

**DYNAMICS AND SUSTAINABILITY OF VILLAGE SAVINGS AND LOAN  
ASSOCIATIONS: A CASE OF SAME DISTRICT, TANZANIA**

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## ABSTRACT

Microfinance has shown to be an effective tool for combating poverty and improving the wellbeing of the poor. Village Savings and Loan Associations (VSLAs) are community managed micro finance that has been reported to attain outreach and impact to rural people better than formal, centralized microfinance institutions. However, the VSLA sector in Tanzania is rapidly changing in terms of its operations; these changes are introducing both innovations and new risks that are affecting their sustainability. Drawing on 200 respondents from 21 VSLAs, 4 focus groups and 7 key informants, this research sought to analyse changes that have happened on the operation of VSLA and their implications for sustainability of these associations in Same District. A cross-sectional study was conducted in February 2016. The findings indicated that all the surveyed VSLAs (21) had undergone various operational changes. It was also found that 30.9% of the respondents reported the need to increase financial capacity of the VSLAs, which was among the major factors that influenced the decision on VSLA operational changes. Using ordinal logistic regression, it was found that type of VSLA change ( $p \leq 0.05$ ), transparency ( $p \leq 0.05$ ), satisfaction with growth of loan fund ( $p \leq 0.05$ ), following VSLA constitution ( $p \leq 0.05$ ), training on loan and share mobilization ( $p \leq 0.05$ ) had positive and significant impacts on chances of VSLAs being grouped into highly sustainable. Also, it was found that a great proportion of the respondents (38.1%) reported that inadequate capital was a major challenge facing VSLAs in the study area. In conclusion, types of VSLA change, transparency, satisfaction with growth of loan fund, following VSLA constitution and training on share and loan mobilization have positive impact on VSL sustainability. It is, therefore, recommended to stakeholders to consider these factors to enhance VSLA sustainability.

**DECLARATION**

I, Henry Lewis Jackson, do hereby declare to the Senate of Sokoine University of Agriculture, that this dissertation is my original work done within the period of registration and that it has neither been submitted nor being concurrently submitted in any other institution.

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**Henry L. Jackson** Date

(MARD Candidate)

The above declaration is confirmed by:

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**Prof. Kim A. Kayunze** Date

(Supervisor)

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## **DEDICATION**

This dissertation is dedicated to my parents, Lewis Lema and Anna Mlay, who, in their love and patience, initiated and inspired my education journey. It was your love and sacrifices without asking for rewards that made it possible for me to achieve my dream. Thank you indeed for this noble cause.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

ASCA	Accumulating Savings and Credit Association
CMM	Community Managed Microfinance
FGD	Focus Group Discussion
IGA	Income Generating Activities
MFI	Micro Finance Institution
OVC	Orphans and Venerable Children
SDGs	Sustainable Development Goals
SF	Social Fund
Sfc	Saving for change
SG	Saving Groups
SLIC	Saving and Lending Internal Community
SPSS	Statistical Package for Social Sciences
USAID	United States Agency for International Development
VSLA	Village Saving and Loan Association

## **CHAPTER ONE**

### **1.0 INTRODUCTION**

#### **1.1 Background Information**

Alleviating poverty and creating jobs are at the heart of socio-economic development goals of many developing countries. Microfinance has shown to be an effective tool for combating poverty, creating jobs, and improving the wellbeing of the poor (Yunus, 1999). Generally, microfinance is known as provision of a wide range of financial services such as credit, insurance, savings, deposit and payment services to poor and low-income households which are excluded from conventional financial services for lack of collateral (Hulme and Paul, 1996; Johnson and Rogaly, 1997; Robinson, 2001).

The Village Savings and Loan Associations (VSLA) is part of microfinance under the generic term 'community-managed microfinance' (CMM), which facilitates saving as well as borrowing for rural and poor populations (Rasmussen, 2011; Anna, 2010; Rooyenet al., 2012). Since their establishment in Mali in the 1990s, VSLAs have shown promise to attain outreach and impact to rural people better than formal, centralized microfinance institutions (Rooyenet al., 2012). Village Savings and Loan Associations are built entirely on member savings, penalties and interest from loans. Initially, they receive no direct capital investment from the facilitating organizations, and also they are flexible in operation. The VSLAs have been found to be a good platform for other development interventions; thus, VSLAs are well integrated with agricultural, education and health projects (Guy, 2010).

The Village Saving and Loan Associations lack formal regulation, and hence are subjected to various dynamics. According to USAID (2014), the VSLA sector in Tanzania is rapidly changing in terms of operations, both internally and through external facilitation



by a variety of local and international organizations; these changes are introducing both innovations and new risks to the VSLAs and hence affect their sustainability.

A study conducted by Mkoma (2013) revealed that members drop out from VSLAs in Kilimanjaro region ranged from 4.1 to 24.6%; Same District had the highest drop out of 24.6%. According to VSLA model, members drop out beyond 5% is considered as unhealthy for the VSLA since it jeopardize sustainability of the VSLA. Mkoma(2013) further reported that Same District had a negative VSLAs membership growth rate which indicated that members joining the VSLAs were fewer as compared to those dropping out from the VSLAs. If these trends remained unchecked, there was high possibility that the VSLA programme in Same District would collapse.

This study adopted the definition of sustainability by Guy (2010) that defines VSLAs financial sustainability as ability of association members having continued access to services through self-managed groups. In microfinance, sustainability can be considered at three levels—institutional, group and individual (Sa-Dhan, 2003; Schreiner, 2000). This study considered sustainability at the group/association level because of their contribution to reduce poverty on members and the platform for other development interventions. Also, this study considered sustainability of activities done under VSLA auspices.

## **1.2 Problem Statement**

Microfinance institutions have strategies to bring about sustainable access to finance, sustainable financial services to the poor people and sustainable activities done by beneficiaries using the financial services (Von, 1989; Morduch, 2000). However, low sustainability of financial services is a perennial problem facing community

microfinance institutions in Same District (Mkoma, 2013). One wonders why the problem exists while there are efforts to avoid it. The probable causes of the problem could be lack of flexible products in the changing market demand, failure to follow best financial management practices and multiple memberships that can affect loan recovery rate. However, it is not known whether these are the real factors. Also the extents to which these factors and others explain sustainability are not known. In addition, there are limited studies that have been done to identify operational changes that have happened on the VSLA model and their implications on the sustainability of VSLAs. Also, there is limited information on the extent of multiple memberships and what drives VSLAs multiple memberships. Therefore, this study aimed at bridging the above gaps in information.

### **1.3 Research Justification**

The performance of microfinance institutions in terms of institutional sustainability does not seem to be encouraging despite the fact that international and national development programmes have been giving high priority on sustainable microfinance to the poor for many years (Ganka, 2010; Lawrence, 2012). If sustainability is not improved, poor people who expect to improve their levels of well-being through getting microfinance services will continue to be poor and consequently development partners promoting microfinance for the poor will continue to lose resources.

Through this research, empirical information on linkages between dynamics of village savings and loan associations and their sustainability were generated. Therefore, the research was important to generate empirical information to inform interventions to increase sustainability of community managed microfinance. The research is linked to Sustainable Development Goal (SDG) number one that intends to end poverty in all its forms. It is also linked to the Tanzania National Five Year Development plans

2016/2017- 2020/2021 that aims to reduce poverty and improve livelihoods (URT, 2016). Empirical findings of this study will inform strategies to enhance sustainability of such associations and increase access of more people to financial services thereby helping more rural people reduce poverty.

## **1.4 Objectives and Hypothesis**

### **1.4.1 General objective of the study**

To analyse changes that have happened in the operation of Village Savings and Loan Associations, and their implication for sustainability of microfinance institutions (MFIs)

### **1.4.2 Specific objectives**

1. To assess operational changes that have happened in the operation of VSLAs since their inception
2. To find factors that influence VSLAs operational changes
3. To determine impacts of VSLAs dynamics and of some other factors on chances of sustainability of the VSLAs.
4. To examine the challenges that VSLAs face in providing sustainable financial services to their members
5. To assess factors influencing VSLAs multiple membership

### **1.4.3 Hypothesis**

**H<sub>0</sub>:** Chances of being grouped into highly sustainable VSLAs are not the same for VSLAs which have implemented various types of operational changes

### **1.5 Limitations of the Research**

The accuracy of data collected for this study depended on the reports of the respondents and not observed behaviour. As such, some discrepancies may have occurred between actual and reported events. It was therefore imperative to use triangulation techniques to get representative information. Thus, both qualitative and quantitative methods were used for this study. Furthermore, members with multiple membership and those who were members of only one VSLA were included during FGDs. This was intended to compare different viewpoints on matters that were discussed during FGDs. Prompting and probing were also done during data collection to collect correct information; these techniques were specifically used during FGDs and interview with key informants.

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 Microfinance Historical Background**

The concept of microfinance is not new; microfinance has been in operation in Ireland from 1700. Also, savings and credit groups like "*susus*" of Ghana and "*tontines*" in West Africa are among the oldest savings and credits in Africa (Appiah and Michael, 2014). The Irish Loan Fund system was initiated in the early 1700s by the author and nationalist Jonathan Swift; Swift's idea began slowly but by the 1840s it had become a widespread institution of about 300 funds all over Ireland (Worthington, 2005)

The evolution of MFIs, as financial intermediaries for the poor and their advocacy as a poverty reduction tool in the early 1990s around the globe, created a hope of having financial services in the rural areas of Tanzania (Ganka, 2010). Inspired by microfinance success stories from other microfinance institutions like Grameen Bank in Bangladesh, in 2000 the Tanzania government in collaboration with donor community started to implement a rural financial program to reinstate the rural financial services.

#### **2.2 Grameen Microfinance Model**

The Grameen model was established in 1976 by Professor Muhammad Yunus, the founder and managing director of Grameen Bank. Yunus found that most villagers were unable to obtain credit at reasonable rates, so he began by lending them money from his own pocket. Ten years later, Yunus had set up the bank in Bangladesh, drawing on lessons from informal financial institutions to lend exclusively to groups of poor households. The model proved to be successful, and today is practised in more than 250 outlets of Grameen Bank in more than 100 countries (Yunus, 1999; Morduch, 2000). The Grameen model was copied and modified many times according to respective needs of

regional markets and clients. Therefore, many other models are extensions of, or derived from, the Grameen Model.

### **2.3 Guiding principles of Village Savings and Loan Association**

Village Savings and Loan Associations are governed by key principles which organizations promoting this methodology should comply with for sustainability purpose (Allen, 2014; Mkoma, 2013). According to the same authors, these principles are summarized below.

The main concept of VSLA methodology is for members who are self-selected and have voluntarily agreed to form a group and formulate their own constitution and have agreed to save money in the form of purchasing shares. Members normally purchase shares between 1 and 5 times weekly or monthly. The savings build up loan funds where members can, in turn, borrow from for investing in income generating activities (IGAs), meeting household expenses and finally, repay the loans with interest. The exercise of making savings is carried out weekly and lending and repayment is monthly. In this sense, savings accumulate for four weeks and then lending is carried out. This is why VSL methodology is categorised as accumulating savings and credit association (ASCA), a generic term that describes this type of small-scale community-managed financial institution.

In addition to loans, members can access some sort of insurance services through a separately contributed social fund (SF). The SF provides small grant amounts for emergency events to members who are in distress. Members agreed amount that can be accessed during emergence, they also agree when member qualify for this fund. Contribution to this fund is mandatory and is the first thing to be done in weekly VSLA

meetings. During share out, SF is never shared out because emergence can happen any time before members start contributing again.

## **2.4 Village Saving and Loan Associations' Sustainability**

Mainstream microfinance defines “sustainability” as covering operational and financial costs; on the other hand, the savings-led VSLA model defines “financial sustainability” as group members having continued access to financial services through self-managed groups. Once associations have been properly trained, they can operate their savings and loan activities independently for as long as they wish (Guy, 2010). In microfinance, sustainability can be considered at three levels—institutional, group and individual (Sa-Dhan, 2003; Anna, 2010; Saraha, 2011).

## **2.5 Conceptual Linkages between sustainability and other factors**

### **2.5.1 Village savings and loan associations' sustainability and financial literacy**

Financial literacy has been defined as: the ability to make informed judgments and to take effective decisions regarding the use and management of money (Worthington, 2005). Remund (2010), on the other hand, defines it as a measure of understanding key financial concepts. The authors suggest that financially literate population is able to make informed decisions and take appropriate actions on matters affecting their financial wealth and wellbeing. Financial literacy is important for sustainability of VSLAs because before these associations transact with outside institutions and group members they must be financially literate. They must be able to fully understand financial products and services being offered so they can assess the appropriateness and implications of any transactions in which they engage. Furthermore, financial literacy help VSLA members to make informed decision on the loans that are accessed through the groups and hence reduce loan default.

## **2.5.2 Village Savings and Loan Associations' Sustainability and**

### **Associationdynamics**

Transparency and accountability in group financial operations are considered as one of the key factors that enhance group performance in the VSLA model (Von, 1989; Ezra *et al.*, 2006). Transparency and accountability enhance trust in the Associations; Trust between members, or between members and the management committee, is essential for the sustainability of savings groups. Without trust, members will be less inclined to continue to contribute to the group, as the perceived risk is higher (EMC, 2013).

A study conducted by EMC (2013) assessed characteristics of active and dissolved groups across three organizations discovered that, a higher percentage of active groups overall was found to have made changes to their groups' procedures than dissolved groups, the study found that this factor promotes the sustainability of savings groups. Adjustments to a number of group rules, such as meeting frequency, longer share-out helps to mould the product around the specific dynamics of the members.

## **2.5.3 Village saving and loan associations' sustainability and diversity ofproducts**

A study conducted by EMC (2013) showedthat active groups had greater access to other financial services through linkages to formal microfinance institutions than dissolved groups. Thus, when group members have access to other financial sources, it has a positive impact on the chances that a savings group will remain active; when savings groups are treated as complementary to other financial services, the benefits of membership are clear, whereas when treated as a substitute for MFIs, for example, savings groups can fall short of being able to satisfy the full demands of individual members.



A study conducted in India shows that the average household in one village has membership in seven different savings groups (Kim *et al.*, 2010). It was further reported that multiple memberships increase financial diversity of members and reduces the chances of drop out. On the other hand, opponents of multiple memberships in Village Savings and loan Associations argue that multiple memberships can lead to over indebtedness of members and negatively affect sustainability of Village Savings and Loan Associations through high default rate (FSD, 2011; Mine *et al.*, 2013).

## **2.6 Theoretical Linkages between Village Savings and Loan Associations' Sustainability**

This study theoretical framework is based on the social capital theory. The theory comprises formal and informal systems of norms, institutions and organisations that promote trust and cooperation in communities and also in wider society. Although the theory of social capital draws heavily on the neo-institutional economics of North and others, its best known proponent today is Robert Putnam, who has also elaborated most completely the theoretical structure and empirical evidence for social capital (Putnam, 1995). Most of these writers agree on four features of social capital: in economic exchange, the existence of trust based on shared norms and familiarity, together with stable relationships based on reciprocity, reduce “transaction costs” that arise when dealing with strangers in unregulated economic environments. However, Siisiainen(2000) pointed out that one weakness of the Putnam’s interpretation on social capital is inadequate coverage of the concept of ‘distrust’ and its singular association with pathological forms of collective action. In addition, Putnam’s emphasis on voluntary associations (which are usually of a specific type) excludes consideration of individuals who have conflicting interests or are simply disinterested in engaging with networks.

This theory is related to sustainability of village savings associations because, according to the VSLA model, sustainability issues start from individual self-screening. Individual self-screening ensures that members who trust one another come together and form groups for mutual benefit. Any form of distrust may result in suspicion and compromising the quality of the group which eventually leads to collapse of VSLAs. Village savings and loan association members who do not trust one another may opt out of the scheme to pursue their own interests. Group members drop outs may significantly impact on sustainability of these associations and some of the members may leave behind a huge debt burden.

## **2.7 Empirical Literature**

Many research projects have been done on Micro Finance Institutions (MFIs) in developing countries, some of them including sustainability of such MFIs. The previous research projects provide important information which should be taken into account by subsequent research projects on Village Savings and Loan Associations'. In a study conducted by Ganka (2010) on financial sustainability, of 98 MFIs (SACCOS and SACAs) in Tanzania, it was found that interest amounts charged, cost per borrower, product type, level of portfolio at risk, staff productivity, number of borrowers and operating efficiency affect financial sustainability of rural microfinance in Tanzania. He further reported that there was causal relationship between financial sustainability and breath of outreach. Mwaura and Wanyoike (2012) found that credit risk management significantly and positively affect sustainability of semi-formal micro-credit schemes in Kenya. Ezra *et al.* (2006) conducted a study to evaluate the on-going sustainability of 25 Village Savings and Loan Associations in Zanzibar; the findings of the study showed that 96% of the associations were still operating after CARE had phased supporting the

associations. However, the study did not empirically assess causality of the financial sustainability.

EMC (2013) examined sustainability of 100 Savings Groups across three organizations namely OXFAM, CARE and PACT in Cambodia by studying characteristics of active groups against dissolved groups. This study improved on the methodology that was used by Ezra *et al.* (2006) by assessing causality of savings groups' sustainability. The findings of the study showed that groups' dynamics, activities beyond saving and lending, group size and access to other financial services were statistically significant and positively determined saving groups' sustainability. However, difference in institutions' backgrounds and operations may lend this study to be OXFAM biased as about 60% of the studied savings groups were representing OXFAM which promoted saving for Change model (Sfc), a model different from VSLAs promoted by CARE and WORTH, which is promoted by PACT.

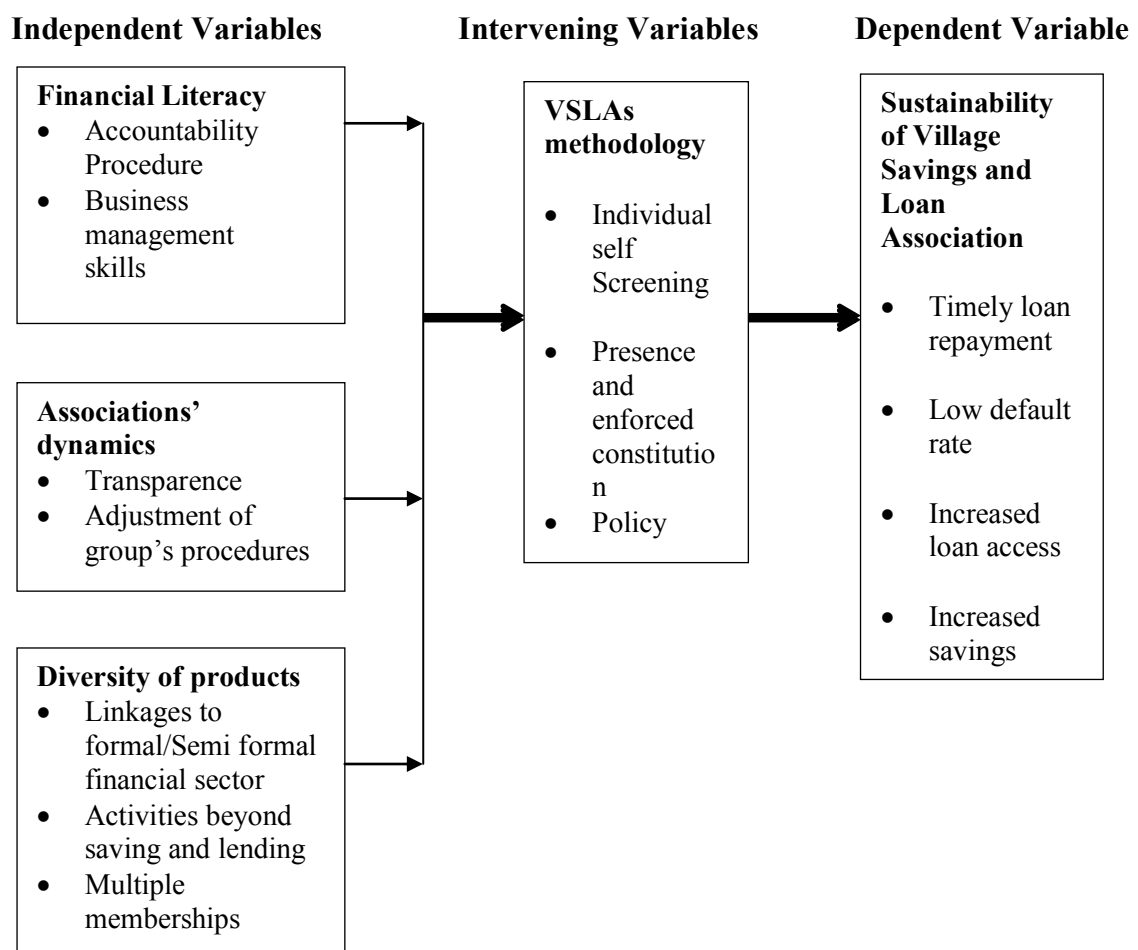
## **2.8 Gaps in Literature Review**

Microfinance promises not only poverty reduction but also financial sustainability. After almost four decades after Mohamed Yunus established a model to address financial access to the poor; the promise of financial sustainability is yet to be fulfilled. Furthermore, unlike the larger body of literature that looks at the sustainability of microfinance as a whole (Ganka, 2010; Ganesh, 2008; Mine *et al.*, 2013; Mwaura and Wanyoike, 2012), savings-led microfinance has been given less attention, and the factors that affect its sustainability are less well understood. The few studies that focus on sustainability of Village Saving and Loan Associations were conducted by facilitating organization and did not generalise on the wider population. Furthermore, a VSLAsustainability study that was done in Cambodia by EMC (2013) focused on purely

female savings groups. Unlike the previous studies on sustainability of VSLAs, this study mainly focused on village savings and loan associations with both male and female members.

## 2.9 Conceptual Framework

In the conceptual framework (Fig. 1) it is seen that sustainability of village savings and loans associations is achieved through three key independent variables namely financial literacy, VSLAs dynamics and access of diversity of products. On the other hand individual self-screening, association fund development, presence and enforced VSLAs constitution and trust influence this relationship.



**Figure 1: Conceptual framework for analysing sustainability of VSLAs**

Source: Researcher's construct from critical literature review

## **CHAPTER THREE**

### **3.0 METHODOLOGY**

#### **3.1 Description of the Study Area**

This study was conducted in Same District, Kilimanjaro Region. The region is administratively divided into seven districts; Same district was selected for this study because various organizations (World Vision and Care International) have been promoting VSLAs in this area since 2006; the majority of these VSLAs are working independently. According to the 2012 national population and housing census (NBS and OCGS, 2013), Same District had a population of 269,807 people. The district is administratively divided into 24 Wards and 91 Villages. About 85% of district population depends on agriculture and livestock husbandry for their livelihood. Food crops grown are mainly maize, paddy, banana and beans. The main cash crops grown are coffee and ginger.

#### **3.2 Research Design**

A cross-sectional survey research design was used for this research. This design consists of asking questions to a representative sample of a population at a single point at a time. According to Babbie (1990), the design is useful for description purposes as well as for the determination of relationships between variables at the time of study. Furthermore, this design is relatively cheap and has no sample attrition compared to longitudinal design.

### **3.3 Sampling Frame and Sampling Procedures**

#### **3.3.1 Sampling frame**

The population for this research was all village and savings and loan associations in all the 24 wards of Same District. The list of VSLAs was obtained from World Vision Programme Manager at Same and Field Officers network that was established by Care International.

#### **3.3.2 Sampling unit and sample size**

The sampling unit was an individual member of a village saving and loan association. The statistical method described below was used to determine the sample size of the study at the significance level of 0.05. The sample size formula was given by:

$$n = \frac{N}{1 + N(e)^2}, \text{ where:}$$

n= sample size,

N=sampling frame

e = error or significance level (Yamane, 1970; cited by Ahuja, 2001:92).

According to field report, during the time of this study, the district had 1200 VSLAs members in 70 VSLAs. Therefore, by using the above formula, the sample size was supposed to be 300 VSLAs members. i.e.  $1200/[1 + 1200(0.05)^2]$ . However, due to financial, manpower and time constraints, two-thirds (i.e. 200) of that number were selected. This sample size was randomly selected from 21 VSLA in the study area. Thus, based on the availability of members, 8 to 13 association members were selected randomly for interview per VSLA.

Focus group discussions (FGDs) were held to obtain information to supplement information that was obtained from the questionnaire. The 21 VSLAs were located in 4 wards located in 18 villages. Four (4) FGDs were held, one in each ward, including 8 discussants (4 women and 4 men). The number (8) is the one recommended by Barbour (2011) and Bryman (2004) on the basis that if too many discussants are involved, some of them just keep quiet, and if too few are involved some of the issues may not be discussed effectively.

### **3.4 Determination of Sustainability**

To determine sustainability of the VSLA, a scale with three categories namely, not sustainable, moderately sustainable and highly sustainable was used; thus, respondents scored points depending on how they responded to the information on the sustainability index.

### **3.5 Research Instruments**

The study utilised three sets of research instruments to obtain the required information. These are an administered questionnaire which was used to source quantitative data from Village Savings and Loan Association members, and a checklist was used to source qualitative data from project managers and field officers. Checklists were also used to guide focus group discussions with members possessing multiple memberships.

### **3.6 Data Collection**

A list of all VSLAs and their characteristics was obtained from programme managers and field officers in the study area. This list was used to sample representative VSLAs. Then, interviews with the Programme Managers and Field Officers were carried out by the researchers. Focus group discussions with VSLA members with multiple

members and members with no multiple memberships were carried out by the researcher and enumerators. Finally, a structured questionnaire was used to collect quantitative data from Village Savings and Loan Association members; this was administered by enumerators after they had undergone training on how to use the research tools.

### **3.7 Data Validity and Reliability**

Validity is the truthfulness or correctness of the measurement as planned or intended. (Seale, 2004) On the other hand reliability is the consistency with which research procedures deliver their results. To establish validity and reliability of the research instruments, questionnaires were pre-tested by interviewing 20 people with characteristics similar to those of the people to be studied before being used for actual data collection.

The variables that were found not well measured (that is, respondents did not give consistent answers), the instruments (e.g. questionnaire) was amended to get a second version for actual data collection. People to whom the instruments were pre-tested were not included in the actual survey.

### **3.8 Ethical Consideration**

Great care was taken to ensure that respondents were kept completely anonymous in the research. The benefits of assuring respondents anonymity were that they would be more likely to reveal more and high quality information, including personal opinions and insights that they would not otherwise want to be quoted. Furthermore, the researcher has acknowledged works of other authors used in any part of the dissertation



### 3.9 Data Analysis

Qualitative data collected from key informants and focus group discussion were analysed using Content analysis (CA) technique whereby various key themes were identified. The identified key themes were discussed in details with some quotes from key informant interviewees and focus group discussants (Creswell, 2009). The quotes were complemented with the statistical results from quantitative data analysis. Other data were analysed using the Statistical Package for Social Sciences (SPSS). Descriptive statistics were computed for objectives 1, 2, 4 and 5. They included frequencies, percentages and averages of individual variables. Furthermore, for objective 3, inferential analysis was done using ordinal logistic regression. The ordinal logistic regression model was chosen because the dependent variable was recorded at the ordinal level. The model is described below:

$$P(y) = \frac{e^{\alpha + \beta_1 x_1 + \dots + \beta_k x_k}}{1 + e^{\alpha + \beta_1 x_1 + \dots + \beta_k x_k}}$$

(Agresti and Finlay, 2009), where:

$P(y)$  = the probability of the success alternative occurring

$e$  = the natural log

$\alpha$  = the intercept of the equation

$\beta_1$  to  $\beta_k$  = coefficients of the predictor variables

$x_1$  to  $x_k$  = predictor variables entered in the ordinal regression model

Specifically in the research:

$P(y)$  = the probability of VSLAs being grouped into highly sustainable

$\alpha$  = the intercept of the equation

$\beta_1 \dots \beta_8$  = Regression coefficients

$x_1$  = Age of the VSLA (Number of years since VSLA was established)

$x_2$  = Satisfaction with growth of loan fund (Dummy: satisfied =.1: not satisfied=.0)

- $x_3$  = Share and loan training (Dummy: 1.= was done: 0= not done)
- $x_4$  = Type of changes done by the VSLA ( Recoded as dummy )
- $x_5$  = Transparency (Dummy: 1.= there is transparency: 0= No transparency)
- $x_6$  = Linkages to formal financial institution (Dummy: 1=.Linked; 0=Not linked)
- $x_7$  = Activities beyond savings and lending (Dummy: 1.= Yes; 0 = NO)
- $x_8$  = Multiple membership (Dummy: 1= Yes 1 VSLA; 0=No)
- $X_9$  = Individual Self-selection (Dummy: 1=was done: 0= was not done)
- $X_{10}$  =Enforced VSLA constitution (Dummy: 1=is enforced; 0= not enforced)
- $X_{11}$ = Trust (Dummy: 1=there is trust, 0= no trust)
- $E$  = Error term representing a proportion of the variance in the dependent variable that was unexplained by the regression equation.

## **CHAPTER FOUR**

### **4.0 RESULTS AND DISCUSSION**

#### **4.1 Socio-Economic Characteristics of VSLA Members**

It was found that 60% of the respondents were female (Table 1). A study which was conducted by Mkoma(2013) in Kilimanjaro region also showed that females formed the majority of the VSLAs. The finding is also consistent with studies that women constitute the greater percentage of the marginalized in society who most often do not have access to financial services (Jones and Sakyi-Dawson, 2002 and Dunford, 2002). This implies that improving women's access to financial services through VSLA may improve sustainability of the association since this will be addressing the felt needs of the marginalised members of the population.

This study revealed that the majority of members were of middle age; thus, 40% of the respondents had 18 to 35 years, whereas 50.5% had 36 to 50 years (Table 1). This finding is in agreement with studies conducted in various areas in Tanzania and Kenya by Mkoma (2013) and Lawrence (2012). This implies that those who join VSLAs have more economically active age; and hence if economic activity interventions are well integrated in these associations they may contribute to increasing their sustainability.

Eighty nine percent(89%) of respondents interviewed had 7 years of education (Table 1). A study conducted in Tanzania by Twaweza (2010) revealed that 30% of standard 7 leavers cannot do standard two level Mathematics, and about 20% of standard 7 leavers cannot read Standard Two level Swahili story. This implies that, in order to ensure every member is aware of the VSLAs financial status, both written records and the memory based system should be used to enhance transparency and trust among VSLA members.

**Table 1: Social economic characteristic of VSLA members (n=200)**

<b>Social economic characteristics of VSLA members</b>	<b>Frequency</b>	<b>Percent</b>
<b>Sex of association members</b>		
Male	68	34
Female	132	66
<b>Total</b>	<b>200</b>	<b>100</b>
<b>Age of association members</b>		
18-35 years	80	40
36-60 years	101	50.5
>60 years	19	9.5
<b>Total</b>	<b>200</b>	<b>100</b>
<b>Education level of association members</b>		
4 years	18	9
7 years	178	89
>11 years	4	2
<b>Total</b>	<b>200</b>	<b>100</b>

## **4.2 Operational Changes that Have Happened in the Operation of VSLAs**

### **4.2.1 Change of leaders**

The findings in Table 2 show that slight majority (22.9%) of the surveyed VSLAs had changed their leaders at least once since inception. The main reason for the change of leadership was to allow other members to get experience on leadership. Furthermore, it was reported that when a particular leader is the source of conflict, change of leadership was also a means to resolve conflicts within the association. The VSLA methodology encourages change of leaders to enhance capacity of various members on leadership; therefore, this change was constitutional and expected according to this methodology.

### **4.2.2 Change in the value of shares**

The findings in Table 2 show that 21.7% of the surveyed VSLAs had changed at least once the value of shares since their inception.

**Table 2: Type of VSLA operation change (n=83)**

Type of VSLA change	Frequency*	% responses
Leadership	19	22.9
Value of share	18	21.7
Loan interest rate	12	14.5
Number of funds	8	9.6
Share out time	5	6.0
Change from voluntary to involuntary borrowing	6	7.2
Multiple pass books for the same member	3	3.6
Having linkage to semiformal financial sector	5	6.0
Agriculture value chain integration	7	8.4
<b>Total</b>	<b>83</b>	<b>100</b>

\*The data in this table are based on multiple responses

The reasons mentioned for the change was experience and financial benefits gained by members from previous cycles. Similar findings were reported during FGD sessions:

*We normally prefer to start with small value of shares in the first cycle; when we enter subsequent cycles it is the opportunity to change value of shares because members have experienced benefits of saving in the association. But also in the first cycle some members don't believe if the methodology will work; therefore, to have these members on board it is better to start with small value of shares* (Female, 36 years, Same VSLA, January 2016)

#### **4.2.3 Loan interest rate**

The findings in Table 2 show that 14.5% of the surveyed VSLAs had changed their loan interest rate from 5% to 10% per month since their inception. The main reason mentioned for this change was to increase VSLA financial capacity. In reference to the

VSLA methodology, this change is within recommended VSLAs interest rate of 5% or 10% per month for easy computation when members take loans (Allen, 2014). This interest rate is much higher compared to the interest rate offered by commercial banks and financial companies; hence one may expect the interest rate in the VSLAs to decrease over time. Kessyet *al.* (2016) reported that high interest rates in the CMM can be explained by the fact that members are the founders and owners of these associations. Paying high interest rate, therefore, is part of their profit or increases their savings at the end of the cycle.

#### **4.2.4 Amount of funds**

The findings in Table 2 show that 9.6% of the surveyed VSLAs had introduced additional funds apart of share and social fund as guided in the VSLA manual (Allen, 2014). It was noted that agriculture fund was commonly introduced to VSLAs that were doing collective rice and maize production. Each member contributed between TZS 500 and 2000 per week for this fund. The reason for introduction of this fund was reported during FGD sessions;

*“We have decided to introduce agriculture fund in our VSLA to compliment share fund which was inadequate to serve each member during cropping season because of high demand for loans from members”* (Male, 25 years, Same VSLA, January 2016)

It was also noted that orphans and vulnerable children fund was introduced to some VSLAs; each VSLA member contributes TZS 500 to 1000 monthly for this fund. Members have set criteria for the child to qualify for the support from this fund. This was common to VSLAs that were formed by World Vision. USAID (2014) reported that VSLAs

formed through facilitation of project or organization with specific focus on children had introduced Orphan and Vulnerable Children (OVC) fund to enhance project sustainability.

While this innovation is good, it has some challenges as it was reported by Community Facilitator: *"VSLAs with more than two funds use an average of 1 hour and 40 minutes to run their weekly meetings as compared to 1 hour for associations with only two funds. This is because you need more time to do recording of each transaction. It needs relatively high level of literacy to do accurate recording; otherwise, it may result into poor recording and hence reduce members' trust, which is the foundation of the VSLA"*.

#### **4.2.5 Change of share out time**

The findings in Table 2 show that 6.0% of the surveyed VSLAs had changed share out period from 8 to 12 months to 2 to 3 years. This finding is in line with findings by USAID (2014) which found that some savings groups have adopted longer cycles (3 or more years) before sharing out accumulated savings. The main reported reasons for this change were that members want to receive relatively large cash amounts during share out so that they can do things that need large amounts of cash.

Some of challenges reported during FGDs as a result of shifting to longer cycles were: members have to wait too long before getting back return to their investment; and associations that have shifted to longer period need to be keen in record keeping avoiding mistrust that may arise because of poor record keeping. Another reported challenge was that there was an increased risk to have large cash in the box, especially if the association had no bank account or an account with SACCOS. To resolve the challenge of waiting too long, it was reported that some associations had resorted to share out dividends annually and maintain share until an agreed time.

#### **4.2.6 Change from voluntary to involuntary borrowing**

The findings in Table 2 show that 7.2% of the surveyed VSLAs had introduced a condition that a member must borrow at least once within a VSLA cycle. This finding is in line with findings of the study referred to above that was conducted by USAID (2014), which found that VSLAs and SLIC groups in some parts of Tanzania have introduced a condition requiring every member to borrow at least one time in a cycle. The main reasons mentioned for this change were that this measure was taken as a means to resolve conflict since some members were dissatisfied because they were taking several loans per cycle and had a feeling they were contributing more to the growth of VSLA fund than their fellow members who were not taking any loan within some cycles.

The change from voluntary to involuntary borrowing may have negative implication for the sustainability of VSLAs. This is because the VSLA model is a saving model based on microfinance and not loan based microfinance, forcing members to take loan while they have no need, something which may increase default rate.

#### **4.2.7 Multiple passbooks for the same member**

The findings in Table 2 show that 3.6% of the surveyed VSLAs had introduced multiple passbooks for the same member. The main reason mentioned for this change was to maintain members whose saving capacity had outweighed the value of share bought in a particular VSLA.

During FGD, one of the challenges reported as a result of this change was association needs to have good record keeping and, if the majority of VSLA members had multiple passbooks, the meeting normally took longer time than in VSLAs whose majority of



members had one passbook. This is because same members had to buy shares and take loans separately.

#### **4.2.8 Having linkage to the semi-formal financial sector**

The findings in Table 2 show that 6% of the surveyed VSLAs had linked with Mwanga Community Bank located in Same town. The main mentioned reasons for the linkage were to access loan of large size and security of members' money. This implies that those who have linkage with bank are old VSLAs with substantial savings to justify cost of travelling about 50 km to deposit members' money in the bank. A study conducted in Cambodia showed that active saving groups were found to have significantly greater access to other financial services, from formal/semi-formal Micro-Finance Institutions (MFIs) than dissolved groups. Thus, when group members have access to other financial sources, it has a positive impact on the chances that a savings group will remain active (EMC, 2013). This is because of extra capacity building offered by MFIs to their clients and access to additional services offered by MFIs. Furthermore, Care International, (2013) reported that Loan defaults within VSLAs that have been linked with Barclays Bank dropped as groups perceived themselves to be more formalized and felt a greater sense of responsibility

#### **4.2.9 Commercial agriculture integration within the association**

The findings in Table 2 show that 8.4% of the surveyed VSLAs had introduced commercial agricultural production within their VSLAs. It was noted that rice and maize were crops produced collectively with VSLA practising commercial agricultural production. The main reasons reported for this change were to leverage impact of VSLA to the members. A study conducted in Cambodia by EMC (2013) showed that active groups, as a whole, were found to be more likely to be engaged in activities as a

group beyond saving and lending, such as agricultural production and off-farm businesses. This was found to be statistically significant ( $P \leq 0.05$ ) and determined positive impact on the chances of group sustainability.

### 4.3 Factors that Influence VSLA's Operational Changes

#### 4.3.1 Gaining leadership experience

The results in Table 3 show that 32.3% of the respondents reported on a rotational basis that they considered members with potential of leadership to be leaders in their VSLAs. This was evidenced with the observation that 22.9% of all VSLAs had made change of leadership at least once since inception (Table 2). A study conducted at Same District by Mkoma (2013) showed that VSLAs were a platform to build leadership skills and confidence, especially women, and 40% of leaders in the sampled village government and other social groups had background on VSLA leadership.

**Table 3: Factors influencing VSLA operational changes (n=446)**

<b>Factors that influence VSLA'S operational changes</b>	<b>Frequency*</b>	<b>Percentage (%)</b>
Gaining Leadership experience	144	32.3
Increase financial capacity of the VSLA	138	30.9
Increase savings and members retention	132	29.6
Increase security of members money	25	5.6
Means of resolving VSLAs conflict	7	1.6

\*The frequencies in this Table are based on multiple responses.

#### 4.3.2 Increase financial capacity of the VSLA

The results in Table 3 show that 30.9% of the respondents reported that they considered increasing financial capacity of their VSLAs when they wanted to do operational changes. It was further reported that this would determine linkage of particular VSLAs with semi/formal financial institutions, increase value of shares, decision to ensure each

member borrow at least once per VSLA cycle and change of interest rate. This finding is in line with the findings reported by Mkoma(2013) that loan fund was not enough to satisfy borrowers, and this was supported by 90% of loan fund utilisation rate; yet, members in the interviewed VSLAs reported that they had applied for loan at least once in the cycle, but they could not get money because there was no money remaining in the box.

#### **4.3.3 Increase saving and members retention**

The results in Table 3 show that 29.6% of the respondents reported that they considered opportunities for the members to save more in their VSLA and members retentions when they wanted to decide VSLA operation changes. It was further reported during FGD sessions that this factor specifically informed increase of value of share, and multiple passbooks for the same members;

*"The decision to have multiple pass books for the same member in our VSLA increased members' savings; also we retained members who had to move to other VSLAs because their saving capacity had outweighed our association's savings condition(Female, 46, VSLA Same, January 2016).*

#### **4.3.4 Increase security of member's money**

The results in Table 4 show that 5.6% of the respondents reported that they considered increasing security of members' money when they wanted to do VSLA operational changes. This specifically applied to changes like linkage with formal/semi-formal financial institutions. The consideration of security of members' money was essential as it was reported during the survey that about 10% of the respondents had witnessed loss of

their association money' in various ways including stealing of cash box that had members money and some members left association without paying fully their loans.

#### **4.4 Impacts of VSLA Dynamics and Some Other Factors on Chances of Sustainability of the VSLAs**

The results in this Section 4.4 meet the third objective and are also about results of testing the null hypothesis. In order to meet this objective and test the hypothesis, ordinal logistic regression model was used. The ordinal logistic regression model was specified as seen in chapter three, and the results are seen in Table 4.

**Table 4: Current impact of VSLAs dynamics and some factors on chances of sustainability of VSLAs**

<b>Variables</b>	<b>Estimate</b>	<b>Std. Error</b>	<b>Wald</b>	<b>df</b>	<b>Sig.</b>	<b>SL</b>
Age of the VSLAs	0.204	0.110	3.399	1	0.065	*
Type of VSLA change	0.500	0.189	7.043	1	0.008	**
Transparency	1.559	0.575	12.803	1	0.000	***
Received share and loan training	0.737	0.364	4.096	1	0.043	**
Multiple membership	-0.205	0.355	0.335	1	0.563	
Members self-selection	0.229	0.861	0.70	1	0.791	
Satisfaction with growth of loan fund	1.375	0.726	6.694	1	0.001	**
Following constitution	1.652	0.754	4.766	1	0.031	**
Trust	1.395	1.077	1.679	1	0.195	

Model Summary: Cox and Snell  $R^2 = 0.614$ , Nagelkerke  $R^2 = 0.673$ ; Goodness of fit Pearson's  $\chi^2 = 156$  ( $p = 0.521$ ); SL =Significance level; \*= significance at 5%; \*\*=significance at 1% and \*\*\*= significance at 0.1%

##### **4.4.1 Current impacts of VSLA dynamics and some factors on chances of sustainability of VSLAs**

The dependent variable, VSLA sustainability, was regressed on the 9 independent variables presented in Table 4 to determine the impact of each of them had on the chances of the VSLA being grouped into highly sustainable. Respondents scored points on the sustainability index that was used based on their views on the status of the VSLA during the survey.

Considering the summary in Table 4, the Nagelkerke  $R^2$  value was 0.673, which means that the independent variables entered in the model explained 67.3% of variance in the dependent variable. The results in Table 4, show that type of VSLA change had positive impact that was significant (Wald = 7.043,  $p \leq 0.05$ ). In view of the above results, the null hypothesis which said that chances of being grouped into highly sustainable VSLAs are not the same for VSLAs which have implemented various types of operational changes was rejected.

Other variables with positive and significant impacts on chances of VSLAs being grouped into highly sustainable as seen in Table 4 includes transparency (Wald = 12.8,  $p \leq 0.001$ ), satisfaction of growth of loan fund (Wald = 6.694,  $p \leq 0.05$ ), following VSLA constitution (Wald = 4.766,  $p \leq 0.05$ ) and VSLA training on loan and shares (Wald = 4.096,  $p \leq 0.05$ ). This finding is in agreement with findings by other authors, who found that adjustment of association procedures, following association constitution; transparency had significant and positive contribution to VSLAs sustainability (EMC, 2013; Lawrence, 2012).

It was further noted that multiple membership had negative impact on the chances of VSLA being grouped into highly sustainable; however the impact of multiple membership on VSLA sustainability was not significant. This finding seems a bit unusual, Mine *et al.* (2013) reported that multiple membership enhances members' retention and hence VSLA sustainability, because of complementary services which members receive from various associations. One explanation for this finding in this study was that members with multiple memberships seem to have alternative associations, and if one of

the associations collapses they can easily switch to another one. This might have affected the way they were responding to the items of the sustainability index

#### 4.4.2 Future impacts of VSLAs dynamics and some other factors on VSLA sustainability

The future (ten years later) impacts of the same 9 variables presented in Table 5 on the chances of the VSLA being grouped into highly sustainable was also determined. The results are presented in Table 5 and show that all factors that had positive and significant impact during the survey would apply 10 years later. These are types of VSLA change (Wald = 7.480,  $p \leq 0.05$ ), transparency (Wald = 10.737,  $p \leq 0.05$ ), satisfaction of growth of loan fund (Wald = 7.575,  $p \leq 0.001$ ), following VSLA constitution (Wald = 5.293,  $p \leq 0.05$ ) and VSLA training on loan and shares (Wald = 4.314,  $p \leq 0.05$ ). The results further indicated that multiple memberships had negative and significant impact on the chances of VSLA being grouped into highly sustainable. This finding implies that in order to increase long term sustainability of the VSLA we have also to focus on these factors.

Other factor that had positive and significant impact was age of the VSLA (Wald = 6.129,  $p \leq 0.05$ ). This finding is in agreement with findings by USAID (2014) which found that matured VSLAs had adjusted their procedures to enhance their sustainability.

**Table 5: Impact of VSLAs dynamics and some factors on chances of sustainability of VSLAs ten years later**

Variables	Estimate	Std. Error	Wald	df	Sig.	SL
Age of the VSLAs	0.273	0.110	6.129	1	0.013	*
Type of VSLA change	0.496	0.181	7.480	1	0.006	**
Transparency	1.812	0.553	10.737	1	0.001	***
Received Share and loan training	0.747	0.360	4.314	1	0.038	**

Multiple membership	-0.829	0.347	5.724	1	0.017	**
Members self-selection	1.225	0.809	2.291	1	0.130	
Satisfaction with growth of loan fund	1.886	0.685	7.575	1	0.006	**
Following constitution	1.621	0.705	5.293	1	0.021	*
Trust	0.689	0.952	0.524	1	0.469	

**Model Summary:** Cox and Snell  $R^2 = 0.612$ , Nagelkerke  $R^2 = 0.658$ ; Goodness-of-fit: Pearson's  $\chi^2 = 180$  ( $p = 0.526$ ); SL =Significance level; \*= significance at 5%; \*\*=significance at 1% and \*\*\*= significance at 0.1%

#### **4.5 Impacts of some other Factors on Chances of Sustainability of Activities Done under VSLA Auspices**

The dependent variable, VSLA sustainability, was regressed on the 9 independent variables presented in Table 6 to determine the impact of each of them had on the chances of activities done under VSLA auspices being grouped into highly sustainable. Respondents scored points on the sustainability index that was used based on their views on the status of the VSLA during the survey and how these factors will apply 10 years later.

##### **4.5.1 Current impacts of some factors on chances of sustainability of activities done under VSLA auspices**

The dependent variable, sustainability activities done under VSLA auspices, was regressed on the 9 independent variables presented in Table 6 to determine the impact each of them had on the sustainability of activities done under VSLA auspices. Respondents scored the sustainability index based on the status of the activities done under VSLA during the survey.

Results showed that Variables with positive and significant impacts on the sustainability of activities done under VSLA auspices as seen in Table 6 includes VSLA training on loan

and shares(Wald = 8.221,  $p \leq 0.05$ ), linkage with formal or semi- formal MFIs(Wald = 5.340,  $p \leq 0.05$ ), members' self-selection(Wald = 7.034,  $p \leq 0.05$ ) and satisfactions with growth of loan fund(Wald = 13.509,  $p \leq 0.001$ ).

This implies, if one want to increase sustainability of activities done under VSLA auspices should invest on facilitating strategic linkage with formal or semi -formal MFI for the members to access additional services including business advices for improving their economic activities. Self -Members' selection is also critical for increasing sustainability of activities done by VSLA auspices, one explanation for this is some VSLA have integrated their VSLA with commercial agriculture activities and hence having members whom can be trusted is important for success of business partnership.

**Table 6: Current impacts of some factors on chances of sustainability of activities done under VSLA auspices**

<b>Variables</b>	<b>Estimate</b>	<b>Std. Error</b>	<b>Wald</b>	<b>df</b>	<b>Sig.</b>	<b>SL</b>
Age of the VSLAs	0.141	0.110	1.662	1	0.197	
Type of VSLA change	0.028	0.159	0.031	1	0.861	
Received Share and loan training	0.946	0.330	8.221	1	0.004	**
Linkage with formal/semiformal MFI	0.750	0.325	5.340	1	0.021	*



Integration of commercial agriculture	0.212	0.385	0.303	1	0.582	
Multiple membership	-0.595	0.327	3.335	1	0.068	*
Members self-selection	1.867	0.704	7.034	1	0.008	**
Satisfaction with growth of loan fund	1.583	0.656	13.509	1	0.000	***
Trust	0.005	0.994	0.000	1	0.996	

**Model Summary:** Cox and Snell  $R^2 = 0.357$ , Nagelkerke  $R^2 = 0.381$ ; Goodness-of-fit: Pearson's  $\chi^2 = 163$  ( $p = 0.365$ ); SL =Significance level; \*= significance at 5%; \*\*=significance at 1% and \*\*\*= significance at 0.1%

#### 4.5.2 Impacts of some factors ten years from now on chances of sustainability of activities done under VSLA auspices

The dependent variable, sustainability of activities (10 years later) done under VSLA auspices, was regressed on the 9 independent variables presented in Table 7 to determine the impact each of them had on the sustainability of activities done under VSLA auspices. Respondents scored the sustainability index of activities done under VSLA auspices based on how the factors will apply 10 years later from the time of survey.

The results are presented in Table 7 and show that integration of commercial agriculture(Wald = 4.287,  $p \leq 0.05$ ), members self –selection (Wald = 7.844,  $p \leq 0.05$ ) and satisfactions of growth of loan fund(Wald = 14.157,  $p \leq 0.001$ ) had significant and positive impact on sustainability of activities done under VSLA auspices.This implies, if one wants to increase sustainability of activities done under VSLA auspices in a long term should invest on integration of commercial agriculture in the VSLA; device activities that geared towards enhancing growth of loan fund, so as to increase access to loan to VSLA members. Self -Members' selection is also critical for increasing sustainability of activities done by VSLA auspices in a long term.

**Table 7: Impact of some factors ten years from now on chances of sustainability of activities done under VSLA auspices**

Variables	Estimate	Std. Error	Wald	df	Sig.	SL
Age of the VSLAs	0.228	0.106	4.588	1	0.032	*
Type of VSLA change	0.118	0.153	0.595	1	0.440	
Received Share and loan training	0.359	0.316	1.287	1	0.257	
Linkage with formal/semi-formal MFI	0.239	0.307	0.606	1	0.436	
Integration of commercial agriculture	0.792	0.382	4.287	1	0.038	*
Multiple membership	-0.595	0.317	3.448	1	0.063	*
Members self-selection	1.780	0.635	7.844	1	0.005	**
Satisfaction with growth of loan fund	1.910	0.508	14.157	1	0.000	***
Trust	0.685	0.952	0.520	1	0.471	
Cox and Snell $R^2 = 0.281$ , Nagelkerke $R^2 = 0.313$ ; Goodness-of-fit: Pearson's $\chi^2 = 160.573$ ( $p = 0.257$ ); SL = Significance level; *= significance at 5%; **=significance at 1% and ***= significance at 0.1%						

#### **4.6 Challenges Facing Village Saving and Loan Association in Providing Sustainable Service**

A number of questions were used to probe challenges facing Village and Loan Association in providing sustainable financial services. More insight on the challenges facing VSLAs was collected during Focus Group Discussion. The challenges facing VSLA are discussed in the following sub section;

##### **4.6.1 Inadequate capital**

The findings in Table 8 show that about 38.1% of respondents mentioned inadequate capital as the major challenge facing Village Saving and Loan Associations (VSLAs) in the study area. The VSLAs mobilize resources through buying of shares, monthly fees and fines. The fines are paid for breach of group rules and regulation, e.g. delay in meetings or delay in payment of shares. This finding is comparable to the one found by

Verhanet *al.*, (2014) that, in a study they conducted in Arusha, it was reported that inadequate capital was the major challenge facing saving groups.

This challenge was also reported in all the 4 FGDs conducted in this study; it was also noted that this challenge was prominent during commencement of the VSLA cycle and start of cropping season where the majority of members need loan for agricultural activities. To mitigate this challenge some VSLAs reported to link with Mwanga Community Bank and adjust their constitution to accommodate partial share-out so as to have relatively large amounts of cash at the start of cycle.

#### **4.6.2 Late payment of loans**

The results in Table 8 show that 19.9% of the respondents reported late payment of loans as another major challenge for their VSLAs. Studies conducted by other researchers elsewhere have revealed that late payment of loans was a challenge faced by some VSLAs (Verhanet *al.*, 2014; Busingye, 2015). Given the challenge of limited capital reported in the previous section, late payment increases challenges of VSLAs in providing loans to several members at the same time.

#### **4.6.3 Inadequate entrepreneurship skills**

The results in Table 8 show that about 24.7% of the respondents reported they didn't have entrepreneurship skills to run business. This finding is in agreement with the findings reported by Mkoma (2013) which showed that VSLA members in the study area had the challenge of inadequate entrepreneurship skills, and this was evidenced by the fact that loan fund utilisation was reported to be only 60%.

#### **4.6.4 Members leaving association without paying their loans**

The findings in Table 8 indicate that 7.8% of the respondents reported members leaving association without fully paying their loans as a challenge facing their associations in the study area. Occasionally, VSLA fail to recover the loan completely, which could have a negative impact on the long-term sustainability of the VSLA. This finding implies there is a need to ensure presence and enforcement of VSLA rules that will enhance fully loan recovery from member as it was reported during one of the FGD sessions:

*In our VSLA we had this challenge; we decided to divide our VSLA in small groups of 5 people, this small group will review the loan application of their member and advice before the loan is approved. When a member drop from the VSLA, we first hold his/her saving to cover the debt and if the amount is not enough the small group will be responsible to cover the remaining amount, this has worked well in our VSLA (Male, 45 years; VSLA Leader, Same District, January 2016)*

#### **4.6.5 Lack of VSLAs' legal status**

The findings in Table 8 indicate that 7.6% of the respondents reported lack of legal status was among challenge facing their VSLA. The challenge was mainly reported with VSLA that have linked with Mwanga Community Bank. Thus, most of formal financial institutions don't trust informal financial institutions and therefore it is difficult to link with formal/semi-formal financial institution.

Care International (2013) reported that VSLAs are rarely formally recognized, and formal recognition is not yet part of many countries' inclusive financial strategy. The VSLAs should not be regulated per se as it would add a significant burden to their operations, but they should be recognized so that they can more easily access formal financial services.

**Table 8: Challenges facing Village Saving and Loan Associations (n=462)**

<b>VSLA challenges</b>	<b>Frequency*</b>	<b>Percentage (%)</b>
Inadequate capital	176	38.1
Late payment of loans	92	19.9
Inadequate entrepreneurship skills	114	24.7
Members leaving association without paying their loan	36	7.8
Stealing of association money	9	1.9
Lack of associations' legal status	35	7.6

\*The frequencies in this table are based on multiple responses.

#### **4.7 Village Saving and Loan Associations' Multiple Membership**

##### **4.7.1 Membership in multiple VSLAs**

The results in Table 9 show that 33.3% of the respondents were members to more than one VSLA. This finding is relatively small as compared to the one found by Mineet *al.* (2013), whereby 47% of project group members in Uganda were also members to other saving groups. This difference can be explained by the fact that 14.3% (Table 2) of the sampled VSLAs in the study area had introduced a change whereby one member could have two passbooks in the same VSLA. Through this innovation, members might find no need to have multiple memberships.

It was further found that, among respondents with multiple memberships, 78.8% (Table 9) were members to 2 VSLAs, and 22% were members to 4 to 6 VSLAs. This finding is comparable to the one found in India by Kimet *al.* (2010) that, on average, one person had membership up to seven different saving groups.

## **4.7.2 Factors influencing multiple memberships**

### **4.7.2.1 Saving and access of multiple credits**

The findings in Table 9 show that the majority of respondents (50%) reported that their main reason for multiple VSLA membership was the need to increase opportunity to save and take loan. This finding is comparable to the one found by Mineet *et al.* (2013) that the majority of the respondents (68.8%) in Uganda said that their main reason for the multiple membership were saving and borrowing needs that could not be met by membership in a single VSLA. Furthermore, Kim *et al.*, (2010) reported that belonging to one saving group is a good start, but, for some, membership to one group does not provide enough financial opportunity to meet household needs, and therefore they register to more than one saving groups. However, the desire to access multiple sources of credit raises the possibility that individuals could shift debt from one group to another one, potentially engaging in unsound borrowing practices that the VSLA model is designed to prevent in any one group.

### **4.7.2.2 Risk mitigation**

Thirty six percent (7.6%) of the respondents reported that the reason for multiple memberships was to diversify saving areas in order to reduce risk of losing their money (Table 9). This finding is justified with the reason that about 10% of all the respondents (Table 8) in this study reported that stealing of association money and some members leaving association without paying their loans were the main challenges facing VSLA in the study area.

### **4.7.2.3 Earnings from multiple share-outs**

Thirty nine percent of the respondents (Table 9) reported earnings from multiple share-outs were the reason of their multiple memberships. Similar results have been found

elsewhere in Uganda; Mine *et al.*, (2013) found that earning from multiple share-outs was among the major reasons for multiple membership.

#### 4.7.2.4 Network more or make friends

Results from Table 9 shows that 3.4% of members with multiple memberships reported the main driver for their multiple memberships was to network and make more friends. Village Saving and Loan Association provide a venue for people to meet on a regular basis and discuss issues that affect their lives and the life of their community. Guy, (2010) reported that Self-selection and the opportunity to share a common goal to improve VSLA members daily lives create strong social cohesion and a sense of belonging, which often empowers members to take charge of their lives and become actors of change in their community. He further reported that members help each other in times of emergency and distress through mutual support and encouragement and are often willing to lend a helping hand to members in need and to the community at large. Given these social benefits one might find that being a member of one VSLA is not enough and therefore decide to register to another VSLA.

**Table 9: Village, Saving and Loan Association' multiple membership**

Characteristics	Frequency*	Percentage (%)
Member of more than one VSLA		
Yes	66	33.3
No	134	66.7
<b>Total</b>	<b>200</b>	<b>100</b>
Number of VSLA to which VSLA were member		

2	52	78.8
3	12	18.2
4-6	2	3
<b>Total</b>	<b>66</b>	<b>100</b>

What are reasons for being a member to more than  
1 VSLA? (n= 118)

Increase saving and access to loan	59	50
Earn more from multiple share outs	46	39
Diversify saving to reduce possibility of loss	9	7.6
Network more and make more friends	4	3.4

---

\*The frequencies on the reason for being a member to more than 1 VSLA in this table are based on multiple responses

#### **4.8 Relevance of Social Capital theory on VSLAs Sustainability.**

According to social capital theory, In order to make the group come together and be cohesive there should be trust among members and rules and norms governing the social action (Putnam, 1995). The theory was found valid since it helped empirically to realise that trust and following associations' constitution had a positive impact on VSLAs sustainability; however, only following constitutional had significant ( $P \leq 0.05$ ) impact on VSLAs in short and longer terms. Furthermore, individual self-selection was also found to have positive impact on VSLAs sustainability though it was not statistically significant. Individual self-screening ensures that members who trust one another come together and form groups for mutual benefit and this enhance sustainability of a group (Lemmel, 2001; Mkoma, 2013).

## **CHAPTER FIVE**

### **5.0 CONCLUSIONS AND RECCOMEDATIONS**

#### **5.1 Conclusions**

Conclusions which are derived from the findings of the study are summarised in the following paragraphs:



### **5.1.1 Operational changes that have happened in the operation of VSLAs since their inception**

On the basis of the finding meeting the first objective, it is concluded that all the surveyed VSLA in the study area have undergone operational changes since their inception. Some of the changes; for example, change in leadership, change in value of share and change in interest rate; were expected as per VSLA methodology. On the other hand, changes like multiple pass books for the same member, change of share-out cycle, introduction of more fund stream and integration of commercial agriculture within the VSLA are innovative changes that have been done by VSLAs in the study area.

### **5.1.2 Factors that influence VSLA's operational changes**

On the basis of the findings meeting the second objective, it is concluded that gaining leadership experience and increasing financial capacity of the VSLA are among the factors which have influence with regard to VSLAs operational changes. Besides the aforementioned, other factors with large influence include increase in members' savings and retention.

### **5.2.3 Impacts of VSLAs dynamics and other factors on chances of sustainability of the VSLAs**

In view of the findings meeting the third objective, it is concluded that transparency, satisfaction of growth of loan fund, following VSLA constitution and VSLA training on loan and shares have positive and significant impact on the chances of VSLAs being grouped in the highly sustainable group in a short term. Besides the aforementioned, age of the VSLA has significant positive impact on the chances of VSLAs being grouped in

the highly sustainable group in the long term. Multiple memberships have negative impact on the chances of VSLA being grouped in the highly sustainable group in both short and long terms.

#### **5.2.4 Challenges that VSLAs face in providing sustainable financial services to their members**

In view of the findings meeting the fourth objective, it is concluded that inadequate capital and inadequate entrepreneurship skills respectively were major challenges facing VSLAs in the study area. Another major challenge was delayed payment of loans by VSLA members.

#### **5.2.5 Factors influencing VSLAs multiple membership**

On the basis of findings meeting the fifth objective, it is concluded that increase in savings and access to loan are among major factors which have influence with regard to multiple membership. Besides the aforementioned, another factor with significant influence was earning from multiple shares out.

### **5.2 Recommendations**

Based on the results, discussion and conclusions, the following recommendations are given in order to inform strategies to support Village Savings and Loan Associations to provide sustainable financial services:

#### **5.2.1 Development partners and NGOs level recommendations**

- (i) In line with the conclusion that some VSLAs have undergone unexpected operational changes, it is recommended that organisations that promote VSLA methodology should design tools to enhance record keeping for VSLAs that

have undergone these changes, because current available tools are not designed to accommodate such changes.

- (ii) In line with the conclusion that gaining leadership experience, increasing financial capacity of the VSLA and increasing members' savings and retention are among major factors which have influence on VSLAs operational changes, it is recommended that development partners and NGOs should consider these factors in their VSLA programmes design to enhance VSLAs impact and sustainability.
- (iii) Based on the conclusion that inadequate entrepreneurship skills is a major challenge facing VSLAs, it is recommended that organizations should promote VSLA methodology to consider including an entrepreneurship module in the VSLA methodology right from the beginning of the cycle so as to leverage on the impact of VSLA to members and hence increasing VSLA sustainability and sustainability of activities done under VSLA auspices.

### **5.2.2 Village Savings and Loan Associations Level recommendations**

- (i) In line with the conclusion that transparency, type of VSLA change, satisfaction of growth of loan fund, following VSLA constitution and VSLA training on loan and shares have positive and significant impact on the chances of VSLAs being grouped in highly sustainable, it is recommended that VSLAs' leaders should promote VSLA methodology to pay more attention to these factors to enhance VSLA sustainability.
- (ii) In line with the conclusion that increases in saving and borrowing are among major factors which have strong influence with regard to multiple membership, and multiple membership was found to have negative influence

on chances of VSLA to be grouped in the highly sustainable group; it is recommended that VSLA members whose saving and borrowing have outgrown the first association should be linked to semi-formal financial institutions for advanced services.

### **5.3 Recommendations for Further Research**

- (i) The findings presented in this study are a result of a survey conducted in one region is partially representative of the total Tanzania population. Therefore, there is a need for more studies on the same subject in other regions, especially in areas where the VSLAs methodology has been in operational for quite some time.
- (ii) To uncover specific areas that contribute towards negative impact of multiple memberships on VSLA sustainability, there is a need to conduct an in-depth study on the socio-economic characteristics, saving and borrowing patterns for members with multiple VSLAs memberships.

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## APPENDICES

### Appendix 1: VSLA Members Survey Questionnaire

#### SOKOINE UNIVERSITY OF AGRICULTURE (SUA)



#### A Questionnaire for Research on:

#### Village Savings and Loan Associations' Dynamics and Sustainability: A Case of Same District, Tanzania

By

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IDENTIFICATION	
Questionnaire Number	
Ward	
Name of the VSLA	

1. Date of the interview	
2. Name of the interviewer _____	
3. When was this VSLA established?	
4. Number of members when this VSLA started	
5. Current number of members in this VSLA .....	Male: ..... Female: .....
6. Does this VSLA have a written constitution?	Yes..... 1 No..... 2

**SECTION 1B: GENERAL CHARACTERISTICS OF THE RESPONDENTS**

No	QUESTIONS	ANSWER / CODES	GO TO
7.	Sex of the respondent	Male.....1 Female.....2	
8.	Age of the respondents		
9.	Years of schooling of the VSLA member	1. 4 years 2. 7 years 3. 11 years 4. 13 years 5. 13 years and above	
10.	When did you join this association? (Months)		
11.	Do you hold any leadership position in this association	Yes.....1 No.....2	If no, skip Q12
12.	Which position do you hold?	1.Chairperson 2.Secretary 3.Treasure 4.Key holders	

**SECTION 2: ADJUSTMENT OF ASSOCIATION PROCEDURES- DYNAMICS**

No	QUESTIONS	ANSWER / CODES	GO TO
13.	Has your VSLA undergone any adjustment of its procedures since inception? If yes Go to question 13	Yes.....1 No.....2	If no go 20
14.	What are the adjustments that your VSLA has undergone since inception?	1. Change of leadership 1. Yes 2. No 2. Change of value of shares 1. Yes 2. No 3. Change in Interest rate 1. Yes 2. No 4. Lending to non VSLA members 1. Yes 2. No 5. Introduction of other fund than social and loan fund 1. Yes 2. No 6. Change from shorter cycle to longer cycle 1 Yes 2. No 7. Linkage to mobile money 1 Yes 2. No	

		8. Shift from demand loans to rotational lending 1 Yes 2. No 9. Others specify.....	
15	If the association has changed the cycle (normal cycle 9-12 months), what is the new cycle?	1. .... (Months) OR 2. .... (Years)	
16	Why has your VSLA undergone these adjustments?	3. Increase VSLA' money security 4. Increase VSLA' financial capability 5. Give other members chance to acquire leadership skills 6. To ensure members ability to save and take loan is maximized 7. Ensure each member contribute in developing loan fund 8. Help to resolve conflict 9. Others Specify.....	
17	Where did you get the idea to do these changes?	1. From other VSLAs in the community 2. From Village agent/Field officers 3. From the challenges that we faced in the group 4. Others Specify	
18	Is their transparency in the operation of your VSLA?	Yes.....1 No.....2.	17
19	Why do you think there is no transparency in your VSLA?	1. Leaders make key decisions without involving members 2. No financial updates reports to members 3. Others (Specify) ..... ..... .....	
20	Is there any risk in the adjustment that you have made?	Yes.....1 No.....2	If yes go 19
21	What risk have you experienced related to the adjustment you have made?	..... ..... ..... .....	
22	Have your group experienced any conflict?	Yes.....1 No.....2	If yes go 21
23	What was this conflict?	.....	

		..... .....	
24	Were you satisfied with the way the conflict was resolved?	Yes.....1 No.....2	
25	What are the challenges that your VSLA is facing in providing sustainable financial services to members?	Inadequate capital.....1 High default rate.....2 Theft of VSLA money.....3 Lack of legal regulation.....4 Failure to pay loan on time.....5 Inadequate training on entrepreneurship.....6 Others (Specify) ..... ..... .....	

### SECTION 3: GROUP & MEMBERS FINANCIAL LITERACY

No	QUESTIONS	ANSWER / CODES	GO TO
26	Did you receive any training/awareness on savings and debt management?	Yes.....1 No.....2	
27	Did you receive any training/awareness on business management?	Yes..... 1 No ..... 2	
28	Did you receive training on accountability procedures?	Yes .....1 No .....;..... 2	
29	Which record keeping method has been adopted by your group?	Ledger.....1 Passbook.....2 Both..... 3	
30	During sharing out, does your association compute calculation for members itself?	Yes.....1 No.....2	If no go to 29
31	If no in QN 30,wholastly computed your shares in this association?	Village agent.....1 Field officers.....2 Others (Specify).....	
32	Were you satisfied with the way calculation of share-out was done in the previous share out?	Yes .....1 No .....;..... 2	
33	What kind of records does your group keep?	Savings.....1 Loans.....2	

		Membership.....3 Social fund.....4 Others (Specify).....	
34	Has your group witnessed any loss of funds?	Yes.....1 No.....2 Don't Know.....3	

#### SECTION 4: ASSOCIATION DIVERSITY OF PRODUCTS

No	QUESTIONS	ANSWER / CODES	GO TO
35	Is your association linked to semi/formal financial institutions	Yes.....1 No.....2	<b>If NO go to 33</b>
36	Why is your association linked to semi/formal financial institutions	Increase VSLA's money security.....1 Increase VSLA' financial capability....2 To access financial technical skills .....3 4. Others (Specify)	
37	Does your association do other activities as the groups beyond savings and loan? i.e. CPGs etc	Yes.....1 No.....2	
38	Are you a member of other VSLA?	Yes.....1 No.....2	<b>If yes go to 36</b>
39	If yes, how many associations	.....	
40	If yes, why are you a member of more than one association?	To maximize capacity to take loan and saving.....1 To reduce risk to lose money.....2 Others (Specify).....	
41	Is there any challenge to belong to more than one association?	Can cause over indebtedness.....1 Time of meeting can concede among association.....2 Failure to utilize saving and loan capacity for all association.....3 4. Others	

**SECTION 5: VILLAGE SAVING AND LOAN ASSOCIATION METHODOLOGY**

No	QUESTIONS	ANSWER / CODES	GO TO
42	Did you use individual self-screening to form this association?	Yes.....1 No.....2	
43	Does your association fund grow substantially?	Yes.....1 No.....2	
44	If the group has a constitution, does the group follow the procedure as stipulated in the constitution?	YES..... 1 No..... 2	
45	Is there trust in this group	Yes.....1 No.....2	

**SECTION 6: VILLAGE LOAN AND ASSOCIATION SUSTANABILITY -INDEX**

No	ISSUE POINTS	MAXIMUM POSSIBLE SCORES	ACTUAL POINTS SCORED	APPLICABILITY OF THE SAME ITEMS 10 YRS LATER
1	I save regularly (at least 3 shares per meeting) in this association: 1 = Yes, 0 = No	1		
2	Generally, your association has sound financial status 2 = Strongly agree, 1 = Somehow agree, 0 = Strongly disagree	2		
3	Is there any loan default in this association in the past two years 1 = Yes, 0 = No	1		
4	Can you access more numbers of loans now as compared to the past in your association 1 = Yes, 0 = No	1		
5	Can you now access relatively larger loan size in your association compared to the past? 1 = Yes, 0 = No	1		
6	Do you have any outstanding loan from this association? 1 = Yes, 0 = No	1		
7	Members in this association pay their loan on time 2 = Strongly agree, 1 = Somehow agree, 0 = Strongly disagree	2		
8	Generally your satisfied with operation of this	2		



	association 2 = Strongly agree, 1 = Somehow agree, 0 = Strongly disagree			
9	I enjoy being part of this association 2 = Strongly agree, 1 = Somehow agree, 0 = Strongly disagree	2		
10	If the VSLA does not get external financial support, it will collapse 0 = Strongly agree, 1 = Somehow agree, 2 = Strongly disagree			
	<b>TOTAL POINTS</b>	<b>15</b>		

**SECTION 7: SUSTAINABILITY OF ACTIVITIES DONE UNDER THE AUSPICES ON VSLA**

<b>No</b>	<b>ITEMS INDICATING SUSTAINABILITY</b>	<b>MAXIMUM POSSIBLE SCORES</b>	<b>ACTUAL POINTS SCORED</b>	<b>APPLICABILITY OF THE INDICATORS OF SUSTAINABILITY 10 YRS LATER IF SUPPORT FROM VSLA STOPPED</b>
1	I save some money from profit obtained from activities supported by VSLA 1 = Yes, 0 = No	1		
2	If the types of support you are getting from VSLA stopped, how do you think activities supported by VSLA would be? 2= better than now 1= the same like now 0=worse than now	2		
3	If your VSLA were not giving loans, do you think you could do your economic activity as you are doing now? 1 = Yes, 0 = No	1		
4	If your VSLA had no social fund, do you think you could solve easily emergency issues happen to your household? 1 = Yes, 0 = No	1		
5	If you were not a member of this association , do you think you could get loan from other MFI 1 = Yes, 0 = No	1		
6	Without this association, members can assist needy people in the community? 3= strongly agree 2= agree 1= I am not sure 0= I don't agree	3		
	<b>TOTAL POINTS</b>	<b>9</b>		

## **Appendix 2: Checklist for Focus Group Discussion with VSLA members**

**SOKOINE UNIVERSITY OF AGRICULTURE (SUA)**



***A Guide for Focus Group Discussion for Research on:***

**Village Savings and Loan Associations' Dynamics and Sustainability: A Case of Same District, Tanzania**

**By**

**Henry L Jackson, MA (Rural Development Student), E-Mail: [jhlema@yahoo.com](mailto:jhlema@yahoo.com)**

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1. Reasons for VSLA membership, approximate proportions of male and female VSLA beneficiaries who have multiple memberships
2. Actions that the associations have taken to ensure some of these reasons are accommodated in the first group
3. Whether there are any challenges for someone to be in more than one VSLA. If yes; what are these challenges?
4. Limitations for the associations in providing sustainable financial services to the members
5. What has been done to address the challenges
6. What could be done to make VSLA groups more sustainable
7. Operational changes observed in the association since their inception
8. Positive effects of the above operational changes in the association
9. Negative effects of the above operational changes in the associations?.

### **Appendix 3: Issues to discuss with field officers and village agents**

#### **SOKOINE UNIVERSITY OF AGRICULTURE (SUA)**



#### ***A Guide for Key Informant Interviews with Field Officers and Village Agents for Research on:***

#### **Village Savings and Loan Associations' Dynamics and Sustainability: A Case of Same District, Tanzania**

**By**

**Henry Lewis Jackson, MA (Rural Development Student), E-Mail: [jhlema@yahoo.com](mailto:jhlema@yahoo.com)**

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1. Challenges associations are facing to provide sustainable financial service to the group?
2. In your view do the associations have opportunity to make some of the operational changes to suit their needs?
3. What are the operational changes that you have noted in the association in the community
4. What do you think are the merits and demerits of various changes that are taking place in the associations
5. What is your experience (Merits and demerits) of members with multiple membership

**Appendix 4: Issues to discuss with Program managers**

1. Role of program to support sustainable financial services to the community?
2. Merits and demerits of various changes that are taking place in the associations
3. What are the challenges that VSLAs are facing in order to provide sustainable financial service to their members
4. Linkages of associations with semi/formal financial institution
5. Integration of VSLA and other development intervention