

The Impact of Regular Saving Through Village Saving and Loan Associations (VSLAs) on Household Income Levels and Welfare in Bushenyi-Ishaka Municipality, Bushenyi District, Uganda

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ABSTRACT

This study investigates the effect of regular saving through Village Saving and Loan Associations (VSLAs) on household income levels and overall welfare in rural communities. Using a mixed-methods approach, data were collected from 258 VSLA members through structured questionnaires and in-depth interviews to capture both quantitative trends and qualitative insights. The findings indicate that consistent participation in VSLA savings schemes significantly enhances household income, enabling members to engage in better financial planning, support educational needs, manage emergencies, and improve overall welfare. Additionally, savings through VSLAs promote a culture of financial discipline, collective responsibility, and community solidarity. Despite these benefits, seasonal fluctuations in income and unforeseen expenses occasionally hinder consistent saving practices, presenting a challenge to maximizing the potential impact of VSLA participation. Nonetheless, the general perception of VSLA savings among members is overwhelmingly positive, reflecting their recognition of these schemes as vital instruments for economic empowerment and household stability. The study underscores the importance of strengthening VSLA initiatives to further improve financial resilience and well-being in rural households.

INTRODUCTION

Village Saving and Loan Associations (VSLAs) have emerged as critical grassroots financial structures that provide low-income households with opportunities to save, access credit, and manage their financial needs. VSLAs operate on a group-based model where members contribute regular savings into a common fund, from which they can borrow at low-interest rates, and share profits at the end of a savings cycle (Allen & Panetta, 2010). These associations are particularly important in contexts where formal banking services are limited or inaccessible, such as rural and peri-urban areas of developing countries (Ledgerwood, 2013).

Regular saving through VSLAs has been shown to significantly improve household economic resilience. By enabling members to accumulate capital, VSLAs enhance household income levels and support small-scale entrepreneurial activities, thereby contributing to livelihood diversification (Kangave, 2010). Moreover, the habit of saving encourages financial planning and fosters a culture of fiscal responsibility, which can have long-term benefits for household welfare (Harris & Adams, 2012).

VSLAs also play a crucial role in social development. Access to credit through these associations allows households to finance educational expenses, invest in health, and respond effectively to emergencies, such as medical shocks or crop failures, thus reducing vulnerability and improving quality of life (Agan, 2017). Beyond the economic dimension, VSLAs foster social cohesion and collective responsibility among members, which can strengthen community networks and support systems (Allen & Panetta, 2010).

Despite these benefits, challenges remain. Seasonal income fluctuations, repayment defaults, and limited financial literacy among members can constrain the effectiveness of VSLAs (Ledgerwood, 2013). Nevertheless, empirical studies indicate that regular participation in VSLAs consistently leads to positive

outcomes for household welfare, particularly in enhancing income stability, education support, and emergency preparedness (Kangave, 2010; Agan, 2017).

This study specifically examines the impact of regular saving through VSLAs on household welfare in Ishaka Division, aiming to provide empirical evidence on how these grassroots financial structures influence economic and social outcomes for low-income households. By focusing on this local context, the study seeks to inform policy and programmatic interventions that can strengthen financial inclusion and poverty reduction initiatives.

LITERATURE REVIEW

Theoretical Framework

The Sustainable Livelihoods Approach (SLA)

This study is Underpinned by the Sustainable Livelihoods Approach (SLA) that provides a comprehensive framework for understanding how households utilize resources to improve income and well-being, drawing on financial, human, social, physical, and natural capital to sustain and enhance their livelihoods (Chambers & Conway, 1992). Within this framework, Village Savings and Loan Associations (VSLAs) serve as a key mechanism for financial capital accumulation, enabling households to invest in productive assets such as livestock, agricultural inputs, and small businesses, smooth consumption during lean seasons, and meet essential educational and health expenses, thereby strengthening overall welfare in terms of food security, education, health, and psychosocial well-being. Complementing the SLA, social capital theory underscores the role of networks, trust, and reciprocity in fostering collective action (Putnam, 2000). Through VSLAs, households not only gain access to small loans that enhance income-generating potential but also benefit from peer monitoring, mutual accountability, and group solidarity, which encourage consistent saving, minimize default risk, and reinforce household economic resilience.

Household Savings and Investment

Village Savings and Loan Associations (VSLAs) have emerged as key mechanisms for improving household financial outcomes in low-income communities with limited access to formal banking systems. Evidence from randomized controlled trials across Africa shows that participation in VSLAs significantly increases household savings, enhances food security, and promotes investment in productive assets. For example, Karlan, Savonitto, Thuysbaert, and Udry (2016), studying over 5,000 rural participants in Ghana, Malawi, and Uganda, found that VSLA members accumulated more financial reserves, reduced vulnerability to shocks, and invested in agricultural inputs, livestock, and business tools. These findings suggest that VSLAs strengthen household welfare and resilience, especially when integrated with financial literacy programs. Similar outcomes have been documented by Ksoll, Lilleør, Lønborg, and Rasmussen (2016) in Malawi, who observed improved business performance, agricultural productivity, and women's empowerment. Brody et al. (2017), in a meta-analysis, confirmed that savings groups not only increase financial inclusion but also generate spillovers in health, education, and women's decision-making power.

Impact on Income Growth and Welfare Indicators

VSLAs also play a significant role in promoting income growth and welfare outcomes. Ksoll et al. (2016), using a cluster RCT in Mozambique, found that VSLA participation increased household income by 15%, largely through expanded investment in farming, petty trade, and small-scale enterprises. Members also gained improved access to credit, reducing reliance on exploitative informal moneylenders and enhancing consumption smoothing during lean agricultural seasons. These results echo Karlan et al. (2016), who reported strengthened household resilience in multiple African contexts. Beyond income, welfare indicators such as education and healthcare improved, with higher school attendance and greater access to health services among members' households (Ksoll et al., 2016). Brody et al. (2017) further emphasized that women's involvement in VSLAs facilitates resource allocation toward welfare-enhancing priorities, particularly education and health.

Scholars recommend that VSLA models be integrated into national development programs, alongside vocational training and market access interventions, to maximize their developmental impact (World Bank, 2013).

Household Stability and Psychosocial Benefits

Research also highlights the contribution of VSLAs to household stability and psychosocial well-being. Anyango, Esipisu, Opoku, Johnson, Malkamaki, and Musoke (2017), in a multi-country study across Kenya, Uganda, and Tanzania, found that regular saving through VSLAs enhanced household income stability, encouraged disciplined financial management, and reduced reliance on high-interest loans. Access to group-based savings and loans also improved coping mechanisms during emergencies such as illness or crop failure (Ssewamala, Han, & Neilands, 2012). Importantly, members reported psychosocial benefits including greater confidence, optimism, and social cohesion, with women in particular gaining empowerment and increased decision-making authority (Aker, Boumnijel, McClelland, & Tierney, 2016). These findings suggest that VSLAs have both economic and social value, prompting scholars to recommend embedding them within broader financial inclusion policies and ensuring adequate training and supervision (Anyango et al., 2017; Karlan et al., 2016).

Financial Literacy and Enhanced VSLA Outcomes

The role of financial literacy has been identified as a critical factor in amplifying the benefits of VSLAs. Barboni and Agarwal (2018), in India and Uganda, found that VSLA participants with financial training achieved higher incomes, demonstrated disciplined saving behavior, and diversified their income sources. Klinger and Schündeln (2011) similarly reported that financial education reduced risks of over-indebtedness and improved loan management. Beyond economic outcomes, financial literacy enhanced welfare by improving nutrition, housing, and educational opportunities (Barboni & Agarwal, 2018; Anyango et al., 2017). CARE International (2016) recommends that structured, participatory training modules covering budgeting, loan management, and investment planning be systematically integrated into VSLA programs to ensure long-term sustainability and greater welfare impact.

Case Study Evidence from Uganda

In Uganda, several studies demonstrate the practical impact of VSLAs on household livelihoods. Muhumuza and Tumusiime (2020), studying Kabale District, found that VSLA membership improved access to funds for agriculture, small businesses, and education, leading to gradual income growth and improved living standards. These outcomes resonate with regional evidence that VSLAs promote financial resilience and psychosocial empowerment (Karlan et al., 2016; Anyango et al., 2017). The study concluded that VSLAs are sustainable tools for rural development, recommending government mobilization efforts, financial literacy training, and stronger linkages with formal financial institutions.

Long-Term Household Welfare and Resilience

Longitudinal evidence suggests that sustained participation in VSLAs fosters long-term welfare and resilience. Plan International (2023), in a multi-country evaluation across Sub-Saharan Africa, found that households engaged in VSLAs achieved enhanced food security, improved health access, higher school attendance, and increased entrepreneurship. VSLAs also helped households diversify income sources and build resilience against shocks such as illness or crop failure (Anyango et al., 2017; Karlan et al., 2016). Combining VSLAs with financial literacy further amplified these benefits (Barboni & Agarwal, 2018). To strengthen long-term impact, Plan International (2023) recommended scaling up digital VSLA systems, integrating mobile money services, and embedding entrepreneurship training. Such measures enhance accessibility, sustainability, and resilience, positioning VSLAs as powerful community-based tools for poverty reduction.

METHODOLOGY

This study employed a **mixed-method research design**, combining both quantitative and qualitative approaches to provide a comprehensive understanding of the impact of regular saving through Village Saving and Loan

Associations (VSLAs) on household income levels and welfare. The mixed-method approach enabled the triangulation of data, enhancing the validity and reliability of the findings.

Quantitative Data Collection:

Quantitative data were collected from 258 VSLA members using a structured questionnaire. The questionnaire was designed to capture demographic information, saving behaviors, income levels, and perceptions of household welfare. A 5-point Likert scale was used for most items, ranging from 1 (Strongly Disagree) to 5 (Strongly Agree), allowing for the measurement of attitudes and perceptions in a standardized manner. The quantitative approach facilitated statistical analysis of trends, relationships, and differences among respondents, providing empirical evidence on the effect of regular saving on household welfare.

Qualitative Data Collection:

To complement the quantitative findings, qualitative data were collected through semi-structured interviews with key stakeholders, including VSLA leaders, facilitators, and local government officials involved in supporting community savings initiatives. These interviews aimed to explore participants' experiences, challenges, and perspectives regarding VSLA operations, decision-making processes, and the socio-economic impact of regular saving. Qualitative insights helped contextualize the numerical findings, providing depth and understanding of the mechanisms through which VSLAs influence household welfare.

Data Analysis

Quantitative data were analyzed using descriptive statistics (such as means, standard deviations, and frequencies) and inferential statistics where appropriate, to identify patterns and relationships between regular saving and household welfare. Qualitative data were analyzed thematically, with recurring themes and narratives extracted to enrich the interpretation of the quantitative results.

Ethical Considerations

Ethical approval was obtained from the relevant authorities, and all participants provided informed consent. Confidentiality and anonymity were maintained throughout the study, ensuring that individual responses could not be traced back to any participant.

FINDINGS

Quantitative Results

Table 1 presents respondents' levels of agreement on the impact of regular saving through Village Saving and Loan Associations (VSLAs) on household welfare.

Table 1: Regular Saving through VSLAs and Household Welfare (N = 258)

Statement	Mean	Std Dv
I regularly save money in my VSLA group	4.37	0.78
Saving through VSLA has improved my household's income	2.28	0.86
Regular saving has enabled me to plan for my family's needs	4.27	0.85

I am able to pay school fees due to savings from VSLA	4.28	0.93
Savings help me to manage emergencies at household level	4.30	0.82
Saving in VSLA has increased my household's welfar	4.32	0.81

The descriptive statistics indicate that a majority of respondents strongly agree or agree that regular saving through VSLAs positively affects household welfare. Specifically, 51.9% of respondents strongly agreed that they regularly save in their VSLA groups, while 48.8% strongly agreed that VSLA savings improved household income. These high mean scores, ranging from 4.27 to 4.37, alongside relatively low standard deviations, reflect a strong consensus among respondents regarding the benefits of regular saving.

The findings suggest that regular saving enables households to enhance financial stability and meet essential needs. For example, a mean score of 4.28 for the statement on paying school fees indicates that VSLA savings contribute directly to educational support, which aligns with prior research highlighting the role of community savings schemes in promoting human capital development (Copestake, 2007; Robinson, 2001). Similarly, the mean score of 4.30 for managing emergencies reflects the capacity of VSLA participation to buffer households against financial shocks, consistent with studies showing that informal financial groups improve resilience among low-income households (Gash, 2008; Lwanga & Mugume, 2019).

Overall, the quantitative results demonstrate that regular saving through VSLAs is widely perceived by members as a mechanism that strengthens household income, promotes effective financial planning, facilitates access to education, and enhances the overall welfare of participating households. These outcomes underscore the importance of supporting and expanding VSLA programs as a strategy for improving community-level financial security and household wellbeing.

Qualitative Insights

Interviews conducted with VSLA leaders, facilitators, and local officials corroborated the quantitative findings, highlighting the significant impact of regular saving on household welfare. A VSLA leader from Ishaka Division explained the personal benefits he has experienced:

“I save weekly without fail. It has become part of my routine. Since I joined the VSLA, I’ve been able to pay my children’s school fees without borrowing from friends.”

This statement underscores how consistent saving not only increases household income but also reduces reliance on external borrowing, fostering greater financial stability. Similarly, a VSLA facilitator emphasized the broader transformative effects of systematic saving on members’ economic behavior:

“Before joining, many members lived hand to mouth. But regular savings have helped them plan and allocate resources better, leading to improved income and spending discipline.”

The facilitator’s observation highlights how VSLAs promote not just income growth but also financial literacy and resource management, contributing to long-term household welfare.

Despite these positive outcomes, challenges remain. Seasonal fluctuations in income, particularly during planting periods or school fee payments, can hinder members’ ability to save consistently. A local government official noted:

“Although the idea of saving is embraced, some members struggle during planting seasons or when children return to school. Their income is seasonal, so consistency in saving becomes hard.”

This indicates that while VSLAs encourage a culture of saving, external economic pressures can affect members’ regular contributions, underscoring the need for strategies that account for seasonal income variability.

Nevertheless, the long-term benefits and lessons in financial discipline are widely recognized by members. One male VSLA leader reflected:

“Saving, even in small amounts, has taught us financial discipline. It’s the reason I now sleep peacefully knowing I can handle emergencies.”

Such testimonials illustrate that beyond immediate monetary gains, VSLAs instill crucial skills in financial planning, emergency preparedness, and household management, reinforcing their role as a sustainable tool for improving welfare.

DISCUSSION

The findings of this study demonstrate that regular saving through Village Saving and Loan Associations (VSLAs) significantly enhances household income and overall welfare. The high levels of agreement in quantitative responses indicate that VSLA savings contribute to improved financial planning, the ability to meet educational expenses, and the creation of buffers against emergencies. This aligns with prior studies which argue that VSLAs serve as a critical grassroots mechanism for poverty alleviation by promoting financial inclusion, especially in rural and low-income settings (Ksoll, Lilleør, Lønborg, & Rasmussen, 2016; Karlan et al., 2017).

Qualitative data further illuminate the underlying mechanisms behind these outcomes. Respondents highlighted how regular saving fosters financial discipline, encourages forward-looking planning, and strengthens resource allocation within households. This finding resonates with Allen and Panetta (2010), who contend that the group-based nature of VSLAs not only facilitates access to financial services but also nurtures a culture of accountability and collective responsibility. Moreover, the capacity to finance children’s education without resorting to informal borrowing illustrates the intergenerational benefits of VSLA participation, supporting arguments by Anyango, Esipisu, Opoku, Johnson, and Sharma (2007) that VSLAs enhance both short-term financial resilience and long-term human capital development.

Nonetheless, the results also underscore the persistent challenge of seasonal income fluctuations, which affect members’ ability to save consistently. Similar observations have been made by Gash and Odell (2013), who emphasize that while VSLAs promote resilience, irregular income streams in agrarian and informal economies can undermine saving regularity. This calls for adaptive saving strategies—such as flexible contribution schedules, diversified income-generating activities, and financial literacy training—to ensure that households sustain participation even during lean seasons (Stevenson & St-Onge, 2005).

Overall, the findings suggest that VSLAs are more than financial mechanisms; they act as platforms for social cohesion, empowerment, and collective problem-solving. By embedding financial practices within community structures, VSLAs strengthen both economic and social welfare, making them a vital tool for local development and poverty reduction in contexts such as Ishaka Division and beyond.

CONCLUSION

Regular saving in Village Saving and Loan Associations (VSLAs) plays a critical role in strengthening household income, welfare, and financial security, particularly for low-income communities that often lack access to formal financial institutions. The evidence from both quantitative and qualitative data in this study consistently demonstrates that members who engage in regular saving benefit from improved financial planning, enhanced ability to meet educational expenses, better preparedness for emergencies, and greater overall welfare. These findings align with earlier research that positions VSLAs as important grassroots mechanisms for poverty alleviation and socio-economic empowerment (Allen & Staehle, 2019; Ksoll et al., 2016).

Despite these positive outcomes, the study acknowledges persistent challenges, notably seasonal income fluctuations that affect the consistency of savings. Such irregularities underscore the need for adaptive saving

strategies, income diversification, and stronger institutional support to sustain the benefits of VSLAs over time (Anyango et al., 2007). Nevertheless, the long-term advantages of cultivating a saving culture—ranging from enhanced resilience to financial shocks to improved intergenerational opportunities—are undeniable.

Overall, this study reaffirms that VSLAs are not merely financial platforms but also social safety nets that promote solidarity, discipline, and empowerment among members. Encouraging broader participation, improving financial literacy, and integrating VSLAs with complementary development initiatives can further amplify their impact. Future research could explore innovative approaches to mitigate seasonal challenges, strengthen linkages with formal financial institutions, and assess the broader community-level impacts of regular saving through VSLAs.

RECOMMENDATIONS

Strengthen Financial Literacy Programs: VSLA members should be supported with continuous financial literacy training to enhance knowledge of budgeting, savings management, and responsible borrowing. Such training can empower members to make informed financial decisions, ensure consistent saving practices, and reduce the risk of over-indebtedness.

Capacity Building for VSLA Leaders and Facilitators: VSLA leaders and facilitators should receive targeted training in group management, record-keeping, and financial planning. This will help improve accountability, build trust among members, and sustain the long-term success of the groups.

Flexible Saving Models to Address Seasonal Income Variations: Policymakers and facilitators should design flexible saving schemes that accommodate members whose incomes fluctuate seasonally, particularly in agrarian communities. For example, allowing lump-sum contributions during peak seasons can help ensure consistent savings without overburdening members during low-income periods.

Linkages with Formal Financial Institutions: VSLAs should be connected with microfinance institutions and banks to expand access to larger loans, insurance services, and secure savings options. This linkage can reduce risks associated with keeping large amounts of cash within groups and help members scale up economic activities.

Community Awareness and Sensitization Campaigns: Local governments, NGOs, and facilitators should conduct community sensitization campaigns to highlight the long-term benefits of saving culture, financial discipline, and collective investment. Such campaigns can encourage non-members to join VSLAs, broaden financial inclusion, and reduce reliance on exploitative moneylenders.

Policy Support and Institutionalization of VSLAs: Government agencies should integrate VSLAs into local development policies by providing regulatory support, technical guidance, and financial incentives. Institutionalizing VSLAs as part of community development frameworks can enhance their sustainability and impact on household welfare.

Encourage Diversification of Income-Generating Activities: Training and support should be extended to members to diversify into small businesses, agriculture value addition, and other income-generating ventures. This ensures that members have multiple income streams to sustain savings, especially during economic shocks.

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