance globally has concentrated in urban and semi-urban areas (Allen and Panetta 2010).

Growing evidence highlights that for poor households, savings is a much higher priority than borrowing, as savings builds assets and can help to address risks as well as planned lifecycle events in traditional places where the poor save money are often at risk of theft or temptation (Collins et al, 2009).

To speed up the financial inclusion of rural people, VSLAs have been introduced by CARE International in all the countries members of East African Community including: Kenya, Uganda, Tanzania, Burundi and Rwanda. The same author argues that a policy on financial inclusion should focus on ensuring the poor have convenient and affordable access to the financial products that they need to manage their households and businesses. These products may come from either formal or informal providers (Chidiac, 2011).

According to Jan Maes (2007), Rwanda is a small land-locked country in Central Africa, with a very high population density of 328 inhabitants per square kilometer. While microcredit organizations in Rwanda barely reach the rural poor, the Banques Populaires have a strong presence in rural areas, but focused until recently for the most part on less poor people (such as salaried people, traders, and cash crop farmers). The Rwandan population is expected to double to around 16 million by 2020. Given that the major aspiration of Vision 2020 is to transform Rwanda's economy into a middle income country (per capita income of about 900 USD per year, from 220 USD in 2000), this will require an annual growth rate of at least 7%. This will not be achieved unless we transform from a subsistence agriculture economy to a knowledge -based society, with high levels of savings and private investment, thereby reducing the country’s dependence on external aid. To achieve a more sustainable economic growth and development, Rwanda needs a deepened, broadened and developed financial system, well regulated and competitive, an inclusive and financially literate population to accelerate growth (MINECOFIN, 2013).

By having access to savings services and small loans, members can smooth irregular income patterns and meet basic household consumption needs rather than taking on significant debt they may be unable to repay. And when they do borrow from the VSLA, loan sizes are generally small and manageable. According to Allen (2002), the approach of VSLAs is characterized by a focus on savings, asset building, and the provision of credit proportionate to the needs and repayment capacities of the borrowers. Groups are of low-cost, simple to manage and can be seen as a first step for people to reach a more formal and wider array of financial services. VSLAs can dramatically raise the self-respect of individual members and help to build up social capital within communities, particularly among women.

According to Mkoma et al (2009), VSLAs are most successful in economically dynamic urban areas, where investment opportunities abound; the borrowing requirements of small-scale enterprises are high; income streams are regular and diverse and the cost of reaching clients is low. But 30 years since the start of the microfinance revolution, people who live in many rural areas and urban slums, and in particular those who are very poor, have a difficult time gaining access to useful microfinance products. Surprisingly, this is often the case in countries with a well-developed microfinance sector, a fact that is becoming increasingly evident as the industry matures.

VSLAs, based in the community, are complementary to Microfinance Institution (MFIs), tending to serve the very poor whose income is irregular and less reliable and who may not be full-time business people. Their principal need is for services that help them manage their household cash-flow and provide useful lump sums for life-cycle events which may or may not include income generation. These people are more likely to be economically vulnerable and, for the most part, they live in rural areas that are served only intermittently by local markets, at the periphery of the national economy (Mkoma et al, 2009).

MATERIALS AND METHODS

Study area

Rubengera sector is one of 13 sectors of Karongi district in Western province of Rwanda. According to NISR (2012), Rubengera sector has 33,005 inhabitants including 15,481 males and 17,524 females and the density of 697 inhabitants /Km². The main economic activity is agriculture and the main cash crop grown is coffee whereas food crops include cassava, beans, bananas, potatoes, vegetables, and fruits. Apart from agriculture that occupies more than 85% of the population, other economic activities...
include: fishing, handcraft, and trade. Rubengera sector has 10 cooperatives including 6 farming cooperatives. Rubengera sector is composed of 5 administrative cells. The relief generally composed hills whereby the estimate terrain elevation above sea level is 2064 m. The sector is located at latitude of -2°7'46.56" and Longitude of 29°21'42.19".

Population and sampling size

The target population for this study included 2400 members of VSLAs in Rubengera sector. For the purpose of this study, the sample size was determined according to the formula of Alain Bouchard with the size of the random sample of 96 individuals, a margin error of 5% and a precision of 95%. The formula used is given below:

\[
nc = \left( \frac{N \times n}{N + n} \right)
\]

where:
- \(N\) = the number of whole population.
- \(n\) = The sample to be examined
- \(n\) = 96 as the size of the random sample
- \(NB: 96\) is a number used by A. Bouchard which represent the height of a sample for finished universe.

Therefore, the sample size is equal to:

\[
nc = \left( \frac{2400 \times 96}{2400 + 96} \right)
\]

\[
nc = \left( \frac{230400}{2496} \right)
\]

\[
n_c = 92
\]

Therefore, the sample size of this study was equal to 92 respondents and the researcher used simple random sampling technique whereby each member of VSLAs had a chance of being selected for the sample.

Data collection

The questionnaire was prepared in local language (Kinyarwanda) that is supposed to be known by all the respondents and translated into English. To collect primary data, we used questionnaire composed of open-ended and closed-ended questions and it was administered to all 92 members of VSLAs for the study. For the period of the distribution of questionnaires, the researcher ensured that questions were understood in the same way. This method had advantages for both literate and illiterate respondents to reply well.

Statistical analysis

The researcher used frequency, percentage, and mean rank distribution to determine the socio-demographic characteristics of the respondents and show the impact of VSLAs on the sustainable development of rural population in Rubengera sector. Statistical package for social studies (SPSS) was used to facilitate the statistical analysis.

RESULTS AND DISCUSSIONS

Socio economic characteristics

Different variables were examined to obtain information about the socio-demographic characteristics of respondents. The main variables were: gender, age, marital status, education level, and time spent in VSLA.

As shown in Table 1, out of 92 sampled respondents, 26.1% were males while 73.9% were females. The philosophy of VSLAs is financial inclusion of marginalized people including women and more efforts have been made by local administration to sensitize women on the benefits of joining VSLAs.

Access to a formal savings account has substantial positive impacts on women’s productive investment levels and expenditures, and also makes women less vulnerable to various shocks. There are substantial positive impacts of participation in microfinance programs, specifically in the areas of eradicating poverty, promoting children’s education, improving health outcomes for women and children, and empowering women (Daley-Harris, 2009). Although women are responsible for much of the country’s economic activity, especially in agriculture and informal business, economic opportunities are often markedly different for men and women. Creating opportunities for women can help not only to women empowerment, but also to unlock the full economic potential of their country (Ellis et al. 2007).

As depicted in the table above, 7.6% of the respondents were under twenty, 40.2% were between twenty and thirty-five years old, 41.3% were between thirty-six and sixty while 10.9% were above sixty years old. From these statistics, the majority of the respondents were adults while the minority of the respondents where people under twenty years old. However, these statistics show that all the age ranges were represented: youth, active adults and retired people. This implied that those who belonged to active and productive age brackets belong to VSLAs simply because they have materialistic urge, while contrary situation prevailed for those who fall within the aged group who are mainly concerned with food security.

The findings indicate that 38% of the respondents were married, 29.3% were widowed, and 7.6% were divorced while 25% were single. From the above results, most of the respondents were married people while the least represented respondents were divorced, this implies that the highest number of respondents are married. However, the sample comprised other categories including widowers or widows and single people. These statistics were due to
the fact that marriage increases household’s size and therefore venture in increased production as a way of finding means of solving financial problems, rising income and increasing the possibility of financial access (Seluhinga, 2013).

From this statistics the researcher found that VSLAs contributes to social inclusion of all people with different marital status. They also include people who are assumed to be vulnerable such as widows. Therefore, VSLAs promote social relationships in Rubengera sector.

The findings reveal that 7.6% of the respondents had no formal education, 60.9% had primary level of education, 9.8% had ordinary level, and 13% advanced secondary education level whereas 8.7% had higher education level. According to the above results, the majority of the respondents had primary education level and the minority had no formal education. It implies the highest number of respondents had primary education while the lowest respondents had no formal education.

According to Skoufias (1997), household from villages without access to finance such as credit market tend to reduce their children’s schooling when they suffer transitory shocks than households with greater access to financial services. This creates an advantage for the sustainable development of people because all the categories of people are actively involved in finance sector regardless the education qualification.

As shown in Table 2, the farmers were represented by 37%, 14.1% were handcrafts, and 13.0% were traders, 8.7% were monthly paid employees while 27.2% had other
professions like bricklayers, carpenters, hair dressers, taxmen, and tailors. These findings show that the number of people involved in agricultural activities were reduced due to the presence of VSLAs in the study area and they are now involved in other income generating activities rather than farming activities. This implies that VSLAs contribute to the creation of other income generating activities apart from agriculture in rural areas.

**Impact of VSLAs on socio economic development of the respondents**

This part sums up the view of respondents about the socioeconomic indicators generated from VSLAs in Rubengera sector. The respondents were given a chance to select the development characteristics among the following choices: creation of new income generating activities, improved human settlement, increase of children attending schools, improved social relationships, increase of hygiene and sanitation infrastructures, women empowerment, improved health status, increase in electricity and clean water connections and increase in food security.

In the table 3, all respondents confirmed that there is a remarkable achievement in the socioeconomic development due to the adoption of VSLAs in Rubengera sector. From these results, the researcher found that VSLAs contributed to poverty alleviation in Rubengera sector.

Since the adoption of VSLAs in Rubengera sector, there has been creation of new income generation activities. As asserted by Czukas et al. (1998), in much of the rural developing world, credit and credit markets are indeed absent or highly imperfect. Rural households in developing countries face considerable risk in their income generation process, a consequence of engaging in inherently risky rain fed agriculture and casual low-paid wage jobs in the informal sector (Czukas et al, 1998).

According to MINALOC (2012), the economy of Rwanda is currently characterized by internal (budget deficit) and external (Balance of Payments) macroeconomic disequilibria, alongside low savings and investment rates and unemployment and underemployment. VSLA program come to support, the rural population of Rubengera Sector to overcome the above challenges through creating new income generating activities. The members of VSLAs could invest loans or share out in new small businesses. The businesses include modern farming such as mushrooms growing, bee keeping, carpentry, hair dressing, retail trading, electronic funds transfer services (Mobile money), bicycle and motorbike transport without forgetting the extension cash crops farming especially coffee growing.

In terms of human settlement development, the findings showed that some of the members of VSLAs associations had used loans and share out for improving their houses or shifting from grass thatched houses. According to Besley et al. (1993), the main benefit of VSLAs is to allow members to acquire durable goods faster than they would be able to if saving for it individually. Since VSLAs provide their members with relatively large one-off lump sum money, they may also help to overcome barriers to entry to more lucrative opportunities.

The report of Rubengera sector (2013) stated that the school dropout decreased from 7.1% to 1.10% in 2010 for primary and from 8% to 3% for secondary education level in 2013. Jacoby (1994), in similar study, indicated that lack of access to finance reduced the likelihood that poor households send their children to school. Formal microfinance however does not tend to reach the ultra-poor. The ultra-poor often live in the most isolated rural areas, deprived of any infrastructure that would make the provision of formal microfinance operationally feasible or financially attractive. Therefore, financial self-help groups

<table>
<thead>
<tr>
<th>Development characteristics</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creation of new income generation activities</td>
<td>92</td>
<td>100.0</td>
</tr>
<tr>
<td>Improved housing or community settlement</td>
<td>92</td>
<td>100.0</td>
</tr>
<tr>
<td>Increase of children attending schools</td>
<td>92</td>
<td>100.0</td>
</tr>
<tr>
<td>Improved social relationships</td>
<td>92</td>
<td>100.0</td>
</tr>
<tr>
<td>Increase of hygiene and sanitation infrastructures</td>
<td>92</td>
<td>100.0</td>
</tr>
<tr>
<td>Women empowerment</td>
<td>92</td>
<td>100.0</td>
</tr>
<tr>
<td>Improved health conditions</td>
<td>92</td>
<td>100.0</td>
</tr>
<tr>
<td>Improved living conditions</td>
<td>92</td>
<td>100.0</td>
</tr>
<tr>
<td>Increase of electricity and clean water connections</td>
<td>92</td>
<td>100.0</td>
</tr>
<tr>
<td>Increase of food security</td>
<td>92</td>
<td>100.0</td>
</tr>
</tbody>
</table>
which provide basic savings and lending facilities have existed for a long time in many developing countries (Besley et al. 1993). This implies that VSLAs among other factors contributed to the stability of education in Rubengera sector; because with VSLAs the parents increased their ability to pay school materials and school facilitation fees for their children.

The results of the study found that VSLAs improved all levels of social relationships in Rubengera sector through interaction between the populations. Therefore, VSLAs has greatly contributed to improvement of social relationship because they have allowed the social inclusion of all categories of people and they have targeted more vulnerable and marginalized people such as widows, people with disabilities, women, orphans, and the poorest.

According to the report from Rubengera sector the households living in conflicts decreased from 121 in 2010 to 45 households in 2013. As mentioned in the report, this decrease was due to different factors including: improvement of women status, umugoroba w’ababyeyi program, and community policing (Rubengera sector, 2013). Development involves changes to socio-economic structures including ownership, the organization of production, technology, the institutional structure and laws (Cambridge, 1995).

Khandker (2005) find that microfinance programs help the poor through consumption smoothing and asset building and have additional positive effects on human capital formation. In addition, there are significant externalities on the village level, with microfinance raising the standards of living of non-participants in program villages and benefiting especially the ultra-poor. The main merit of microfinance is that it allows existing self-employment activities (small businesses) to expand and invest in durable goods. In line with this, there seems to be a heterogeneous impact on consumption: Households with a pre-existing business activity decrease overall consumption and non-durable consumption especially (to allow additional business investments to be made), while households without an existing business increase their non-durable consumption. In order to assess how the living conditions of the people of Rubengera sector improved due to the adoption of VSLAs, the researcher carried out a study on ubudehe categories of the respondents after joining VSLAs. As showed in the table 4, before and after joining VSLAs, the researcher found that ubudehe categories of the respondents changed positively after joining VSLAs program. The majority of the respondents changed from category one to category two and others from category two to category three. This implies that VSLAs contributed to the socio economic development of the rural population of Rubengera sector, because the majority of VSLAs members had their living conditions improved.

Also, the study found that VSLAs contributed to increase access to clean water and electricity connections in Rubengera sector. Some of the respondents confirmed that they had used their share out or loans from VSLAs to pay water or electricity connections. This was confirmed in the table 5 where 36.9% of respondents have access to electricity and 93.4% have access to clean water.

Banerjee and Morella (2011) argued that many diseases were the leading cause of infant mortality and malnutrition. Therefore, infrastructural development, entailing improved transport links, energy and water supplies and ICT networks; is the priority for Rwanda in order to ensure the sustainable development. Rwanda intends reaching 100% of access to clean water and 70% of access to electricity by 2017 (MINALOC, 2013). According to EWSA (2014), the strategic objectives include: Electricity grid connections to increase from 200,000 in 2011 to a total of 1,200,000 by 2017, which will be equivalent to 70% of access; to generate 1,000 MW from both the indigenous energy resources and from shared energy resources with neighboring countries; electrify 100% of schools, 100% of health facilities and 100% of sector offices by 2017, either through connection to the grid or through reliable off-grid

### Table 4. Distribution of respondents according to Ubudehe category

<table>
<thead>
<tr>
<th>Ubudehe category</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Category 1</td>
<td>28</td>
<td>30.4</td>
<td>30.4</td>
<td>30.4</td>
</tr>
<tr>
<td>Category 2</td>
<td>51</td>
<td>55.4</td>
<td>55.4</td>
<td>85.9</td>
</tr>
<tr>
<td>Category 3</td>
<td>13</td>
<td>14.1</td>
<td>14.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Category 4</td>
<td>0</td>
<td>0.0</td>
<td>0.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>92</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

### Table 5. Access to clean water and electricity

<table>
<thead>
<tr>
<th>Infrastructure</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>34</td>
<td>36.9%</td>
</tr>
<tr>
<td>Clean water</td>
<td>86</td>
<td>93.4%</td>
</tr>
</tbody>
</table>
systems; to have 100 percent of all Rwandan population access clean water by 2017 from 74% by the end of 2010. By the end of 2013, the electricity access was 17% while access to clean water was 85% at national level. From the above data, the researcher found that the access to clean water and electricity in Rubenga sector is better in comparison with other areas of Rwanda.

For the health sector, Table 6 shows that health situation of 94.6% of VSLAs members improved when they joined VSLAs whereas 5.4% believed that health of their household’s members had remained the same. From the above results, the researcher concluded that VSLAs contributes to improvement of health status of household members who participated in VSLAs. This health improvement is justified by the fact that VSLAs increase the ability of their members to pay health insurance for their families from loans, savings, and dividends. VSLAs also increased the food security in Rubenga sector because, through loans and share out the farmers increased the agriculture production as shown in Table 3. VSLAs have provided more ability of purchasing agriculture entrants to boost agricultural production. Due to VSLAs new modern farming activities have been created in Rubenga. The activities include mushroom growing, modern poultry and pig, and bee keeping without forgetting modern horticulture. Therefore, the farmers could increase the quality and quantity of agricultural production.

**CONCLUSION AND RECOMMENDATIONS**

The VSLAs offer the easiest benefits of saving, borrowing, and earning to rural population with low income; and participation in the VSLAs would result in improvements of social economic development indicators like: Employment, health, education, food security, shelters, and rural infrastructures. 100% of the respondents confirmed that the adoption of VSLAs; the socio economic development of Rubenga sector were characterized by creation of new income generation activities, improved housing or community settlement, increase of children attending schools, improved social relationships, increase of hygiene and sanitation infrastructures, women empowerment, improved health conditions, increase of connection to electricity grid and to clean water, and increase of food security. Also it contributed to poverty alleviation, reduction of school dropout, and an increase of people having mutual health insurance in Rubenga sector.

In light of the findings of this research, the researcher provides the following recommendations in order to improve the effectiveness of VSLAs in Rubenga Sector:

1. The government of Rwanda could link other programs aiming at boosting the sustainable development of rural people, such as VUP and BDF with VSLAs program for promoting the culture of saving and entrepreneurship in rural areas. The local leaders could follow up the operations of VSLAs in order to prevent any fraudulent actions that may lead to the discouragement of VSLAs members.

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