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PROSPECTS FOR VILLAGE BANKING IN OKERE

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Introduction: What is a Village Bank?

Because rural dwellers find themselves enmeshed in conditions and situations that make them unbankable – such as – not possessing the required paperwork to access credit from a bank and/or not having any assets to place as collateral at all; remoteness that makes financial services inaccessible, among others, village banking offers a unique opportunity to facilitate rural development processes. In practice, village banking can be a livelihood and an economic empowerment programme implemented by an organization (could be NGO, formal bank, cooperative society, etc.) that has a component of advancing financial and business development services like offering soft credit, promoting savings, providing mentorship, business coaching and other forms of entrepreneurial support to their rural clients and members.

A Village Bank can therefore run Voluntary Savings and Loan Associations (VSLAs) activities and offer microloans to their members and/or clients. It is important to note that a Village Bank can advance to become a big Microfinance Institution and subsequently a commercial bank if they meet the minimum standards as spelt out in legal and fiscal requirements of that particular country. In basic terms, a Village Bank is semi-formal and self-sustaining financial institution which creates access to basic banking services to village members on a sustainable basis³. Therefore, whilst a Village Bank can be supported by other development state and non-state actors, it must be able to self-sustain and operate normally over time.

A Village Bank is one of the institutions that can play a pivotal role in ensuring access to financial services in remote and rural areas. This is because access to financial services is critical in the social and economic life of any individual, yet many are still excluded due to their gender, race, ethnic background, disability, locality, and economic status. It is estimated that 15% of the Ugandan population are financially excluded even though there is evidence that low-income and financially excluded populations have active financial lives and need a broad range of financial services to take advantage of economic opportunities⁴.

Whilst this paper provides an important analysis of the prospects for village banking in Okere village in Northern Uganda, it also provides an understanding of the general concept of village banking and how it can be used as a tool to facilitate rural development process and advance social justice. The paper highlights the paradoxes of financial exclusion in rural Northern Uganda and what has been done – especially by post-conflict reconstruction non-state actors

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³ Nigrini, M (2001) “Empowering poor rural villages through the provision of financial services by means of financial service cooperatives: A preliminary investigation into Financial Service Cooperatives in South Africa”, International Jubilee Conference of the Economic Society of South Africa, 13-14 September 2001, Glenburn Lodge.

⁴ National Financial Inclusion Strategy 2017-2022, *Ugandan Ministry of Finance, Planning and Economic Development*

to avert the challenge. The paper also identifies some ingredients of village banking and how they can be operationalized in a rural context.

Fighting Financial Exclusion in Okere through VSLA Activities

Okere, a typical village in Otuke District, Northern Uganda is severely unserved by financial institutions and even mobile money banking services. For instance, only 5% of the population of Okere parish own a bank account. Thus, the majority do not enjoy benefits offered by traditional banking such as access to credit. To avert this predicament, community members have resorted to Voluntary Saving and Loan Association (VSLA) activities. In fact, up to 97% of the adult population in the village are somehow associated with a VSLA commonly known as *boli-cap* in the local Leb Lango dialect. As part of post-conflict reconstruction in Northern Uganda after the LRA VSLA was promoted by most NGOs as a livelihood strengthening and intervention alternative. Because the concept based on a traditional social protection initiative in the Lango sub-region known as *can poto atura*, VSLA was adopted and is widely being practiced. With NGOs gone, the project still continues to be supported by local politicians who also see and use the groups as tools for political mobilisation (especially shortly before or during elections).

As part of Okere City's fighting inclusion promotion, a VLSA group was started in September 2019. Just in five months (until Feb 2020 before the COVID-19 pandemic), the group had grown in membership and financial portfolio and significantly improved its level of organization. For instance, during just one of the VSLA meetings held in December 2019, members contributed a total of 310,000 UGX. Three members of the group each borrowed 100,000 UGX from the collected savings. They then paid back the loan after a period of 2 months with a 2% interest rate. To borrow a loan a member expresses his/her interest a week prior and also commits an asset — usually a bicycle, cow or goat as collateral in case of default. One of the borrowers that day, Mrs. Akullo Juliet wanted more capital to boost her small agri-business during the festive season. According to her, being part of the investment club has been an important source of economic strength since she can now have access to the much needed capital to boost her business. *"I am now more confident about my future because I have access to a small loan to inject into my business", she said. "The first loan I got enabled me to start the business. This one will help me boost it", Juliet continued.*

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The success of VSLA activities provide unique lessons and opportunities that could be harnessed for village banking. Besides, VSLA activities could be one of the projects that can fall directly under the docket of a village banking project.

Mobile Money Operations in Okere: Challenges and Opportunities

Whilst 88% of the members of Okere Investment VSLA association own and/or have access to a mobile phone with registered access to mobile money services, all of them consider finding mobile money agents as a big barrier to their use of the service. In fact, members in the village have to travel for a distance of not less than 5KMs to the nearest trading centre or wait for a period of up to one week for the Pat Oali Market day to do mobile money transactions. This challenge is further exacerbated by the fact that the available mobile money often agents do not have enough float to facilitate transactions above 200,000 UGX. This provides a unique opportunity for a village bank. A village bank should thus include mobile money services as part of its financial inclusion agenda.

Membership, Governance and Operation of a Village Bank

a. Shareholding in a Village Bank

A village bank is owned, financed, and managed by the community themselves who would be shareholders. Shareholding is a crucial component of village banking because it allows for easy acquisition of accounts by new members⁵. A member of a village bank is usually required to purchase a minimum of one share with no gate keeping in the determination of ownership according to income, job, disability, or gender for example. Shareholding qualifies each person the right to vote for a board of management that would be responsible for the recruitment of an administrator and any other essential staff.

b. Board management of a Village Bank

The board is supposed to, among others, be responsible for determining the balance between cash and cash deposits, approval of loans, setting of fees and compiling of annual accounts⁶. In principle, the governance of a village bank is to be democratic and participatory. A member should not be restricted on the number of shares he/she buys although he/she would be having only one voting right irrespective of the number of shares he/she has. The board of a village bank must be subject to the scrutiny of the shareholders through an annual general meeting, and an extraordinary meeting can be called by a quorum of shareholders. The oversight offered by the village bank membership, participation in Board selection, decision-making and account approval is important both to village bank function and member financial security. Members of a village bank may also decide to enlist the services of experts to act in honorary roles pertaining to the provision of technical advice in aspects such as financial and programme management, among others.

⁵ Nigrini (2001)

⁶ Ibid

c. Charging Fees and interest rates in a Village Bank

For sustainability purposes, it is important that the village bank levies small fees on some services such as withdrawals and service fees. This, for example, can cover the salary of an administrator, any other staff and to ensure the smooth day to day running of the bank. The village bank can also advance loans to its members and charge an interest rate that is agreed upon by its members. The advantage of a village loan is that it is *patient* capital. This means that the interest rate should not be high and the repayment terms and conditions must be bearable for the members.

d. Constitutional arrangements in a Village Bank

As a community bank owned by the people in a village, it is important for a village bank to have a genuine and well-functioning constitution. This constitution must allow for the input of all the members at the onset of the bank. The constitution of the village bank must be properly understood by the members and must be in both English and the local language. All efforts must be made by the leaders of the bank to clarify to the dot, the constitution of the village bank and every subsequent new member of the bank must be properly introduced to the contents of the bank's constitution. Whilst the process of formulating the constitution must be participatory and inclusive, technical insights can always be sought from different experts in the field.

e. Accessing financing from a Village Bank

To have an account in a village bank, each member must buy at least a share, from there s/he can proceed to make more savings and acquire other financial services. There would be no requirement though for the members' group such as VSLA to buy a share in order to have an account since members who are formed in such groups would already be having shares with the bank. It is important for a village bank to save some money with a bigger commercial bank to ensure better safety of the member's fund. This must however be done transparently with the agreement of members. It is also important to note that individual members of a village bank should be able to access their savings at any time they want to⁷. However, individuals or groups that may need to withdraw very large sums of money may need to give the village bank prior notice. Members of the village bank may receive credit from the bank once their savings are mobilized by the bank for a while.

f. Collateral security options for a Village Bank

Because many people in the village are poor, it is important for the village bank to be careful and innovative when considering loans for them; the village bank for example can help in mobilizing, training and assisting farmers to formalize their lands, for those that have land to be used as collateral. A village bank may also organize the villagers, train and help them in pulling their often very small resources to own as a group, a more valuable asset that can be used as a collateral but also for their increased communal mass production. For tiny micro loans, the village bank may use the group as a security where pressure from the group members forces a borrower to pay the micro loan. A village bank and its staff should however take critical care and view members as clients rather than bank owners when dealing with them in the dispensation

⁷ Jones, G.A and Dallimore, A. (2009) Wither participatory banking? Experiences with village banks in South Africa, *European Journal of Development Research*, 21 (3), pp. 344-361

of financial services, nonetheless, appropriate respect and courtesy must be accorded to the members⁸

g. Financial safety and sustainability of a Village Bank

For further safety and sustainability of the bank, it's important for a village bank to set aside some agreed percentage of funds as a reserve with a reputable commercial bank. This preferably should be in hard currencies such as US dollars and or Euros if possible, the bank should buy gold as a portion of its reserve. Gold is important because it does not lose value in most cases. In the same vein, some percentage of the funds must be invested in the near liquid risk-free investments such treasury bills and bonds. The technocrats should be able to explain this properly to the board and the members. A good portion of the net return to investment should be paid to members as dividends and other portions re-invested into the near liquid risk-free investments.

h. Auditing and insuring a Village Bank

Mechanisms should be put in place to ensure that a village bank is properly and regularly audited for purposes of transparency to entrench public trust in the management of the bank. Insurance must be made part and parcel of the above measures to ensure for strict safety and sustainability of the village bank, the Board, managers and the members must agree on a suitable insurance firm and ensure that the bank, members savings, borrowings, staff and the equipment of the bank are all insured against any potential risk. Since the motive of establishing a village bank goes beyond encouraging saving by the members, the members of the village bank could also take advantage of the fact that they are being united by the bank to take up group insurance which goes a long way in mitigating risks that come along their individual lives, thus, a great source of personal development.

i. Digital banking alternatives for Village Banks

Cognizance of the importance of mobile technology in financial inclusion of the rural people and its contribution to the bank's efficiency, it is important for the management of the village bank to explore appropriate ways in which mobile technology can be integrated in the operation of the village bank. Integration of mobile technology helps for example in flexibility which saves time and money. A village bank should strive to make mobile money transactions a part and parcel of its operations. However, because most people in rural parts of Uganda do not have smart phones with internet access, it would be prudent for a village bank to offer SMS services to their members. For instance, providing regular updates, mobilising for meetings, balance inquiry, among others.

j. Ensuring physical Security of a Village Bank

A village bank is likely to face security challenges if security issues are not foreseen and adequate measures put in place. With high levels of poverty both in rural areas and urban centres in a poor country such as Uganda, bank robbery and theft is very likely in a rural setting and this can easily lead to the closure of the bank. It is therefore necessary for the management to make sure that adequate provisions are always made for armed and well-trained security

⁸ Fiebig, M., Hannig, A. and Wisniwski, S. (2002) Savings in the Context of Microfinance: State of Knowledge. Financial Systems Development and Banking Services. Eschborn, Germany: *Deutsche Gesellschaft fur Technische Zusammenarbeit*.

men and women to guard the village bank. The armed security men and women should be well remunerated and motivated.

The management of the village bank must ensure that physical security measures are observed all the time in all surroundings and offices of the bank. Intruder alarm system must be installed to alert the security officers whenever someone enters the area. Access to doors, windows and ceilings must be properly checked. The use of security cameras (CCTV) must be well positioned at vantage points and should be well monitored by staff and security personnel of the bank.

k. Ensuring the cybersecurity of a village bank

But a village bank is also very highly susceptible to cyber, data and computer crimes. There can be attacks on the village bank's computer system from an outsider or insider of the bank. When an insider or outsider attempts to access the village bank's network unlawfully with intent to copy file and steal data, they have the tendency to destroy the bank's important information and can cause havoc to the bank. Maximum efforts must be made to keep the passwords of the village bank secure and not share it with every employee of the bank. It is also important to keep updating them from time to time and ensuring that they cannot easily be guessed. Data integrity can be altered by tampering the database tables. The hackers do so to ensure that the data can be accessed through the network before being transmitted to their destination. The attacker may also take advantage of his relationship with the village bank staff to gain access to the system and cause serious harm.

There may also be attacks on the bank's computer system if external devices such as flash disks are freely allowed by anybody in the village bank's computers. These removable devices can cause harm to the bank's files. If deemed appropriate by the bank's management, a bank may adopt a policy to disable all removable media storage to avoid being infected by the viruses.

The computer system of the village bank may also be at risk of damage due to poor power supply; therefore, it is important for a village bank to get strong generators to support its electrical system. UPS (Uninterrupted Power Supply) must be installed in each computer in the village bank to ensure stability in power supply to computers. When power is lost, intruders take advantages to get immediate access to the system particularly through the network to the database.

It is important for village bank management to ensure that there is regular maintenance of the bank's computer system by upgrading the memories, hard drives or formatting the operating system. Efforts must be made by the management to ensure that there are good servers with activated operating systems, making sure that data bases are secure, updating the antivirus periodically, putting in place well configured and active firewall and labelling components and critical cables among others.

l. Conflict Management in a Village Bank

In conflict management, any dispute can first be raised with the administrator who may settle it, if it is within his/her capacity however if he can't settle it, then he/she can refer it for the board to help in the settlement. Religious leaders and cultural leaders may also be called in to help in conflict management of the members of the village bank depending on the nature of the conflict. The constitution should properly be followed in the settlement of dispute especially if conflict could have risen because of the breach of the constitution. Where all the above fails, the civil courts may be approached to help in the settlement of conflict. But care must be taken as much

as possible to resolve the conflict internally to preserve the image of the bank and its members. Members of the village bank should always be keen to identify and settle conflict at its very onset. It is imperative for the members and the management of the village bank to ensure that conflicts are prevented through transparency, adherence to the constitution, fairness in all forms and utmost respect to the individual members, staff and the board.

The Role of a Village Bank for Rural Development

Promoting a culture of savings: Through its proximity and unique way of operation, a village bank provides a very important avenue for the village people to save. Members of the village bank may save their money as individuals or as groups of individuals. For example, the members may be in their different VSLA groups commonly known among the Langi of Northern Uganda as *Boli cap* or different burial societies commonly known among the Langi as *Can apoto atura*, these smaller groups among the members can save their money with the village banks. These savings mobilized can help the individual members to cater for emergency, acquisition of assets and for investment into small businesses. The resultant augmentation of their savings, asset growth and investment in the presence of a bank in their midst automatically pull these rural folks to financial inclusion, a very important conduit for development.

Fostering Social and community cohesion: Regular meetings by members of the village bank and their participation in other smaller group meetings linked to the village bank foster social inclusion which in turn develops social capital which is a very important vehicle to personal and community development. Furthermore, the structures developed through the various smaller groups in the village that feeds into the village bank provide channels that can be used by the government and Civil Society Organizations to address development concerns like family planning, nutrition, maternal health, environmental conservation, land rights, agricultural development and prevention of gender based violence.

Access to cheap and affordable credit: Village bank offers low cost, innovative and easily accessible credits to their members considering their lack of, inadequate and often un-formalized assets like lands. This highly bridges their access to credits since other conventional commercial banks often far away from them, in most cases denying them credits because their repayments are assumed to be uncertain and risky.

Averting risks through insurance: A village bank facilitates the promotion and development of micro insurance, including community health insurance through the structure thread of its members and its effect in mobilization of savings of its members that from them, a tiny portion can be used for insurance hence, strengthening their resilience to shocks and strains against their small businesses, harvests, health and other circumstances that may put them in vulnerable situations.

Promoting agricultural development: Agricultural development is inalienable in rural development. Agricultural mechanization boosts production, accelerates forward and backward linkages, improves post-harvest handling and optimizes quality of agricultural products. Quality inputs and proper access to valid agricultural information and marketing are all important factors for agricultural development. But all these need money! A village bank therefore comes in handy to fill this gap, thus spurring rural development.

Rural infrastructural development is likely to evolve with the presence of a village bank in a village. With the presence of a village bank, market for the local products is likely to increase

due to the increased influx of people in the area, transport services boom and there is increased related activities. This eventually attracts the government to extend infrastructure such as electricity, improvement of roads, security and water among others in such an area. The availability of infrastructure such as electricity promotes the development of non-agricultural activities such as cottage industries, and the mix leads to faster growth and development of the place.

Village Banking as a Tool for Gender Equality Promotion

Village banks play important roles in the promotion of gender equality. It provides a lifeline in which women can save, access credits and other financial services. This highly contributes to their economic empowerment. Women economic empowerment improves their self-esteem and bargaining power within the household, increases their mobility and exposes them to new ideas. The financial inclusion of rural women through village banks may reduce gender based violence in some households since their partners would value them more as they bring in cash that puts bread on the table in addition to helping in other family expenditures such as school fees and increase in assets.

However, this is not true in many households in the developing world as many men would like to control whatever income brought in by their wives in their households and if they resist, it may result in gender based violence. It is therefore important to address wider societal challenges that put women at a disadvantage such as low level of education among women and girls, low political participation of women and their inadequate access to justice⁹. A village bank must therefore integrate gender mainstreaming in all its programmes and continue to sensitize the men about gender equality. This is particularly critical in rural Uganda where patriarchy is deeply rooted and is a significant cause of various forms of injustices against women.

Conclusion

This article has demonstrated that a Village Bank as potential to spark agrarian reforms and rural transformation in various ways, such as; promoting access to cheap credit which facilitates entrepreneurship and local economic development, promoting rural infrastructural development and fostering community solidarity and social cohesion. The article situated the debate of Village Banking within the geographical context of Okere, a deeply remote rural village in Northern Uganda to demonstrate that all development actors interested in running a village banking programme must invest time and resources to conduct research and fully understand different aspects that could enable and/or disable the operations of a village bank. The debate and suggestions generated in this paper are not conclusive but they only offer critical points of reflections that could make a village banking project successful.

⁹ L. McDougal, J. Klugman, N. Dehingia, A. Trivedi, A. Raj (2019). Financial inclusion and intimate partner violence: What does the evidence suggest? <https://doi.org/10.1371/journal.pone.0223721>