

Financial Management of Village Savings and Loans Associations in West Nile, Uganda

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Abstract

Village savings and loans associations (VSLA) groups have recently garnered popularity in rural and urban settings. This study aimed to assess the relevant financial management practices in the context of VSLA in West Nile, Uganda, and provide recommendations for robust and sound VSLA financial management practices for the effective management of grouped financial resources. This study adopted a quantitative research design, used a questionnaire to conduct a field survey, and employed SPSS for data analysis. Descriptive statistics, frequency, and percentile were utilized to analyze data collected from the study sample of 196 VSLA groups whose management committees were the unit of enquiry. Stratified and simple random sampling techniques were used. The study found that the number of members that a VSLA group has typically ranged between 25 and 30, of which 87% were between 34–54 years, and 62% of the groups had saved for 1–5 years. This study identified the interest earned, penalties or fines charged, savings of members, and support from non-governmental organizations and government in the forms of donations and grants as major sources of income of the VSLA group. Record keeping, security of savings from members who saved by keeping their money in banks, budgeting, segregation of duties among management committees, registration status, and the availability of a functional constitution to members were identified as good financial management practices. This study indicates that good financial management practices yield an opportunity for VSLA groups to borrow large amounts from financial institutions for investments. It also ensures proper planning, revenue and expenditure monitoring, transparency, and better utilization of hard-earned financial resources, while also boosting the confidence and trust of the group members.

Keywords: *Associations, Financial, Loans, Management, Savings, and Village.*

Introduction

Matters concerning financial resources are important aspects of peoples' lives. People require money to take care of their various expenses, such as food, school fees, medical bills, and accommodation, among others. However, the availability, accessibility, utilization, and stability of money remain the limiting factor among the global rural population despite the growing number of financial services providers. Most of these

service providers are mainly concentrated in urban areas. This is partly because of poor road networks, low population, and transaction size, which financial service providers find costly to deliver in rural areas for possible financial inclusion [1]. The financial services providers prefer dealing with formally recognized entities, thereby making it difficult for those in rural areas to access loans. Consequently, these people resort to loans from informal sources with a very high-interest rates. As a result, the Village Savings and Loans Associations

(VSLA) are seen as the only reliable institution available for the local community to access financial services such as loans, savings and insurance at an affordable interest rate.

In 1998, Care International in Uganda established VSLA, later followed by other agencies that continued to support VSLA groups across the country by providing micro-grants and teaching them financial management. Governance structure and statutes were also established to ensure that the group performed effectively [2]. VSLA was defined as a time-bound accumulating savings and credit association in which 15 to 30 people joined forces to save regularly and borrow from the group fund, payable with interest between one and three months, and shared-out their savings after about a year [3]. This enabled them to have access to the equity required for their investment and other necessities. However, having access to the fund through loans and the management of those loans by an individual are two completely different things. Hence, practicing good financial management practice became necessary for the effective utilization of group wealth creation. This required strict procedures to achieve the expected objectives through the planning and budgeting of income, expenditure, saving, and investment [4]. The group voluntarily gained members from within the community, where each member subscribed to the constitution of the group. The VSLA initiative was motivated by the absence of financial institutions in remote areas, making it difficult for the inhabitants of that area to access financial services such as loans. Although the interest rate charged by the VSLA appears to be moderately competitive with that of banks, VSLA members prefer loans from the VSLA group because members share the loan interest at the end of the cycle [5].

To appreciate the importance of good financial management practices, it should be noted that, when possible, VLSA members saved their money in the bank or with the

Savings and Credit Cooperative Organizations, making their deposits safer and secure [6]. In another study, it was noted that 85% of the youth store their cash in their houses, and 52% of youth respondents save with VSLA groups, demonstrating their inadequacy of good financial management [7]. Although access to credit is the main reason for joining saving groups, due to small contribution levels, the loans are often insufficient to meet the investment or entrepreneurial goals of the group members [8]. Therefore, practicing good financial management ultimately increases the chances of VSLA partnering with financial institutions to maximize opportunities to access loans from commercial banks for investment.

The study was conducted in the West Nile districts of Arua, Yumbe, Koboko, Madi Okollo, Maracha, Terego, and Obongi between the period of March 2022 and July 2022 on the financial management of VSLA.

The purpose of this study is to assess the relevant financial management practices of VSLA in West Nile, Uganda, with the view of developing simplified and robust VSLA financial management guidelines, which can be understood by the group members to improve the management of financial resources of that group. To achieve this purpose, this study focused on how VSLAs managed the financial resources of group members and aimed to address the following specific objectives in reaching the intended purpose:

1. Establish the most common sources of income of VSLA groups in West Nile, Uganda.
2. Ascertain the financial management practices of VSLA groups in West Nile, Uganda.
3. Assess the impact of good financial management practices on VSLA in West Nile, Uganda.

Problem Statement

According to VSLA associates, when members access the group loans, the majority

of the loans go to meeting basic needs and mitigating crises. Consequently, the low financial strength of those beneficiaries exacerbates as it increases their debt unless they have the income to pay back the loans (www.vsla.net), resulting in loan default, fraud, and erosion of group assets. Nonetheless, group members can raid the house of the loan defaulters and auction their assets to recover the group's loan [8]. The absence of official record-keeping books, compulsory loan taking, executives dictating the loan amount, exploitation of financially illiterate members, and high-interest rate with a short payback period weakens the ability of the VSLA groups to operate effectively [7].

Despite all these challenges, there is an increased demand for the formation of VSLA groups in rural and urban settings. This is because the community still perceives VSLA groups as the necessary evil, as they can lend to them without demanding collaterals, unlike formal financial institutions. Thus, this study was conducted to assess how VSLA groups handle the management of group financial resources.

The Societal and Scientific Relevance of the Study

The societal and scientific relevance of the study is numerous. First, by accurately understanding the environment, this study will provide the relevant financial management practices that VSLA should adopt to enhance their financial management capabilities and increase the confidence and trust among the group members that their financial resources are effectively managed. This information will facilitate the development of the VSLA financial management guide. Second, instead of restricting VSLA from borrowing within the group, the study will create awareness on the existence of other available financial products for members to broaden their investment portfolio within the financial market and enhance their capacity to borrow from financial

institutions. Third, the members of VSLA will be able to appreciate the importance of long-term savings for purposes such as planning for retirement, children's school fees, and capital investments. Fourth, the outcome of the study will also provide recommendations, especially in areas of financial literacy and budgeting, for the improvement in the management of the financial resources of VSLA. Lastly, the result of this study can be used as a secondary source of information in providing references to students who want to conduct academic research in the field of business administration, finance and accounting, economics, and entrepreneurship at higher institutions of learning.

The Limitations of the Study

The limitations of the study are as follows. First, owing to the scarcity of financial resources and time, it was impossible to cover all VSLA groups in all the districts of West Nile, Uganda: Adjumani, Moyo, Yumbe, Obongi, Maracha, Koboko, Terego, Nebbi, and Madi Okollo. As such, the result obtained from this study may accurately represent West Nile, Uganda. Second, this study did not categorize the groups into refugees and host communities with regard to their saving cycles to establish whether refugee groups had better financial management practices, more annual share-out value, and the reason for such development. Third, this study focused on VSLA groups but did not assess their willingness for a merger under a single umbrella, where they will support the members of the individual groups to increase their lending ability to their member's groups. Fourth, we live in a complex, globalized, and dynamic world surrounded by rapid technological change. This study, therefore, did not cover the level at which the groups adapted to the digitalization of VSLA operations and partnered with other financial services providers to access more financial products. Fifth, this study did not consider the impact of current global financial challenges

brought about by the COVID-19 pandemic and inflation, especially in finding out how it impacted the saving capability of individual group members.

Literature Review

A comprehensive review of the existing literature regarding VSLA and financial management was conducted. This review focused on the conceptual, theoretical, and empirical framework, specifically on the methodology of VSLA operations and relating it to basic conventional financial management practices, given the fact that access, utilization, and sustainability of financial resources are pivotal.

Conceptual Review

A study was conducted on the uptake of loans in group savings and loans schemes in the Mbeere North Subcounty, Embu county, Kenya. It was noted that 93.3% of the respondents indicated that the interest rate offered by the saving group was lower than the

interest rate offered by formal commercial banks [9]. The initiative for the establishment of VSLA overtime proved that poor people could fight poverty and improve their lives using their own financial resources in the long term and that some of the groups faced challenges concerning high-level accumulated liquidity, which exposed them to the risk of theft, especially towards the end of the share-out period. Furthermore, the group experienced inadequate funds to borrow from for large investments during the early cycle period and observed the shortest repayment period (within three months). Sustainable partnerships were created between mature VSLA groups and formal financial service providers by opening group bank accounts to address this issue. In addition, micro-insurance enabled members to secure their funds from the risk of theft and provided an opportunity to borrow large amounts of money directly from the financial institution for big investments [10].

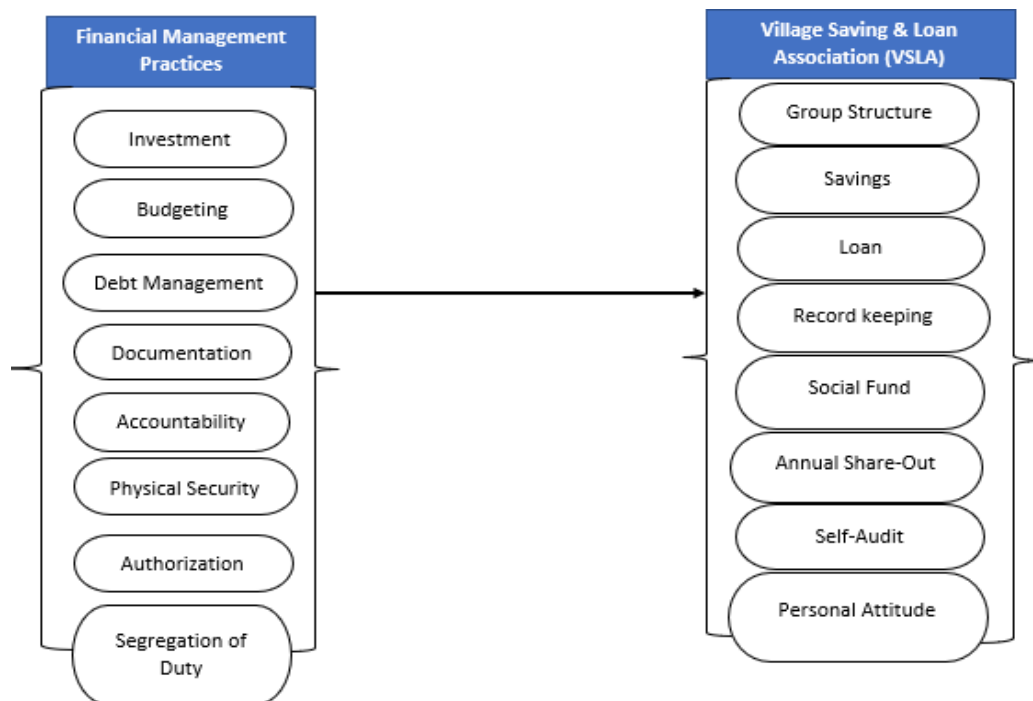


Figure 1. Illustration of Financial Management Practices and Village Saving and Loan Associations

Source: Illustration by the researcher

Figure. 1 illustrates the concepts of financial management practices and components of VSLA. Members of VSLA pull their financial resources together in a common fund from which they can borrow from to take care of their various financial needs. The group established a basic governing structure, put in place manual record keeping, and conducted the self-group audit, which is sufficient for their current level but insufficient to enable them to access other financial services. Hence, establishing conventional financial management practices led by the group itself becomes relevant to ensure effective management of the financial resources of the individual members.

The segregation of duties and smooth leadership transition have contributed to the discipline of those groups that were performing exceptionally well, and the retired leaders continued to be members of the groups [5]. In the report published on African Youth Empowerment and Development Initiative, VSLA in Uganda alluded that, while banks and other financial institutions can provide valuable services to the financially disadvantaged, these institutions are most successful in economically dynamic urban areas, where borrowing requirements are high, and the costs of reaching clients are low [7]. Therefore, organizations such as VSLA have become the most available alternative accessible to the community.

Theoretical Review

This study identified three main theories: agency theory, institutional theory, and stewardship theory. The agency theory was postulated by Jensen and Meckling (1976) and defined agency as a contract by which one or more persons (principals) hire another person (the agent) to perform some service on their behalf, giving the agent some of their decision-making power. Agency theory explains the use of management controls as being majorly based on economic cost-benefit. The members elect the management committee of VSLAs groups, and they are expected to act in the group's best

interest in the execution of their duties. For example, the management committee ensured that all the transactions are carried out at meetings in front of all the association members to ensure transparency and accountability. The group uses a lockable cash box to guarantee that transactions do not occur outside the regular meetings and prevent unauthorized cash movement and record tampering [11].

The institutional theory explains the adoption and design of control practices within organizations. It originated from the works of DiMaggio and Powell (1983) and used a more sociological approach to the development and form of control systems. The theory asserts that organizations must adopt systems and management practices [12], of which financial management practices such as documentation, accountability, budgeting, authorization, and debt management are not exempted from the VSLA group. The operation of VSLA is guided by the principles of periodic action audit, ring-fenced box, zero/or no tolerance to arrears, and independent groups [13].

The stewardship theory of Donaldson and Davis (1991) explains financial management significantly. Stewardship theory serves as an accountability mechanism for ensuring good monitoring, auditing, and reporting to achieve objectives. Stewardship theory argues that management committees are trustworthy and will not engage in an act that will misappropriate group financial resources. Stewardship theory agrees with the notion that individuals can join their efforts, including carrying the responsibilities of establishing and implementing the required control system in the group, for the effective and efficient use of the group resources [14].

The Empirical Review

VSLA initiatives have improved the mindset of the beneficiaries. People have learned to save their money and avoid risks of mismanagement as caused by keeping their money in their houses. The study demonstrated that 100% of

the members confirmed using their share out portion for food, school fees payment, income-generating activities, debt payment, house construction, or rehabilitation [6], which improved the economy of the community. In the Feinstein International Center brief regarding the study conducted on youth experiences with savings and access to credit in Karamoja, Uganda, the report noted that 85% of the youth store their money in their houses in wooden or metal boxes and/or hide their money in the thatched roofs of their huts, exposing their monies to fire and theft [8]. Therefore, the major motive for the formation of the VSLA group was to provide access to financial services to increase the income level of financially disadvantaged people who do not have access to formal financial institutions. The participants in a study in Zanzibar reported increased income due to their ability to use borrowed and accumulated funds from the group, which allowed them to pay their children's school fees and medical bills and allowed them to make micro-investments [15].

Therefore, the above literature review indicates that several studies were conducted on the methodology and importance of VSLA.

However, there is no specific study on the financial management of VSLA groups. Hence, this study sought to assess the financial management of VSLA in West Nile, Uganda. The results from the present study can be used to advocate for the development of a simplified financial management policy framework for VSLA.

Materials and Methods

This study adopted a quantitative research design where descriptive statistics: frequency and percentile were used to establish the level of responses regarding the financial management of VSLA in West Nile, Uganda. The study population consisted of 383 VSLA groups, from which a sample size of 196 Village VSLA was selected using the Yamane (1967:886) formula for computing a sample size from a known population ($n = N/1 + Ne^2$), where n = sample size, N = Population, e = margin of error (5%) for the 95% confidence level. This study employed stratified sampling to determine the sample of the host and refugee communities, as shown in Table 1. Simple random sampling techniques were also used.

Table 1. Sample Frame Showing the Number of Village Groups per Districts in West Nile, Uganda

District	Population Host Community	Sample Size Host Community	Population Refugee Community	Sample Size Refugee Community	Population Total	Total Sample Size
Arua	43	22	-	-	43	22
Koboko	29	15	-	-	29	15
Madi Okollo	32	16	-	-	32	16
Maracha	28	14	-	-	28	14
Terego	44	23	44	23	88	45
Yumbe	80	41	83	42	163	83
Total	256	131	127	65	383	196

Primary and secondary data sources were used in this study. A structured self-administered questionnaire was used to collect information from the selected respondents.

The information gathered from primary sources of data collection were sorted, summarized, and quantitatively analyzed using

SPSS, Version 21. Descriptive statistics were used because they measured the degree of reliability of each observation objectively and showed their proportional score as a representation of the general outcome [16]. Reliability analysis was carried out on the perceived task values scale comprising 43

items. Cronbach's alpha coefficient for internal consistency reliability was used to test the instrument and showed that the questionnaire reaches acceptable reliability $\alpha = 0.759$. This meant that the items in the questionnaire were worthy of retention as a Cronbach's alpha value greater than 0.7 is considered a sufficient measure of internal consistency for an instrument of data collection [17].

Results

The study had three objectives: first, establish the most common sources of income of members of VSLA groups; second, ascertain the financial management practices of the management committee of VSLA groups; and third, assess the impact of good financial

management practices on the VSLA in West Nile, Uganda. A total of 196 questionnaires were dispatched, all of which were completed and obtained. The main findings of the study are as follow:

Demographic Information

This section recorded what community the VSLA belonged to, along with the group's total annual share-out value, year cycles the group has been saving for, the number of VSLA group members for the effective operation of the VSLA group, and the range of dominant average age bracket of the members. These indicators helped us to understand the composition of the VSLA group.

Table 2. Demographic Information

Demographic Information	Frequency	Percent (%)
VSLA community of belonging		
Refugee	65	33
Host	131	67
Total	196	100
The group total annual share-out value (UGX)		
UGX 250,000 - UGX 50,0000	3	2
UGX 500,000 - UGX 750,000	1	1
UGX 750,000 -UGX 1,000,000	5	3
UGX 1,000,000 -UGX 1,250,000	31	16
UGX 1,250,000 Above	156	80
Total	196	100
The cycles of the years the VSLA group has been saving		
1-5	121	62
6-10	67	34
11-15	8	4
Total	196	100
The number of VSLA group members		
10-15	7	4
15-25	10	5
25-30	103	53
30-35	75	38
35 Above	1	1
Total	196	100
The age brackets of the VSLA members		
15-34	19	9

35-54	170	87
55-64	6	3
65-84	1	1
Total	196	100

The study found that 80% of the VSLA group had a total annual share-out value greater than UGX 1,250,000, and 62% of the group alluded that they had saved for 1–5 year cycles. The study found that 53% VSLAs had 25–30 members. Eighty seven percent of members were within age bracket of 35–54 years. Concerning which community that VSLA belonged to, the study noted 33% of the respondents were drawn from refugee

communities, whereas 67% of the respondents were from the host community.

Common Sources of Income of VSLA

Here, the most common sources of income of the VSLA group are explained. The different ways the group acquired financial resources are illustrated, which they lend to their individual members or use as security to cover their administrative expenses without dipping their hands into the savings of group members.

Table 3. Common Sources of Income of VSLA Groups

Variables	Scale	Frequency	Percent (%)
The amount of loan to be disbursed to a member is collectively determined and authorized by members of the group	Agree	66	34
	Strongly Agree	130	66
Total		196	100
The VSLA group charges interest rates between 5-10% on loans borrowed by members	Strongly Disagree	13	7
	Neutral	1	1
	Agree	95	49
	Strongly Agree	87	44
Total		196	100
The members of the VSLA have an agreed amount as a contribution towards the social fund	Neutral	1	1
	Agree	86	44
	Strongly Agree	109	56
Total		196	100
The VSLA group charges penalties and fines on members for not attending meetings, and this forms part of the social fund	Strongly Disagree	13	7
	Disagree	1	1
	Neutral	1	1
	Agree	84	43
	Strongly Agree	97	50
Total		196	100
The VSLA group uses the social fund for further investment to generate more money for the group	Strongly Disagree	11	6
	Disagree	6	3
	Neutral	28	14
	Agree	112	57
	Strongly Agree	39	20
Total		196	100
The most common source of income of the members are Salary, Small business, farming,	Neutral	1	1
	Agree	69	35

support from NGO, government and relatives	Strongly Agree	126	64
Total		196	100

Regarding the amount of loan to be disbursed to group members, this study noted that 66% strongly agreed that the amount to be disbursed to a member was collectively determined and authorized by the group. This loan amount comes from the savings of the members, which provides a pool of funds from which the members can borrow.

Additionally, This study indicated that 44% and 49% of the respondents strongly agreed and agreed, respectively, that the interest rate charged on the borrowed money ranged between 5–10%, payable with the principal amount within a period of three months. Furthermore, this study noted that 56% of the respondent strongly agreed that members should have an agreed amount contributed towards the social fund.

This study indicated that 50% of the VSLA group strongly agreed that penalties and fines should be charged on members for not attending meetings, which forms part of the

social fund and is realized as income. It was also noted that 57% agreed that the VSLA group used the social fund for further investments to generate more money for the group.

Finally, this study further found that 64% of the respondents strongly agreed that besides the above-mentioned sources of income, salary, proceeds from small business, farming, support from a non-governmental organization (NGO), government, and relatives were the main sources of income.

Financial Management Practices in the Management of VSLA

Here, the aim is to state the existing financial management practices among the VSLA groups in West Nile, Uganda. The purpose is to provide a roadmap for the development of optimal financial management practices, which ensure the effective management of financial resources of a VSLA group.

Table 4. Financial Management Practices

Variables	Scale	Frequency	Percent (%)
The VSLA Group is registered with the relevant Authority in the district	Strongly Disagree	4	2
	Disagree	33	17
	Neutral	3	2
	Agree	58	30
	Strongly Agree	98	50
Total		196	100
The VSLA group has passbooks where the value of the savings of the members are recorded for internal tracking and accountability	Agree	71	36
	Strongly Agree	125	64
Total		196	100
The VSLA Group has an official bank in the name of the group where the money is kept	Strongly Disagree	14	7
	Disagree	62	32
	Neutral	3	2
	Agree	65	33
	Strongly Agree	52	27
Total		196	100
The VSLA Group has clear segregation of duties among the members of the	Disagree	3	2
	Agree	74	38

management committee	Strongly Agree	119	61
Total		196	100
The VSLA group keeps the money in a cash box kept at the home of the treasurer	Disagree	3	2
	Neutral	8	4
	Agree	31	16
	Strongly Agree	154	79
Total		196	100
The keys to the cash box are kept by 2-3 members of the group	Disagree	2	1
	Agree	52	27
	Strongly Agree	142	72
Total		196	100

In terms of legal registration status, the study indicated that 50% of the VSLA group strongly agreed that the groups were registered with the relevant authorities in the district. Concerning documentation, This Study noted that 64% of the VSLA groups had passbooks or ledger books, where the value of their savings, loan disbursement and repayment were recorded for internal tracking and accountability.

When asked about the existence of segregation of duties, the study recorded that 61% strongly agreed that the VSLA groups clearly had segregation of duties among the members of the management committees, which consist of the chairperson, secretary,

treasurer, and two money counters. Regarding the security of the money of the VSLA group, the study found out that 32% disagreed that they had an official bank account in the name of the group where their money is kept. However, it was noted that 79% of the VSLA groups keep their money in a cash box kept at the home of the treasurer.

The study further noted 72% strongly agreed that the keys of the cash box are kept by two or three members of the group, and no single person is allowed to keep the key. The cash box can only be accessed simultaneously by at least members who are custodians of the keys.

Table 5. Financial Management Practices in the VLSA Continued

Variables	Scale	Frequency	Percent (%)
The VSLA group prepares periodic annual budget at the beginning of every cycle and use it during operations in the year.	Strongly Disagree	14	7
	Disagree	45	23
	Neutral	54	28
	Agree	67	34
	Strongly Agree	16	8
Total		196	100
The VSLA group has a formal constitution known to the members	Disagree	1	1
	Agree	28	14
	Strongly Agree	167	85
Total		196	100
At the end of the agreed saving period the members share out the money and immediately new cycle starts	Strongly Disagree	1	1
	Neutral	3	2
	Agree	100	51
	Strongly Agree	91	47
	Total	195	100
Missing	System	1	

Total		196	100
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Regarding planning and budgeting, this study noted that only 8% of the VSLA group strongly agreed that they prepared an annual budget at the beginning of every cycle of saving and subsequently utilized it during the duration of the year. It was also observed that 85% of the VSLA group strongly agreed that they had a formal constitution that known by the members.

Furthermore, the study indicated that 51% and 47% of the VSLA group agreed and strongly agreed that members share the money and immediately start a new cycle at the end of the saving period.

Discussion

Demographic

The data collected were analyzed through SPSS, presented in tabular forms, and interpreted using frequency and percentile. Thus, the results are discussed in detail against the backdrop of the three objectives, other related studies, and how the issues identified in the findings can be addressed in further research.

In Table 2, the study was conducted in both refugee and host communities representing 33% and 67% of the sample population, respectively. This means that the concept of VSLA is adopted in both refugees and host communities as the only strategy to access financial services and promote social cohesion.

Most VSLA groups have been saving for 1–5 years, demonstrating their habit of saving consistently for a purpose, such as children’s school fees, accommodation, and investment, among others. A typical VSLA group comprises of 25–30 members, and its members are usually within the age bracket of 35-54 years.

This is the most productive age group as they shoulder significant responsibilities and have creative ideas for investment, thereby requiring financial resources. The most accessible option for funding at a low cost is through the VSLA group. This category of people also understood

the importance of saving and planning for old age. The years of saving practices within these communities illustrate how deeply VSLA practice is rooted in both refugee and host local communities. Thus, finding out the ability of the group to manage this financial resource is necessary. This growing interest among this age bracket can be attributed to the increased financial knowledge of saving, which insurance companies and commercial banks provide within the local communities [18].

This group of people have responsibilities, fully understand the dynamics of their lives, and are driven by their desire to change their financial situations. This is consistent with the study conducted by SEEP in Mali and Uganda in 2019, where each group saving for over 8.5 years on average mobilizing \$1,710 in savings per year, compared to \$815 in 2011 [19].

The Most Common Sources of Income of VSLA

The study identified interest rate generated from loans as one of the sources of income, to which 44% and 49% strongly agreed and agreed, respectively. In Table 3, it is observed that VSLA groups charge interest rate between 5–10% on loan given to members. The interest rate is payable together with the principal within a period of three months; this interest charged by the group is much lower than the one charged by commercial banks, which makes the loan competitive to the members. The result is consistent with study conducted by Jonathan Lanidune [4].

On January 2021, The Central Bank of Uganda published the interest rate charged by commercial banks in Uganda: 16%–22.5% prime lending rate. However, in June 2022, The Central Bank of Uganda hiked the interest rate to 8.5% [18], which may persuade the commercial banks to follow suit by equally increasing their prime lending rate, leaving the people only one option: borrowing from VSLA groups, which in turn will put pressure on the

little savings of the group for those group that may not have enough money to lend to their members. However, those that may have enough money for lending will generate higher income as result of the interest earned.

As shown above, another common source of VSLA group is savings from its members, which forms a pool of funding for lending to their members. The typical VSLA group in most cases do not have any external support but rely entirely on the savings from members to generate sufficient funds, from which only the members are allowed to borrow.

Thus, 56% strongly agree that a certain amount should be contributed towards the social fund. This amount agreed may vary from one VSLA group to another and implies that the majority of the group appreciates the importance of contributing towards a social fund, which can be used as agreed by the group members, either to support the members during times of emergency as insurance or can be reinvested for the purpose of creating more wealth for the group.

Other sources of VSLA group funding derive from the penalty and fines charged on members for not attending meetings or coming late to meetings. The penalty and fines chargeable are usually agreed by the members of the group. These records are kept separately and accounted for to the members during their meetings.

This study noted that 64% of VSLA strongly agreed that support from NGOs and the government, in the form of donations and grants, are min sources of income for the group. This is consistent with the cash working group for refugees in Uganda report, February 2022, stated in the 3rd quarter, about 93% of the targeted beneficiaries received cash-based assistance [20]. Over the years, the use of VSLAs has been adopted by more (NGOs) and the Government of Uganda to address the financial service gap from formal financial institutions and offer customized financial services to the financially disadvantaged [21].

Therefore, in order to ensure members derive benefits from the VSLA arrangement, group members should not be coerced to borrow lest they default on their loans. The interest rate charged to service the loan should be relatively lower than the rate of commercial banks. This study identified that the interest earned, penalties or fines charged, members' savings, and support from NGOs and the government as the direct sources of income of the group, while salaries, small businesses, support from relatives and farming were identified among the main sources of income among the individual group members.

Financial Management Practices of VSLA Groups

VSLA involve the management of the financial resources of its members in such a way that provides assurance and confidence to its members that their savings remains secure and accessible at the agreed-upon time. Here, the findings of the study in relation to the financial management practices of VSLA is discussed.

In Table 4, it is noted 50% of the respondents strongly agree that they were registered with the relevant authorities in the district. A group that is registered is formally recognized by the local authorities and would be able to carry on its work without any interference. Therefore, registration with the relevant authorities is one of the good practices of managing such a group. The registration status also increases the group's chances of competing in the market for any existing support either from the government or NGOs. Most institutions today prefer dealing with registered entities concerning matters concerning money.

Regarding documentation, this study noted that 64% of VSLA groups have passbooks or ledger books, where the value of their savings, loan disbursement and repayment are recorded for internal tracking and accountability. Recordkeeping is one of the best practices of

financial managing the money of a group. The records will be used for the preparation of reports to demonstrate to the members that the savings have been managed properly. The records can also be used for tax and auditing purposes, providing assurances to the group's financial status. The most financial institution would ask for financial information if they were to support an entity.

The study recorded that 61% strongly agreed that the VSLA groups clearly have segregation of duties among the members of management committees. This implies that there exist structures in VSLA groups. The management committee comprises the chairperson, secretary, treasurer, and two money counters. The management committee is responsible for making the decision on behalf of their group members. This demonstrates that no single person is allowed to carry out a transaction at all levels, implying that at least one other person is involved in the execution of the daily responsibilities.

Regarding the security of the money of the VSLA group, this study found out that 32% disagreed that they have an official bank account in the group's name where their money is kept. However, the study noted that 79% of the VSLA groups keep their money in a cash box kept at the home of the treasurer. The study further noted that 72% strongly agreed that two or three group members keep the keys of the cash box, and that no single person is allowed to keep the key. Access to the cash box is only possible when at least two members, who are custodians of the keys, are present. Therefore, this demonstrates that most VSLA groups do not have bank accounts but keep their money at the home of the treasurer, with the keys kept by two or three persons. Three different members hold keys to the box; money counters are designated for security purposes, and transparency and accuracy of transactions is practiced. This allows members to contribute towards the social fund to enable the group to

cope with shocks, such as deaths and illness among others [22].

Keeping the money at home exposes their savings to the risk of theft and fire, which could lead to the group losing their hard-earned savings. However, VSLA groups prefer to keep their money at the home of the treasurer because of easy accessibility, availability, and convenience. This system also entails less bureaucracy as compared to keeping the money in the bank. The banks normally have a lot of requirements for one to open a bank account, such as formal registration and a copy of the constitution of the groups, which not all VSLA groups have. VSLA groups also find it costly to keep the money in the bank owing to monthly ledger fees, withdrawal charges, and transportation costs. Nonetheless, it is a good financial management practice for VSLA to open a separate bank account in the name of the group, which will allow their savings to be deposited in the bank directly.

From Table 5, it can be noted that only 8% of the VSLA groups strongly agreed that they prepare an annual budget at the beginning of every cycle of saving and utilize it during the year. This finding implies that VSLA groups see little relevance and importance in the development of the budget, despite the importance of one. This is because a budget can help the term project their income and facilitate monitoring their expenses. The budget can also project their financial growth, which is difficult to do without a. This illustrates gaps in the financial management of the group. There are still people who have not yet realized the importance of financially managing their personal lives or institutional operation because they still believe those only do financial planning with a high income [23]. This study further observed that 85% of VSLA groups strongly agreed that they have a formal constitution that is known to the members. This implies that VSLA members are aware of the necessity for a group constitution. The constitution of the group is the guiding tool,

which provides check and balance for the conduct of the group business. It is a required document that banks demand when engaging with group entities. This study also observed that 46% agreed that they were aware of other existing investment opportunities, whereas 19% were not. These investment opportunities include treasury bonds, treasury bills, fixed deposit, mutual funds, and credit for future investments. Knowledge of investment would help raise the level of financial literacy, leading to organizations achieving their objectives [24].

Furthermore, this study indicated that 51% agreed and 47% of the VSLA group strongly agreed that members shared out the money immediately at the end of the saving period. The share-out value is calculated as follows: $Z = (X + Y - Q)/P * S$, where Z = total share value for each member, X = total share value at the end of the saving period, Y = total value of the interest earned at the end of the period, Q = total amount of common fund, calculated as 5% of the total interest earned (Y). P = the total number of shares/stars in all the passbooks of the members and S = the total of the number of share/stars of each member [25]. This calculation should be done carefully to ensure

there is no error and be explained to each group member for full understanding to avoid complaints at the time of annual share-out.

Therefore, this study identified formal registration, constitution, record keeping, segregation of duties among the management committee, security of the savings in the bank account, budgeting, and computation of the share-out value at the end of saving period as good financial practices. Although majority of the members of VSLA groups were satisfied with the security of their money, owing to the incentive to accumulate money in affordable amounts and the opportunity to obtain lump-sum payouts with profits at the end of the cycle [26], it is more secure to keep savings in the bank, where they would be able to generate more money by investing the savings in other long-term opportunities.

The Impact of Good Financial Management Practices on VSLA

Upon identification of the above-mentioned financial management practices, this study analyzed the impact of VSLA having good financial management practices.

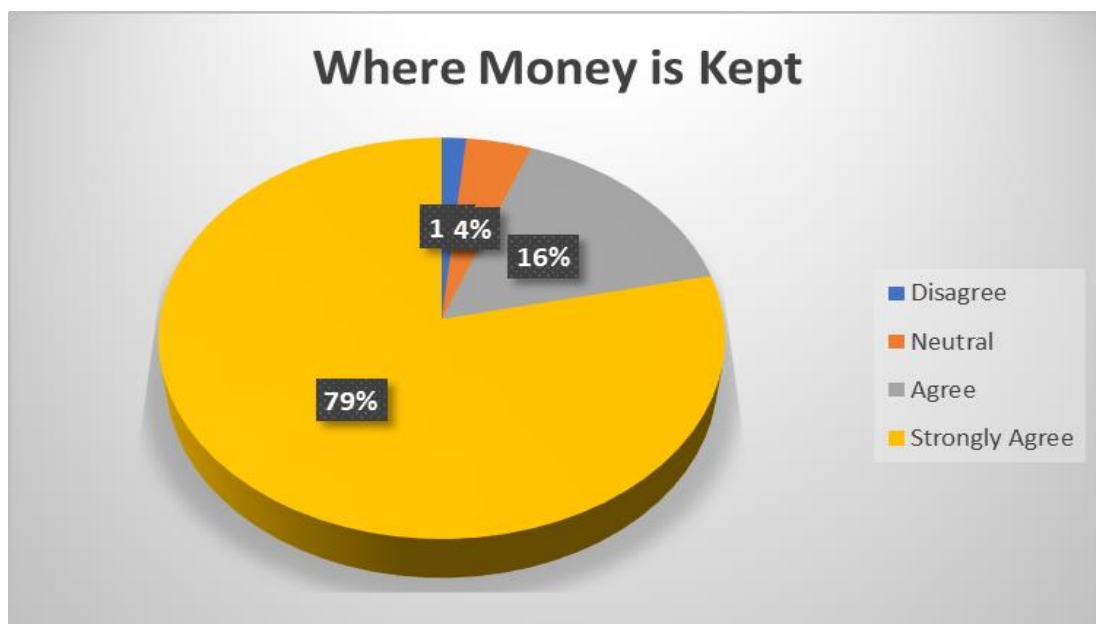


Figure 2. The VSLA Group Keeps the Money in a Cash Box Kept at the Home of Treasurer

Figure. 2 illustrates that 79% of VSLA groups keep their money in a cash box kept in the treasurer's home. However, the group members would lose all their money if a fire broke out or theft occurred. Therefore, the best practice is to keep the money in the bank. There, at least it is insured by the bank. Therefore, opening a group account with the

bank will act as security should the group wish to borrow money for future investment. It should be noted that, when access to financial services was possible, members saved their money in the bank or with the Savings and Credit Cooperative Organizations, enhancing its safety [5].

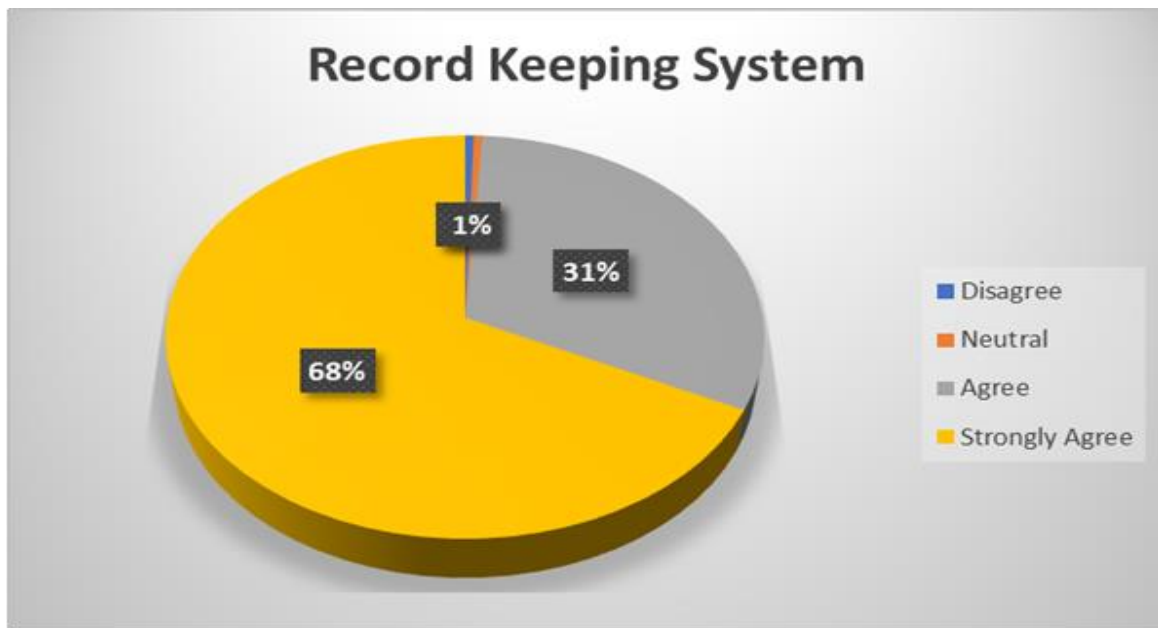


Figure 3. The VSLA Group Record Keeping System

A record-keeping system is one of the most important financial management practices. Figure. 3 indicates that out of 196 respondents, 68% of the members of the VSLA group strongly agreed that it is important to have a record-keeping system, where groups document the transactions that have taken place within the group. Currently, groups use passbooks and ledger books to record the minutes and transactions of the group. This system is sufficient given the level of the group. Through good record keeping, the group can project the trend of their financial portfolio. These records can be used to prepare financial statement certificates, which financial institutions and

other donors would like to see. Accurate record keeping skills and accountability of savings and loans are part of good financial management practices [6]. This record system provides a historical background regarding the status of the savings, loans, social funds, and expenditure of the group members. This information can be used by financial institutions to service loan for investment or donation to the group. In the absence of a record keeping system, members may claim they have paid their loans or that their savings has been understated. Having a robust record keeping system solves all these confusions.

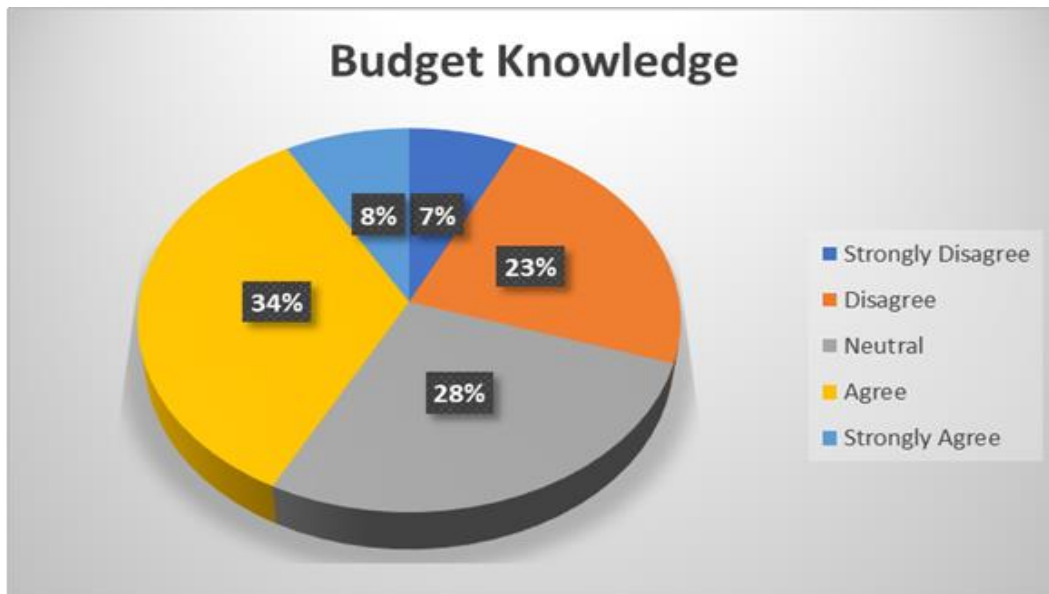


Figure 4. The VSLA Group Prepares Periodic Annual Budget at the Beginning of Every Cycle

Figure 4 shows that of the 196 respondents, there was a significant disparity in their responses to knowledge concerning preparing an annual budget in every saving cycle among the VSLA groups. It was observed that 28% of the respondents had no idea about the budget, 23% disagreed, and 34% agreed. This dispersion in the responses regarding the budget clearly indicates that there is insufficient knowledge about budgeting among VSLA

groups. Budgeting is a vital element of financial management practice as it details the projection of the revenue and expenditure and shows how the group's actions can be altered to achieve the desired financial goal. Donors and financial institutions supporting VSLA groups inspect their budgets as their only way to predict their plan of action and determine their objectives' feasibility. The VSLA could control and monitor their operations through the budget.

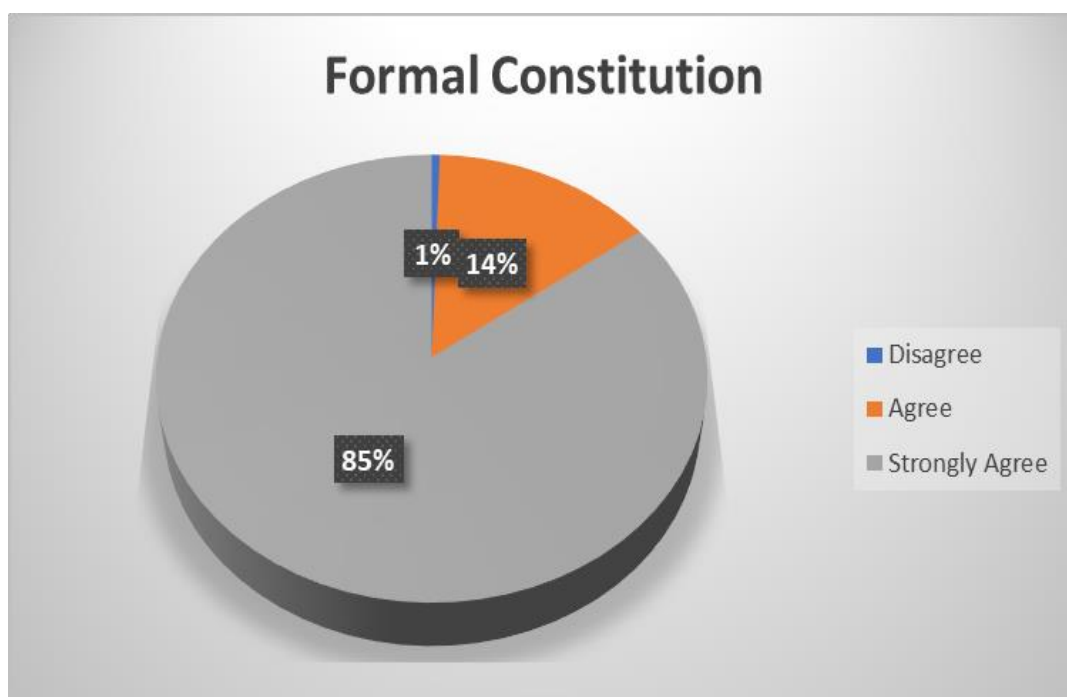


Figure 5. The VSLA Group has a Formal Constitution Known to the Member

Every organization, big and small, requires guidelines to ensure the organization's smooth operation and control its stakeholders' behaviors. Therefore, VSLA do require such policy document to govern the behaviours of its members, especially when financial resources are involved; this is a requirement for good financial management practice. The constitution of the group should be made known to all its members for smooth operation and the elimination of misconceptions regarding the management of the group. Of the 196 respondents, 85% strongly agreed that VSLA ought to have a formal constitution known to the members, as shown in Figure 5. The constitution provides a guideline as to how the VSLA group will be managed and how funds can be raised for administrative expenses.

Summary, Recommendation and Conclusion

This study aimed to assess the financial management practices of VSLA in West Nile, Uganda. This study focused on how VSLAs can manage the financial resources of their group members most effectively and highlighted the common sources of income for VSLA groups. The field survey findings are summarized below, followed by recommendations conclusion.

Summary

The research aimed at addressing the problem of poor financial management among the VSLA groups in West Nile Uganda. Members of these groups could default payment of loans. The groups themselves did not have bank accounts but rather kept their money in a cash box in their house. Members also became disgruntled during annual share-out due to poor record keeping and transparency. Despite all these challenges, VSLA groups are growing in popularity in rural and urban settings. This is because communities still perceive VSLA groups as necessary.

The information gathered from primary sources of data collection were sorted, summarized, and quantitatively analyzed using SPSS, Version 21. Given the population composition in West Nile, stratified sampling and random sampling were employed to collect data from both host and refugee communities. Of the total sample size of 196, 33% of the respondents were refugees and 67% were drawn from the host communities of Arua, Madi Okollo, Maracha, Terego, Koboko, and Yumbe districts of West Nile, Uganda.

Regarding the demographic information, the study noted that 80% of VSLA had an annual share-out value greater than UGX 1,250,000 (\$ 330), and 62% of the respondents indicated they had been saving for the past 1–5 years. Fifty three percent of the respondents indicated that the ideal average number of the group members ranged between 25 and 30. Furthermore, it was observed that 87% of the respondents indicated were 34–54 years old.

This study identified the interest earned, penalties or fines incurred, members' savings, support from NGO and government in forms of donations and grant as the direct sources of income of the group, while salaries, small businesses, support from relatives, and farming were identified among the main sources of income among the individual members from which they raised their routine savings.

Moreover, this study identified several good financial management practices, such as record keeping, securing the savings of the group in the group bank account, having a constitution that is known by all members, conducting an annual budget, segregating the duties of the management committees, and providing accountability in every meeting.

Finally, this study noted that the identification and application of the good financial management practices above provide an opportunity for the VSLA group to borrow large amounts from financial institutions for investments, ensure proper planning and monitoring of revenue and expenditure,

transparency, enhance confidence and trust of their members, and better utilize their limited financial sources.

Recommendations

The study noted several challenging aspects of financial management encountered by the VSLA. Here, recommendations are proposed to address them in future.

Keeping the group's money in a cash box in the treasurer's house exposes their savings to the risk of theft and fire and puts the treasurer's life in danger. Therefore, this study recommends that the group open a bank account with a commercial bank where the group savings would be deposited to ensure that the money is secured. The bank account could be shared with the group so that members can directly deposit their saving to the bank and only present their deposit receipt at the meeting for record keeping.

VSLA group members should ensure that at least two bank signatories are elected from the leadership of the group, where at least two people are mandated to execute transactions from the bank account. Furthermore, a monthly bank reconciliation of the account should be performed to minimize the possibility of an error.

Commercial banks should evaluate the requirements for opening bank accounts by VSLA, reduce the bureaucracy level involved, and waive some of the charges, such as withdrawal and ledger fees and minimum account balance. Commercial banks can also link their accounts to a mobile money platform at reduced transaction costs.

Given that many VSLA group members were not aware of a budget, VSLA members should be trained on financial literacy, specifically on the matters of budgets and identification of investment opportunities, after which they should be encouraged to prepare annual budgets and use them to monitor the progress of the group performance.

VSLA experts should work with financial experts to contextualize and simplify best financial management practices manuals to provide a unified guideline for sound and effective financial management of VSLA. These guidelines should be done in such a way that both literate and illiterate members of the community can use it.

Future studies should consider the categorization of groups into refugees and host communities to establish whether refugees' groups have better financial management practices and more annual share-out values; they should also investigate the inherent reasons for the outcome of the result.

Future studies can also assess the willingness of these groups to amalgamate into a federation under single umbrella, where they will support the members of the groups to increase their lending ability to better support the member's groups.

The willingness of the group members to adopt the digitalization of VSLA operations and partnering with other financial services providers in order to access more financial products within the financial market should also be investigated, along with the level of penetration and concentration of financial services provider such as microfinance and commercial banks in remote locations of the region.

Finally, future studies should consider investigating the effects of the current global financial challenges and the Covid-19 pandemic on the level of savings of VSLA groups in West Nile, Uganda.

Conclusion

Regarding the first objective, the interest earned, penalties or fines charged, members' savings, support from non-governmental NGOs and government in the form of donations and grant are the direct sources of income of the group, while salaries, small business, support from relatives and farming were identified as the main sources of income among the

individual members. Regarding the second objective, the study identified documentation and record keeping, registrations status and availability of group constitutions, bank account, budgeting, segregation of responsibilities, and accountability as existing financial management practices, with a bank account and budgeting receiving disparity in the responses where immediate improvement is required.

This study noted that good financial management provides an opportunity for VSLA to borrow large amounts from financial institutions for future investments, properly plan and monitor revenue and expenditure, ensure transparency, and enhance confidence and trust as it leads to better utilization of their limited financial sources. According to the Association of Chartered Certified Accountants, financial management is at the heart of running a successful business. It affects every aspect, from managing cash flow and tracking business performance to developing plans that ensure business owners can maximize their opportunities [27].

Therefore, due to the increased popularity of VSLA groups, both in the rural and urban settings, and because the community still perceives VSLA groups as the most feasible

and affordable option, financial management practices of VSLA groups in West Nile, Uganda needs to be strengthened through implementation of the above-mentioned recommendations to maximize the benefits of their group members from the arrangement.

Conflict of Interest

I, declare to the best of my knowledge there is no potential conflict of interest that could influence this study.

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