



**Avenues for legal recognition of VSLAs: A pathway for more substantial and sustainable financial access for poor rural women**

# LEARNING BRIEF

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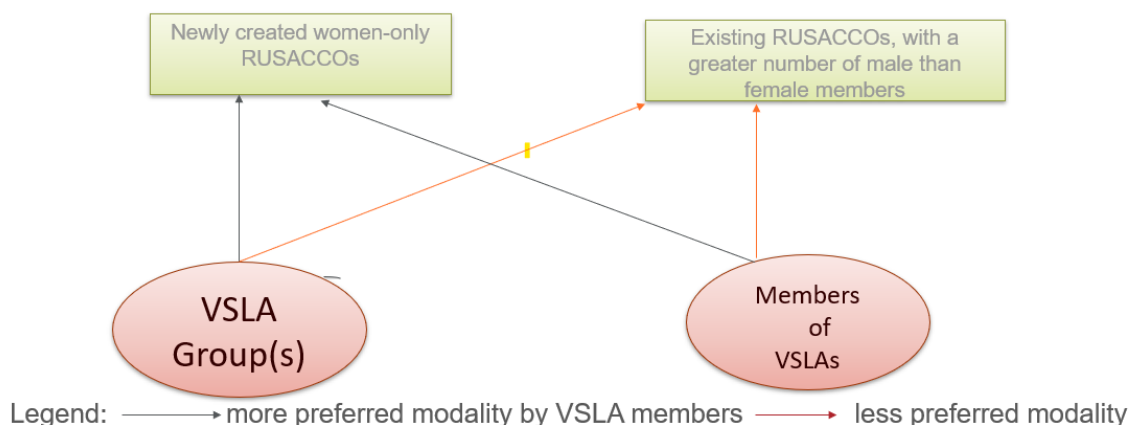
## BACKGROUND

Financial inclusion serves as a crucial catalyst for poverty reduction by integrating individuals into formal systems, simplifying daily living, enabling asset building, mitigating emergency-related shocks, and facilitating productive investments (World Bank, 2018). Unfortunately, financial exclusion disproportionately affects vulnerable groups, especially women, girls, and people with disabilities. CARE Ethiopia, with financial support from the Austrian Development Agency (ADA), the operational unit of Austrian Development Cooperation (ADC), addressed this issue in the Amhara region through the Improved WASH Systems and Resiliency (IWRA) project which ran from December 2021 to February 2024 (a follow up project of the Water for Food Security and Women’s Empowerment and Environmental Protection (SWEEP) implemented from October 2017 to February 2021), and through the Sexual and Reproductive Health and Rights initiative (BERHAN) project operated from March 2020 to February 2024.

To enhance the resilience of vulnerable groups, CARE and government partners in the BERHAN and IWRA projects implemented financial inclusion activities, primarily through Village Saving and Loan Associations (VSLAs). Despite the successful formation of 454 VSLAs, comprising 10,405 community members, and significant savings of over 4.5 million Ethiopian Birr, members faced challenges engaging in high-value income-generating activities sustainably. Monitoring and evaluation data reveal issues such as insufficient funds for meaningful economic ventures and the non-sustainability of many VSLAs post-project.

To address these challenges, CARE and government partners have been exploring the option of either inviting VSLAs to create or join a legally registered entity in the form of Rural Saving and Credit Cooperatives (RuSACCOs)<sup>1</sup> in view of providing members with access to higher-value loans for more substantial and sustainable economic engagement.

To decide on the best modality of linkages, the project and the government partners conducted an assessment with the VSLAs. Among the 10,5405 VSLA members, 5,766 (55%) preferred to establish new RuSACCOs whilst 2,005 (20%) preferred to link with existing RuSACCOs and 2,633 (25 %) did not want to link to RuSACCOs. In the end, 7,542 (72.5%) were linked into existing or newly established women lead cooperatives and 2,863 (27.5%) opted not to.



Early indications suggest positive outcomes from the RuSACCOs, such as the establishment of women-

<sup>1</sup> are community-based financial institutions that are member-owned, operate in rural areas, and provide saving and credit services to their members.

led formal financial institutions, increased savings, and engagement in better economic opportunities. The Women, Children, and Social Affairs (WCSA) office and the Cooperative Promotion Agency (CPA) played pivotal roles in navigating policy and bureaucratic challenges to support that legalization process. The research behind this report summarizes additional findings.

## METHODOLOGY

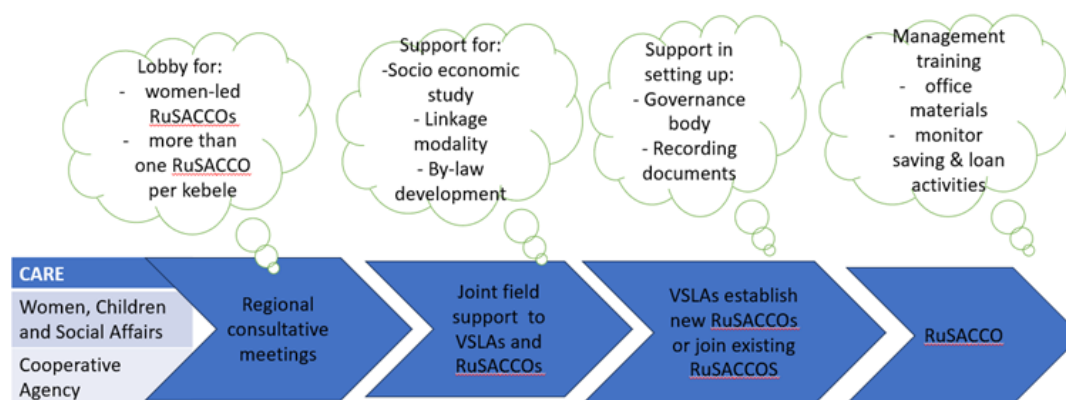
This study encompasses data from East and West Belessa woredas for the IWRA project and Fogera and Estie woredas for the BERHAN project. Despite challenges posed by a state of emergency in Amhara region, both primary and secondary data were collected through 19 key informant interviews (KII) (7 male, 12 female respondents); 17 in-depth interviews (IDI) (12 male, 5 female respondents), and 7 focus group discussions (FGD) (19 male, 44 female respondents), as well as monitoring reports, VSLA Management Information System (MIS) data, and minutes of VSLA meetings.

## KEY PROCESSES

- Engagement on the legalization agenda with government stakeholders initiated by CARE.
- Consultative meetings held with regional and zonal Cooperative Promotion Agency (CPA) senior management, presenting VSLA status and challenges. In the consultative workshop, the deputy head of the regional WCSA bureau strongly challenged the CPA, which generally prohibits the establishment of more than one RuSACCO in a kebele<sup>2</sup>. He stated:

***"You also bear a social responsibility to address the question of why women feel uncomfortable joining male-dominated RuSACCOs. Moreover, you have a social and moral obligation to incorporate financially excluded women."***

- The regional CPA was convinced to allow the establishment of more than one RuSACCO in a rural kebele, against existing directives.
- Three modalities of legalization were presented: i) new RuSACCOs are established by VSLA groups; ii) VSLA groups join existing RuSACCOs; or iii) individual VSLA members join new or existing RuSACCOs.
- Government partners with CARE undertook a socioeconomic study<sup>3</sup> and trained RuSACCOs (to establish by-laws, set up governance and committee processes, among others).



<sup>2</sup> In urban areas policies allow for the creation of more than one RuSACCO.

<sup>3</sup> A pre-requisite before the creation of RuSACCOs, to identify the social and economic needs of community members who wish to create a RuSACCO.

# KEY FINDINGS

## 1. Increased economic gains:

- Increased RuSACCO membership, boosting savings.
- Higher loans from RuSACCOs enable members to pursue higher-value economic opportunities (up to 2,500% higher).
- Evidence of greater income diversification.

## 2. Improved internal sustainability:

- Increased membership contributes to RuSACCO sustainability.
- Confidence in the experiences gained from VSLAs to sustain RuSACCOs.
- Existing RuSACCOs strengthened with VSLA members' experience.

## 3. Better links with others, also contributing to sustainability:

- Better sustainability of RuSACCOs due to government support.
- Accessing funds and training from the Women, Children, and Social Affairs office and the Cooperative Promotion Agency.
- VSLA members accessed micro-finance funds from other organizations, e.g., Food for the Hungry Ethiopia (FHE).

## 4. Improved social cohesion:

- Stronger connections and mutual support.
- RuSACCO members and leaders engage more with the broader community- all thanks to the experience VSLA members have gathered on facilitating discussions and taking consultative decisions.

## 5. Women's engagement and changing attitudes:

- Women gain leadership roles in RuSACCOs.
- Women-led RuSACCOs empower women even more economically and socially, due to the RuSACCOs' social standing in the community.
- Confidence in women-led cooperatives increased.

Selam Mamo, a VSLA leader, shared her experiences as follows:

***"My name is Selam Mamo, aged 38, a dedicated housewife, and a mother of four. I proudly hold the position of chairperson for a Village Savings and Loan Association (VSLA) called Ediget Lelimat in Guhalla Kebele 02, East Belessa Woreda. Over the course of 16 months, our VSLA diligently pooled our resources, with each member contributing 1,000 ETB. Despite this collective effort, my access to funds within the VSLA was restricted to a maximum of 3,000 ETB***

at any given time.

*When CARE introduced the prospect of formalizing our VSLA into RuSACCO, it ignited diverse interest among our members. As a leader, I carefully weighed the benefits and became convinced of the advantages associated with a legalized VSLA. I actively encouraged my fellow VSLA members to embrace this positive change. Eventually, eight out of the 20 VSLA members chose to become part of the existing RuSACCO in our kebele.*

*Upon joining the RuSACCO, I significantly elevated my monthly savings from 50 ETB in the VSLA to an impressive 1,000 ETB. This led to an accumulation of a total of 5,000 ETB within the RuSACCO. Harnessing the power of my savings, I applied for and successfully secured a loan amounting to 30,000 ETB for a three-year period. With the loan from RuSACCO, I invested in two sheep and established a pyjama shop, wisely utilizing the remaining funds. **This transformative leap has liberated me from relying solely on my husband's financial support for my children and for daily expenses.***

*Obtaining such a substantial loan within a brief period of joining RuSACCO surpassed my expectations and significantly exceeded my experiences within the VSLA. **The impact on my economic well-being is truly remarkable.***

## CHALLENGES AND POTENTIAL RISKS

- Low savings rates in a few RuSACCOs limiting potential.
- Infrastructural needs for RuSACCOs and increased administrative costs.
- Thefts, since most of the women-led RuSACCOs are found in rural villages far from the banks.
- Exposure to higher loans and the possibility of defaults.
- The lengthy time needed to take small loans, or loans for emergency cases.
- The current security situation in the region has not allowed government and CARE staff to support all VSLAs to the extent desired, especially in areas far from the woreda town, limiting the extent of the linkages with RuSACCOs.

## OBSTACLES AND SOLUTIONS

- The process of allowing more than one RuSACCO in a kebele and getting the directive to approve this took a lot of discussion with the government because of concerns of diluting the capital across different RuSACCOs. However, this was crucial to ensure that women could establish their own RuSACCO if they wanted to, at least as a transition. This was allowed in the end.
- Government does not undertake audits of RuSACCOs regularly. When they are undertaken, they often show poor financial management. Advocacy to encourage the government to do audits regularly was undertaken, and training given to improve the financial management of RuSACCOs. In addition, RuSACCO members have been encouraged to demand regular audits from the government themselves in the future. Having women-led or women-only RuSACCOs was suggested as another solution to address the problem of poor accountability, as women are seen to be more financially responsible. Having more women in RuSACCOs is now seen as a win-win.

# RECOMMENDATIONS

## 1. INTEGRATION OF VSLA LEGALISATION

- Ensure VSLA legalization is part of the project formulation.
- Design and incorporate a seamless transition from VSLA to RuSACCOs.
- Offer choices. The VSLAs that joined existing RuSACCOs were generally those that were smaller in numbers and/or those where the existing RuSACCOs were strong. Those VSLAs in a village with larger numbers of members (above 100 members) and/or where the existing RuSACCOs were weak tended to establish new RuSACCOs.

## 2. ENHANCED CAPACITY BUILDING

- Comprehensive capacity building for all stakeholders involved in the VSLA legalization process.
- Ensure RuSACCOs meet full requirements for establishment, including offices, documents, and office materials.

## 3. CONTINUOUS SUPPORT FOR LEGALISED VSLAs

- Ensure ongoing support from the government, CPA, and WCSA for legalized VSLAs, promoting their sustained functionality.
- Consider establishing additional RuSACCOs, addressing difficulties in managing larger ones.

## 4. STRENGTHENING IGA-SPM TRAINING

- Strengthen Income Generating Activity–Selection, Planning, and Management (IGA-SPM) trainings to enhance members' understanding and engagement in diversified income-generating activities.

## 5. ADDRESSING LOW SAVINGS RATES

- Explore innovative solutions to address persistently low saving rates, promoting financial stability among households.

# CONCLUSIONS

1. VSLAs, while beneficial, are insufficient to ensure significant household livelihood contributions; their growth and legalization into RuSACCOs are pivotal for growth, income diversification, and

sustained impact.

2. Women in RuSACCOs experience substantial benefits, both economically and in leadership roles, showcasing the positive impact of continuous support.
3. Capacity building is crucial for all stakeholders to ensure the success and sustainability of the RuSACCO model.
4. Challenges include low savings rates, infrastructural needs for RuSACCOs, and increased administrative costs.
5. Legalization process involves critical processes, and establishment costs are high without external support. Projects and the government should support the creation of offices and provide necessary start-up materials.
6. Engaging early with government partners and RuSACCOs is key.

The journey toward avenues for legal recognition of VSLAs has revealed transformative impacts, especially for women in rural communities. Emphasizing the identified recommendations has the potential to foster sustainable financial access, empower women, and contribute to broader economic and social development.

*Cover image: VSLA members in East Hararghe, Ethiopia. Credit: Michael Tsegaye/CARE*