Introduction

Group savings and loans approaches have developed over the past 20 years into a fairly standardized methodology. The approach was introduced into the arid and semi-arid lands (ASALs) of the Horn and East Africa around 10 years ago, and is currently being implemented by a number of international and national NGOs, including several ECHO DCM partners. In Kenya it has been referred to as Village Community banking (VICOBA), while in Uganda it is called Village Savings and Loans Associations (VSLA). The VSL methodology was initially developed by CARE in Niger and is now implemented in numerous countries across the continent. The principle behind it is that members of a village group pool their savings by buying shares in the group, and when they have put in an agreed amount they can qualify for a loan to start a small business or meet a sudden cash need (e.g. school fees). The interest paid as the loan is returned is shared out among all the members. A social fund may also be established which is interest free.

In the drylands of the Horn and East Africa, VICOBA/VSLA has been shown to increase diversification of income—leading to increased resilience to drought. Case studies have shown the varied and significant benefits from the approach, ranging from attracting youth out of cattle raiding towards engagement with economic enterprises in Karamoja, to enabling group members in Tanzania to pay for school fees during times of drought when other community members could not. The approach has also provided a useful basis for the establishment of private animal health services in numerous locations. In Ethiopia, savings and loans combined with functional literacy and business development skills was shown to increase women’s confidence to engage in individual business ventures, as well as confidence to engage in meetings and other community events (CARE Ethiopia, 2009).

Standards for the approach have been developed and are outlined in a number of documents, including CARE’s Field Operations Manual (VSL Associates, 2007). These good practice principles are based on this manual and recent experience in implementing the approach in the ASALs. Using these good practice principles is particularly important given that high rates of losses within VS&L groups can occur in these areas e.g. a study by CARE (Nyanza province of

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1 These good practice principles were drawn up for and reviewed during an ECHO DCM partners meeting in ILRI, Addis Ababa in May 2011. (Edited by Vanessa Tilstone, MEL Manager and Helen de Jode, Consultant, REGLAP, November 2011)

2 The VSL methodology developed by CARE International in Niger in the early 1990s has been used in 21 countries in Africa, Asia and Latin America by a number of development agencies.
Kenya) showed that 17% of VSLA members, and 23% of non members, knew someone who had lost money through the scheme.

Despite the potential of VS&L there is also a need to develop complementary programs to provide an enabling environment for business development in the ASALs. It has been found that limited access to markets and insecurity can undermine the functionality of VICOBA as they limit opportunities for investment or livelihood diversification.

There is a need to re-visit the current training manual to improve the component on business skills. This is particularly important for pastoral communities where there is a high illiteracy rate and limited experience of savings and loans schemes. A facilitation guide for small business management skills that was developed by the Enhanced Livelihoods in the Mandera Triangle Programme (ELMT)\(^3\), has components which could potentially be incorporated into the standard VICOBA/VSLA training manual. There is also a need to further explore implementation alongside complementary approaches such as PFS, CMDRR and conflict resolution.

### Good practice principles

1. **Expertise of trainers / facilitators**
   - Establish minimum standards for training.
   - Establish a standardized method of paying facilitators with other organizations and development actors working in specific areas of operation.
   - Group training should be carried out according to the existing VSLA manual, developed by CARE. Adapting the manual, and tailoring it to the ASAL conditions incorporating area specific best practices, is a priority.
   - Training in functional literacy and business development skills is often a useful compliment to Group Savings and Loans (GS&L) approaches.

2. **Sustainability**
   - Groups should be autonomous and self-managing, with implementing institutions only facilitating and not trying to manage the fund. This promotes self reliance and long term sustainability.
   - Grants or matching funding should not be provided to VICOBA/VSLA groups. If groups are also functioning as PFS groups, their research grants should be kept separate.

3. **Group membership**
   - Members must be allowed to select themselves, once the concept has been introduced and sufficient understanding has been established. However, in the case of mixed groups at least three of the five committee members should be women.

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\(^3\) See documents page on www.elmt-relpa.org/aesito/HOAPN/
• Group members should live within easy access of the meeting site.

• There should be between 10 and 30 members per group. This strikes a balance between being big enough to create a useful pool of capital and small enough to keep meetings manageable.

4. Constitution and self regulation

• Group members should agree on a set of rules / bylaws which are written up as a group constitution and signed by every member. A Constitution performs two functions: first it provides a framework for governance, dispute resolution and disciplinary action, and secondly it specifies the conditions for share-purchase/savings, access to benefits payable from the social fund, as well as the length of the operating cycle (between 9 months and one year).

• All transactions should be carried out in front of the group, at group meetings, to ensure transparency and accountability. To ensure that transactions do not take place outside the regular meetings, a lockable cash box is used (preferably with three separate keys), to prevent unauthorised cash movement and the risk that records might be tampered with.

• A governing/management committee should be elected each year at the start of each cycle. This should consist of a Chairman, Secretary/record keeper, box keeper (Treasurer) and two money counters. These members can be removed with the agreement of the group if there are concerns over their performance.

• Cash box management – three keepers are selected by the group to hold the keys to the cash box. The group should agree the limit on the amount of money that it is safe to hold in the cash box, and agree on an alternative mechanism to store money should it exceed this limit.

• Groups should meet at regular intervals—weekly, fortnightly or every four weeks during the first cycle—as agreed by the members. In future cycles, once VSLAs are independent, meetings may reduce in frequency e.g. to take place only during times of hardship, or harvest/peak agricultural product sales periods.

5. Shares

• The value of a share should be set by the group. It should be set at a level that maximizes the opportunity of the poorest group members to purchase at least one share per meeting. However, it should not be set so low that five shares will not be sufficient to satisfy the savings objectives of the majority. At the start of a new cycle, and with the agreement of all members of the group, the value of a share can be increased or decreased.

• The number of shares purchasable per session must be set – normally up to 5 but this can be changed to 3 where there is concern about elite dominance.

• Share purchase should be recorded in individual pass-books using a stamp system, which allows illiterate people to understand the amount of money they have saved.

• The “saving cycle” should be set by the group to correspond to times of specific cash need (such as school fees). At this time (usually once every 12 months) all loans are called in and cash (inclusive of all interest / other revenues
earned, but exclusive of the social fund), is distributed to group members based on their share capital. In this way all dividends are paid out at the most needy times of the year.

- Once the group re-forms, after the end of cycle pay out, the share prices can be reviewed.

6. Loans

- Loans are only taken out once sufficient funds have been deposited in the cash box – normally after 4-5 weeks.

- 1-3 individual group members should guarantee each loan, with loan size limited to what group members believe each individual is capable of paying back.

- The size of a loan that an individual takes out should not be more than three times the value of the shares that she/he has already bought.

- Repayment schedules for loans should be defined by the group, but are normally tied to repayments every four weeks.

- Loans should be borrowed in front of all members and must be based on the consent of all the group members.

7. Interest

- The group members must decide the percentage service charge for loans (normally between 5 to 10% - according to what they can all afford and how much they want to build their fund). This should be written into the group constitution. The interest rate should be evaluated after the end of every cycle when the members may decide to maintain the same percentage, or increase it, depending on the consent of the majority of members. Interest rates rarely exceed 10%.

- The service charge is applied to the balance of the loan at every repayment until the loan is fully repaid. The interest must be paid when due, regardless of whether or not the member repays the loan principal. Loan principal repayments should also be made at regular (four-week) intervals.

- The period of loan repayment is agreed when the loan is taken, but the borrower may repay early to avoid further service charges if she/he wishes. When a borrower pays part of the balance due, the remaining balance is treated as a new loan, with the service charge percentage applied to the new amount and due at the end of the next (four-week) period.

8. Emergencies

- It is common for group members to set aside an emergency / social fund which can be accessed at the discretion of the group members.
• In Kenya mobile banking provides an alternative to keeping the group’s funds in a cash box, and warrants further investigation. There is a possibility that the increasing availability of mobile banking could negate the need for VICOBA/VSLA. Studies in Western Kenya however have shown that the benefits of group cohesion, and the lack of formal systems within VICOBA/VSLA, make them more attractive to group members (many of whom already have MPESA accounts).

• Interesting opportunities are arising on the use of groups as collateral for larger loans from banks, especially where wealthier member feel constrained by the caps on loans. EQUITY Bank has shown interest in working with VICOBA groups in Ileret. Further research is necessary however to ensure all group members fully understand the mechanisms and risks involved.

• There are increasing opportunities to link VICOBA/VSLA to other community approaches such as PFS, conflict resolution and CMDRR. The mechanisms and links between these need to be further researched in order to avoid confusion and overload.

• More research is needed into the use of alternatives to charging interest, such as a set fee for loan withdrawal. This is important for Islamic communities.

• Information on the opportunities for graduating into micro finance institutions should be provided to groups, although groups should not be pushed into following any specific course of action—it must be their own choice. [CARE to post on the DRR website.]

• Advocacy and raising awareness also needs to target donors and other institutions to increase knowledge on the potential for VICOBA/VSLA to support Disaster Risk Reduction processes [REGLAP].

• There is a need for a short document which demonstrates the key principles of VICOBA/VSLA. The above principles should be shared with CARE / CRS / SNV and other key actors to get their input and endorsement. [FAO should take the lead on this]. This should then be presented to donors and governments as a means of increasing awareness of the principles and opportunities presented by the approach [REGLAP].

• Plans for periodic impact assessments of VICOBA/VSLA in pastoral systems are necessary [CARE / FAO].

• A VICOBA/VSLA folder is needed on the DRR website for information / training manuals. [CARE, FAO and others].
References

CARE Ethiopia (Sept 2009) Participatory impact assessment of women’s income generating groups under CARE interventions in Borena, Ethiopia by Mirjam Steglich and Gezu Bekele/ ELMT/PLU2 [website]


CARE Kenya (Feb 2010) SMALL BUSINESS MANAGEMENT SKILLS: A community based approach, FACILITATORS GUIDE, [website]


Please send comments/suggestions on this document and relevant good practice experiences/studies to: Doris Kaberia at kaberia@care.or.ek and Rob Alport at: Robert.alport@fao.org and Vanessa Tilstone vtilstone@oxfam.org.uk

The project is funded by the European Commission Humanitarian Aid Department (ECHO)

Copies of this brief and other related documents can be accessed at:

http://www.disasterriskreduction.net/east-central-africa/reglap