



**BUSITEMA  
UNIVERSITY**  
*Pursuing Excellence*

P.O. Box 236, Tororo, Uganda  
Gen. +256 - 45 444 8638  
Fax. +256 - 45 4436517  
Email: info@adm.busitema.ac.ug  
www.busitema.ac.ug

**ANALYZING THE REASONS FOR SMALLHOLDER FARMERS' PREFERENCE OF  
VILLAGE SAVINGS AND LOANS ASSOCIATIONS AS A SOURCE OF  
AGRICULTURAL FINANCE IN SERERE DISTRICT**

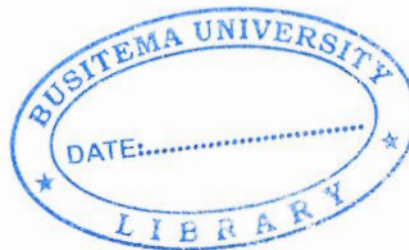
**BY**

**AROU SILVER**

**BU/UP/2017/242**

**BACHELOR OF AGRIBUSINESS**

*Handwritten signature in red ink.*



**A RESEARCH REPORT SUBMITTED TO THE FACULTY OF AGRICULTURE AND  
ANIMAL SCIENCES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR  
THE AWARD OF A BACHELOR OF AGRIBUSINESS OF BUSITEMA UNIVERSITY**

**FEBRURARY 2021**

**DECLARATION**



I **Arou Silver**, hereby declare that this research proposal titled “**Analyzing The Reasons For Smallholder Farmers’ Preference Of Village Savings And Loans Associations As A Source Of Agricultural finance In Serere District**” is my original work and is neither a duplicate of another research study nor has it ever been submitted to any institution of learning for any award of academic qualification.

Signature.......... Date.....*23rd Feb/2021*.....

BUSITEMA UNIVERSITY LIBRARY  
CLASS No.:.....  
ACCESS NO.: *PAA 1323*

**APPROVAL**

This research proposal has been submitted for examination with my approval as the academic supervisor

Signature.......... Date..........

Mr. Mayanja Ibrahim

## DEDICATION

I dedicate this thesis to my parent Mr. Oleicho Simon Ms. Ajalo Edith and my supervisor Mr. Mayanja Ibrahim for the support they rendered to me during research development.

Title	2.5
Abstract	2.0
Introduction	18
Methodology	12
Results	12
Discussion	17
Organization	3.5
Referencing & P	89
English	03
	<hr/>
	79%

## ACKNOWLEDGMENT

During the writing of this research, I was able to interact with various people who contributed directly and indirectly to the accomplishment of its objectives. I am extremely grateful to my Supervisor Mr. Mayanja Ibrahim and the entire department of Agribusiness and Extension for their endless support in research supervision and thesis writing. I am also grateful to my fellow colleagues for their advice and guidance during the report writing.

To my friends Otekat Paul, Opio Eric Justine, Akia Irene Phiona and all those that I haven't mentioned from here but your entire support is duly recognized in the completion of this research.

I also recognize the financial support received from my lovely parents that enabled me to fund data collection and other requirements during the compilation of this report.

Above all I would like to exalt the almighty God who gave me strength, wisdom to carry out the research successfully may his name be praised forever AMEN.

## Table of Contents

<b>DECLARATION</b> .....	i
<b>APPROVAL</b> .....	ii
<b>DEDICATION</b> .....	iii
<b>ACKNOWLEDGMENT</b> .....	iv
<b>Table of Contents</b> .....	v
<b>List of figures</b> .....	viii
<b>List of Tables</b> .....	viii
<b>List of Acronyms</b> .....	ix
<b>ABSTRACT</b> .....	x
<b>1.1. Background</b> .....	1
<b>1.2. Problem statement</b> .....	2
<b>1.3. General objective</b> .....	3
<b>1.4. Specific objectives</b> .....	3
<b>1.5. Research questions</b> .....	3
<b>1.6. Significance of the study</b> .....	4
<b>1.7. Justification</b> .....	4
<b>1.8. Scope of the study</b> .....	5
<b>CHAPTER TWO: LITERATURE REVIEW</b> .....	6
<b>2.1. Introduction</b> .....	6
<b>2.2. Reasons why farmers prefer VSLAs to formal financial institution</b> .....	6
<b>2.2.1. Push factors</b> .....	6
<b>2.2.2. Pull factors</b> .....	7
<b>2.3. Benefits of VSLAs</b> .....	8
<b>2.4. Use of finance from VSLA</b> .....	9
<b>2.4.1. Savings</b> .....	10
<b>2.4.2. Loans</b> .....	10
<b>2.4.3. Social fund</b> .....	11
<b>2.5. Challenges faced by VSLAs in their operations</b> .....	12
<b>CHAPTER THREE: METHODOLOGY</b> .....	13
<b>3.1. Introduction</b> .....	13

3.2.	Study Area .....	13
3.3.	Research design.....	14
3.4.	Study population.....	14
3.5.	Sample strategies .....	15
3.6.	Sample Size .....	15
3.6.1.	Sampling procedure.....	16
3.7.	Data collection methods.....	16
3.7.1.	Questionnaire .....	16
3.7.2.	Key informants' interview .....	17
3.8.	Data quality control.....	17
3.9.	Data analysis .....	18
4.	INTRODUCTION .....	20
4.1.	Demographic Characteristics .....	20
4.1.1.	Distribution of Respondents by Sex.....	20
4.1.2.	Distribution of Respondents by Age .....	20
4.1.3.	Distribution of respondents according to marital Status .....	21
4.1.4.	Distribution of Respondents according to the level of Education .....	21
4.1.5.	Distribution of respondents according to Occupation .....	22
4.1.6.	Distribution of respondents according to the years of membership in a VSLA.....	22
4.2.	Why small holder farmers prefer VSLAs to formal financial institutions?.....	23
4.2.1.	Absence of other financial service providers.....	23
4.2.2.	Cost of accessing financial services.....	24
4.2.3.	Banks not offering services on low amounts.....	24
4.2.4.	Lack of collateral.....	25
4.2.5.	Process of accessing financial services .....	25
4.2.6.	Security of the money.....	26
4.3.	Findings howthe finances generated in VSLAs are utilized by the smallholder farmers. ....	26
4.3.1.	Loans .....	26
4.3.2.	Summary of utilization of finance .....	27
4.4.	Findings on the benefits small holder farmers obtain from being members of VSLAs.....	28
4.4.1.	Helping increase investment in agriculture.....	28
4.4.2.	Ease of financial access especially loans .....	29
4.4.3.	Development of financial knowledge through the trainings .....	29

4.4.4.	Enabling access to extension services.....	30
4.4.5.	Enabling to market produce as group.....	30
4.5.	Findings on the challenges.....	31
4.5.1.	Limited savings to fund larger investments.....	31
4.5.2.	Small pool to support members borrowing.....	32
4.5.3.	Uncertainty of the money safety.....	32
4.5.4.	High interest rates discouraging borrowing.....	33
4.5.5.	Loan defaulting by the members.....	33
<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS.....</b>		<b>35</b>
5.	Introduction.....	35
5.2.	Summary of findings.....	35
5.2.1.	Why small holder farmers prefer VSLAs to formal financial institutions.....	35
5.2.2.	Summary on how finances generated in VSLAs are utilized by the smallholder farmers... 35	35
5.2.3.	Benefits small holder farmers obtain from being members of VSLAs.....	35
5.2.4.	Challenges VSLAs face in their operations.....	36
5.3.	Conclusions.....	36
5.3.1.	Why small holder farmers prefer VSLAs to formal financial institutions.....	36
5.3.2.	How finances generated in VSLAs are utilized by the smallholder farmers.....	36
5.3.3.	The benefits small holder farmers obtain from being members of VSLAs.....	36
5.3.4.	The challenges VSLAs face in their operations.....	36
5.4.	Recommendations.....	37
5.5.	Areas of further research.....	37
References.....		38
APPENDICES.....		40
Appendix 1 Questionnaire.....		40
Appendix 3 WORK PLAN.....		45



### List of figures

Figure 1 Map of Serere District showing the study area .....	14
--	----

### List of Tables

Table 1 Showing a summary of data collection .....	18
Table 2 Showing gender of respondents .....	20
Table 3 Showing age of the respondent .....	20
Table 4 Marital status of respondents .....	21
Table 5. Educational background of respondents .....	21
Table 6 Occupation of the respondents .....	22
Table 7 Years of membership of the respondents to the VSLAs .....	22
Table 8 Knowledge of the respondents on the availability of other financial institutions.....	23
Table 9 Respondents who consider it cheaper to access financial services from VSLAs .....	24
Table 10 Respondents who consider that banks don't offer services for the amounts they transact .....	24
Table 11 Showing responses about availability of collateral .....	25
Table 12: Showing response about process of accessing finance .....	25
Table 13 Showing responses on trust of money safety .....	26
Table 14: Showing respondent who had taken a loan.....	26
Table 15 showing summary on utilization of loans from VSLAs.....	27
Table 16 showing response on helping increase investment in agricultural production .....	28
Table 17: Showing responses on easing access to financial services.....	29
Table 18 Showing responses on enabling development of financial and other knowledge through trainings .....	29
Table 19: showing responses on access to extension services .....	30
Table 20: showing responses on enabling to market produce.....	30
Table 21: Showing responses on savings being limited .....	31
Table 22: Showing response on general savings pool being limited to support large borrowing .....	32
Table 23: showing response on the safety of money .....	32
Table 24: Showing responses on the interest rate discouraging borrowing.....	33
Table 25: showing responses on members defaulting from loans.....	33

### **List of Acronyms**

IGAs	Income generating activities
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MFI	Micro Finance Institutions
SFC	Savings for Change
SFL	Savings for Life
SG	Saving Groups
SILC	Savings and Internal Lending Communities
UBOS	Uganda Bureau of Statistics

## ABSTRACT

Agriculture still remains a major sector in the economy of Uganda but even with it being a major sector to the economy is still faced with numerous challenges. One of which is the issue of credit access by majorly small holder farmers who in this matter constitute the greatest percentage of all the farmers in the country. This problem has led to development of the informal financial service in the country, among these informal financial service providers are village savings and loans association which are formed by self-selected members who save together on periodic basis and provide credit during time of need. This groups have gained popularity in the country recently with more of them getting registered throughout the country. This research therefore comes to focus on analyzing why small holder farmers in Serere district choose this groups as a source of agricultural credit y considering understanding the following objectives. (1) To find out why small holder farmers prefer VSLAs to formal financial institutions. (2) To find out the benefits small holder farmers obtain from being members of VSLAs. (3) To find out how finances generated in VSLAs are utilized by the smallholder farmers. (4) To understand the challenges VSLAs face in their operations. The study used a cross sectional research design where primary data was collected using various pretested and semi-structured questionnaires which were administered to the selected members of VSLAs. A Key Informant (KI) interview was conducted with selected civil servants and project coordinators of various organizations that were found implementing the VSLA frame work in the communities within the study area. The study found out that small holder farmers in Serere district chose VSLA groups mainly due to absence of other financial service providers in the area with up to 90% of the respondents agreeing to these as the reason they chose VSLAs. Secondly farmers up to 48.3% of the people in the area trusted the safety of their money in the group. Even with other challenges looming against these groups. The farmers still have trust in them. But as seen from the research findings that absence of other service providers was the major reason for joining the VSLAs. This study recommends that government should put in place a frame work to enable monitoring operation and have direct linkages with the local government so as to enable monitoring their operations and minimize risks associated with them. So as to minimize the challenges posed by these groups have on farmers' income.

## CHAPTER ONE: INTRODUCTION

### 1.1. Background

Agriculture is the major employer of many rural poor in Africa. It employs up to 28% of the world's population by 2018 according to World Bank. It accounts for 48% of the total African population (almost 70% in East Africa) (NEPAD, 2017). In Uganda about 60% population is engaged in agriculture (Uganda web portal). Changing trends and patterns in agriculture, financing of agriculture activities becomes more essential for it to develop. Small holder farmer's access to finance and benefits that come along with it have always been one major problem for them. This is due to various reasons including inaccessibility of finance, lack of collateral among demanded by the microfinance institutions (MFIs) among others. There is also a gap between the products that MFIs can offer and those that are needed by the poor (Allen, 2006). Since MFIs have not fully solved the financial problems of the small holder farmers, smallholder farmers who in most cases are the rural poor have tried to solve these problems. Through groups functioning in villages across Sub-Saharan Africa (CARE State-of-the-sector, 2011) known as Village savings and loans associations (VSLAs) are a simple community-based financial intermediation model (FSD Kenya, 2010). It was pioneered by CARE in 1991 in the Niger (Havnevik, 2015). VSLAs have been adopted in 73 countries across Asia, Africa and Latin America and the Caribbean, and there are over 12 million active members worldwide (Diallo, Giordano, & Simonet, 2017).

According to, (Havnevik, 2015), CARE international introduced VSLAs in Uganda in 1998 starting in the west Nile region, it commenced all over the country in 2006. The primary purpose of a VSLA is to provide simple savings and loan services in rural areas where communities do not have access to formal financial services as a result of their remote location and poor transport networks (Diallo et al., 2017). When the amount of money saved by the membership is sufficient, any of them can borrow from this source and must repay the loan with interest (Allen, 2006). The members of savings groups save together, lend their savings to each other with interest, and share the profits (Panetta, 2010). VSLAs are recognized as a strong model for delivering financial services in rural, remote areas (Mohammed & Boateng-kwakye, 2014). VSLAs being self-managed groups, it therefore implies that membership is voluntary and