

## **ROLE OF VOLUNTARY SAVINGS AND LOANS (VSL) IN IMPROVING SOCIO-ECONOMIC CONDITIONS OF PRO-POOR PEOPLE IN RURAL AREA**

Case study of CARE International in Busasamana Sector, Nyanza District: 2009-2013

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### **Abstract**

This paper dealt with the Role of Voluntary Savings and Loans (VSL) in improving Socio- Economic Conditions for pro-poor people in rural area with Care International in Busasamana Sector of Nyanza District, period 2009-2013 as case study. The researcher concentrated on finding out if the CARE's VSL have a positive and significant role on the actual socioeconomic status of the pro-poor people in rural area of Busasamana sector. To achieve this, the researcher used questionnaire, interview and documentation to collect both primary and secondary data from 88 people randomly and systematic chosen from the pro-poor people of Busasamana Sector. Data processing was done through editing, coding, recoding in Statistical Package for Social Sciences (SPSS) software, classification and tabulation. Data analysis used descriptive statistics such frequencies, percentages, and Spearman correlation coefficient. The study revealed that employment was created and income was improved as it passed from \$20 up to \$40 per month. Possession of both regular employment and sound monthly income constituted the basics to boost businesses and thus develop their social conditions in terms of welfare, dwelling, health, nutrition, and education. The correlation analysis and the perception of the beneficiaries confirmed that VSL of Care International contributed positively and significantly to the socioeconomic conditions of the beneficiaries in Busasamana sector, though it was still low (30.4%). The study recommends VSL to strengthen existing activities and put much effort on service activities.

**Keywords:** Voluntary Savings and Loans, Socio-economic conditions, Pro-poor people, and rural areas.

## 1. Introduction

Rwanda is a country of the great lakes and thousand hills with a surface of 26.338 km<sup>2</sup> of which 94.7% is land while 5.3% is water. Only 32.7% of the territory flatware (cutely) of lands are favorable to the agriculture (EDPRS, 2007). The population density has increased from 321 inhabitants /km<sup>2</sup> in 2002 up to 416 inhabitants /km<sup>2</sup> in 2012. This density is the highest in the East African Region and quite high compare to other countries and the demographic growth rate is 2.6% per year (NISR, 2012).

The economy of Rwanda is mainly marked by its strong dependence on the agriculture. The estimate population working in agriculture sector is actually 80% and the remaining under the technical assistance of Private Sector Federation (PSF) in collaboration with the government of Rwanda is working in other careers. However, PSF is promoted in order to motivate all Rwandan people to work in the economic groups or cooperatives because there the economy is much accelerated (Rwanda economic update, 2011). This indicates that the population growth does not fit with the availability of income which creates

several problems whereby some of the population is living under poverty. These include farmers whose daily job is agriculture on short land surface, and poor soil between 0.25/0.5ha with average of five people per household. Besides, this class is willing to participate in other interest services for increasing their income and removing from the poverty. Less income gain from agriculture does not solve all problems they have. It should be necessary to make savings on one part of their property in Micro finances and other financial institutions.

According to Care International (1991), Information indicates that the group of savings played a great role to create and to make follow up their functions and bore suitable product. Apparently, voluntary saving and loans (VSL) is an accumulating savings and credit association (ASCA) which requires sometimes external borrowing by or donation to the loan group, it is entirely self-sufficient. Its work, therefore, falls within the formal sector (Allen H.and Staehle, 2007). As social economic condition is defined as an economic and sociological combined total measure of a person's work experience of an

individual's or family's economic and social position in relation to others, based on income, education, health, and occupation (Allen H. and Staehle, 2007), it is obvious that there is a positive relationship between Voluntary savings and loans and social economic conditions.

Most of the population in Busasamana Sector, one of the tenth sectors of Nyanza District continues to live in extreme poverty. This poverty is seen through diversified factors like small lands with poor fertility, ignorance, and the lack of family planning. From such situation, the consequences are low production, food insecurity, and malnutrition with disease related, joblessness, children dropouts from school, increasing number of street kids, crimes, reduced purchasing power, increasing number of HIV AIDS patients, and decline of life expectancy. These problems negatively impact on the family income and hamper the quick and sustainable development. Despite this situation some of the opportunities helping to uproot such illustrious problems were set in terms of government policy to attend vulnerable people by grouping them in

cooperatives, health insurances, and voluntary saving and loans (VSL) sensitized and initiated by CARE International from 1999, in the context of combining efforts to improve lives and realize different income generating activities. The main purpose of this paper was to analyze the role of voluntary savings and loans (VSL) intervention of CARE International in improving socio- economic conditions of pro-poor people in Busasamana sector, Nyanza district of southern province of Rwanda.

## **2. Method**

The study employed descriptive and correlational research designs. It was descriptive first in the characteristics of respondents, second in the description of the activities of VSL performed by Care International in Busasamana sector, and lastly in the assessment of the level of socio economic conditions of pro-poor in Busasamana sector. This study also was correlation in the sense of establishing the relationship between independent and dependent variables.

The study population was composed of 1,497 VSL members working in partnership with Care international in Busasamana Sector, Nyanza District.

Randomly, the research sample size was made up of 88 people and was calculated using Cochran’s formula. As  $n_0$  for the population of 1,497 was not read from the table the calculation was done as follows:

$$\frac{1497 - 1000}{2000 - 1000} = \frac{x_1 - 91}{95 - 91} \cdot \frac{497}{1,000} = \frac{x_1 - 91}{4}; x_1 = 92.9 \approx 93 \text{ individuals}$$

After obtaining  $n_0$ , the researcher adjusted it in order to find  $n$  using equation 2. Therefore,  $n = \frac{n_0}{1 + \frac{(n_0 - 1)}{N}}$

Where:

- $n$  is the adjusted sample size,
- $n_0$  is the sample size from table in appendix A,
- $N$  is the population size (1,497 for VSL members).

Thus,

$$n = \frac{n_0}{1 + \frac{(n_0 - 1)}{N}} = \frac{93}{1.0614562458} = 87.6 \approx 88 \text{ individuals}$$

A self administered customized questionnaire was used as the main instrument. It was composed of four main sections where the first section indicated the respondents’ profile; the second section dealt with the activities of

$$N = 1,000, n_0 = 91$$

$$N = 1497, n_0 = x_1$$

$$N = 2,000, n_0 = 95$$

By applying interpolation technique, the researcher calculated  $n_0$  in the following way:

VSL in Busasamana sector, the third section concerned the level of socio-economic conditions of pro-poor in Busasamana sector, and the fourth dealt with the respondent perception about the role played by VSL in improving socio-economic conditions. The second and the third sections were composed by close ended questions where the respondent had to choose among “yes” or “no”; while the fourth section applied a Likert four-point scale that necessitated respondents to specify the selected choice for a given statement, from disagree (D) to agree (A) passing through tend to disagree (TD), and tend to agree (TA). Besides questionnaires the research also conducted an interview with the VSL field officers in Busasamana sector to contradict or to improve the VSL members’ opinion. Together the pilot study and the final questionnaires were self-administered.

For the validation of the research instruments the opinion of the expertise from INILAK was solicited. One of the senior lecturers in the department of management validated the questionnaires. As for the reliability a pilot study was conducted in Mukingo sector and a cronbach alpha coefficient of 0.785 was found.

Taking into consideration the outcomes of the pilot study, and after performing the necessary adjustments to the questionnaires, the instrument was used for data collection. Before administering such research instrument to the respondents, honest principles were followed. Data was gathered, coded, and recorded into Statistical Package for Social Sciences (SPSS) electronic software. After checking the encoded data to ensure that there were no encoding errors, missing, and outliers, the analysis followed statistical procedures where descriptive statistics like frequencies, percentages, and spearman correlation coefficient ( $\rho$ ) served to analyze data.

### **3. Results and Discussions**

The researchers distributed 88 questionnaires and the level of participation was absolute enough to

justify the reason the research went on. The results and discussions followed sections as they were specified through the questionnaires.

In respect to the respondent profile, the study revealed that 84.1% of the respondents. It was said to be due to the fact that CARE International through VSL aims at empowering women. The most interested people were in the age group between 21 and 40 years old representing 89.8% of the respondents. This group representing approximately the adult population was eager to improve the living conditions, but the research showed that 97.7% of the respondents were of the primary and no formal education. For the marital status the research revealed that the respondents were dominantly married (52.3%) followed by widow(er). This was due to the fact that the married ones could easily find the regular contribution fees required sometimes from their partners. As for the occupation of respondents the research showed that the majority were farmers. This was because most of them were of no formal and primary education not specialized in any field that could allow them to find jobs relative to the qualification, therefore

they practiced the jobs that did not require the educational skills mainly agriculture and sometimes commerce.

With reference to the research objective of identifying activities of VSL as they were performed by Care International in Busasamana sector, the study found that 98.9% of the respondents agreed upon

voluntary saving, while 22.7% agreed upon lending. Most of VS beneficiaries (96.6%) accepted having been helped to increase their level of personal wealth due to VSL. The voluntary savings and loans (VSL) of Care International helped beneficiaries to run projects as they are presented in table 1 as follows:

**Table 1 Running Projects from VSL of Care International**

	Accepted Projects	Frequency	Percent
Valid	Farming	25	33.8
	Small Business	22	29.7
	Medium Business	15	20.3
	House Construction	6	8.1
	Service Activities	6	8.1
	Total	74	100.0

Data from table 1 revealed that 25 (33.8%) ran farming, 22 (29.7%) small businesses, 15 (20.3%) medium businesses, 6 (8.1) house construction, while 6 (8.1%) service activities. The study revealed farming and small

business as the most accepted projects when using VSL of Care International in Busasamana sector. The undertaken projects generated monthly income as summarized in table 2 as follows:

**Table 2 Monthly Income after joining VSL of Care International**

	Monthly Income after joining	Frequency	Percent
Valid	Below \$20	17	23.0
	\$20 up to \$40	34	45.9
	\$41 up to \$100	13	17.6
	Above \$100	10	13.5
	Total	74	100.0

Table 2 showed that 17 (23.0%) affirmed having income that was below \$20, 34 (45.9%) an income from \$20 up

to \$40, 13 (17.6%) in the range of \$41 up to \$100, while 10 (13.5%) were in the bracket above \$100. The voluntary

savings and loans (VSL) facilitated beneficiaries to perform small business and supplement their existing businesses. For various beneficiaries the effective use of voluntary savings and loans increased monthly income. Most of 97.3% of the respondents affirmed being able to pay back monthly the contracted loans and go on with their businesses.

Besides those small projects Care international was said to offer other services. Out of the total respondents 97.7% accepted that VSL of Care International provided social funds to a member in case of emergency like death and other upheavals, and 95.5%

accepted that VSL provided social funds to members having joyful ceremonies like marriage. The help in the collective and modernized agriculture was also accepted at 14% and 15% of the respondents respectively. Only 10% of the VSL respondents accepted cooperatively raising animals. The other areas like handcraft practices (9%) were also accepted.

Concerning the level of social economic development of pro poor in BUSASAMANA Sector, NYANZA District, table 3 summarizes respondents' positions on a number of life improvements after joining VSL of Care International as follows:

**Table 3 Respondents' views on life improvement**

Improvement		Yes	No	Total
Increase of Revenue	Frequency	64	24	88
	Percent	86.5	13.5	100.0
House and home equipment	Frequency	5	83	88
	Percent	5.7	94.3	100.0
Quality of education	Frequency	85	3	88
	Percent	96.6	3.4	100.0
Health Insurance	Frequency	84	4	88
	Percent	95.5	4.5	100.0
Food Availability	Frequency	13	75	88
	Percent	14.8	85.2	100.0
Quality of food	Frequency	87	1	88
	Percent	98.9	1.1	100.0

From table 3 the study revealed that 64 (86.5%) of VSL beneficiaries agreed with the increase of revenue, while 24 (13.5%) denied. It was said that before joining VSL the revenue of beneficiaries was low. The farming and small businesses projects contributed in creating employments and increasing revenues of beneficiaries. The profits gotten from generated revenues were used in diversified social development indicators. The improvement of shelters was confirmed by 5 (5.7%) and denied by 83 (94.3%). To the improvement in the quality of education 85 (96.6%) respondents agreed, while 3 (3.4%) denied. This confirmed VSL in changing behavior of the beneficiaries. To the improvement of health insurance (*mutuelle de santé*) using income from VSL, 84 (95.5%) respondents accepted, while 4 (4.5%) denied. This proved that VSL members were able to pay health insurance. The availability of food was accepted by 13 (14.8%) while 75 (85.2%) denied. Though the shortage of food continued to be seen among VSL beneficiaries, the improvement in the quality of food was accepted by 98.9% of the respondents.

From all these findings the research computed the correlation in order to find out the role of voluntary savings and loans (VSL) in improving socio-economic conditions of pro-poor people in rural area, Cluster analysis or clustering was used. The research grouped a set of questions in such a way that responses in the same group (activities of VSL) are more similar -in some sense or another-to each other than to those in other groups (socio-economic conditions). The results of such computation were presented in table 4:

The variation of Spearman Coefficient correlation is between -1 and 1. Spearman Coefficient correlation has significance when it is equal or less than 0.05. According to the research, the correlation of 30.4% is qualified as positive and low. As the significance level is at 0.04 less than 0.05, this leads to the reject of null hypothesis to accept the alternative. Thus, there is significant relationship between activities of VSL and socio-economic development of pro poor people in rural areas, though the correlation is low.

**Table 4 Relationship VSL activities- socioeconomic conditions of pro-poor**

		Activities of VSL	Socio economic development
Spearman's rho	Activities of VSL	1.000	.304*
	Correlation Coefficient	.	.004
	Sig. (2-tailed)	88	88
Socio economic development	Activities of VSL	.304**	1.000
	Correlation Coefficient	.004	.
	Sig. (2-tailed)	88	88

\*. Correlation is significant at the 0.05 level (2-tailed).

Legend:

[-1.00 - 0.00[ : Negative correlation

[0.00 - 0.25 [ : Positive and very low correlation

[0.25 - 0.50 [ : Positive and low correlation

[0.50 - 0.75 [ : Positive and high correlation

[0.75 - 1.00] : Positive and very high correlation

. This was justified by the positions the respondents took to the statements related to that impact. Though the influence was low its positivity and significance were also proved through the perception of beneficiaries. This perception was measured using a 4 Likert-scale rating from disagree to

agree through tend to agree and tend to disagree. The study revealed that beneficiaries perceived the role of VSL in improving socio-economic conditions. This improvement was perceived through income generation (95.5%), education (98.4%), health insurance (93.2%), food security (98.9%), and social side (90.9%).

#### 4. Conclusions

The main objective of this study was to analyze the role of voluntary savings and loans (VSL) in improving socio-economic conditions of pro-poor people in rural area of Busasamana Sector, in Nyanza District. The study revealed that due to the activities of VSL, employment was created and income was improved as it passed from \$20 up to \$40 per month. Possessing both regular employment and a sound

monthly income constituted the basics to strengthen businesses and continue to improve their social conditions in terms of welfare, dwelling, health, nutrition, and education. The correlation analysis and the perception of the beneficiaries confirmed that VSL of Care International contributed positively though it was low (30.4%) to the socioeconomic conditions of the beneficiaries in Busasamana sector, Nyanza District.

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