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**Impact of savings groups on the lives of the poor**

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**Savings-led microfinance programs operate in poor rural communities in developing countries to establish groups that save and then lend out the accumulated savings to each other. Nonprofit organizations train villagers to create and lead these groups. In a clustered randomized evaluation spanning three African countries (Ghana, Malawi, and Uganda), we find that the promotion of these community-based microfinance groups leads to an improvement in household business outcomes and women's empowerment. However, we do not find evidence of impacts on average consumption or other livelihoods.**

savings | microfinance | rural development | resilience | empowerment

**T**he poor make complex financial decisions and use the limited range of financial instruments available to them to address their varying needs. The available formal and informal tools, however, are often risky and expensive or lack necessary flexibilities (1). The quest to improve access to appropriate financial services for poor households has traditionally focused on providing credit via formal alternatives to informal moneylenders. The most relevant example is the growth of the Grameen microcredit model developed by Muhammad Yunus.

However, the limited participation and geographic reach of microcredit institutions, especially among the rural poor, have shifted efforts into expanding access to savings. A growing impact literature on microcredit and microsavings shows strong welfare impacts of the latter type of program, suggesting that they might have more transformative impacts than credit programs as currently typically implemented (2, 3).

In parallel to the development of microcredit and microsavings products for the poor, many nongovernmental organizations (NGOs) have begun promoting informal savings-led microfinance groups that emulate and improve on the model of informal associations indigenous to many societies (often called Rotating Savings and Credit Associations (ROSCAs)). Although often implemented as a stand-alone program, these savings groups are also often a component within multifaceted programs (4). The appeal of the savings-led microfinance approach is shown by the growth of these groups, which now reach over 30 million people in more than 70 countries<sup>5</sup> after only a few years of significant expansion efforts. Many actors, including international donors, such as the Bill and Melinda Gates Foundation<sup>6</sup> and nongovernmental organizations<sup>7</sup> have pushed to create and expand such groups, viewing them as a grassroots and low-cost mechanism to provide (albeit informally) financial services to the poor. Similarly, the Andhra Pradesh Government in India promoted a savings group model (Village) as an alternative to formal microcredit during a crisis in 2010 (5). The model, which is being explored by many NGOs, is a type of savings group with the added feature of explicit intentions to link groups to formal sector banks for credit after they mature enough (e.g., Plan and CARE (Cooperatives for Assistance and Relief Everywhere) have partnered with Rotas for this purpose) (6).

Savings-led microfinance groups vary depending on the implementing organization and the context; however, the basic features follow the Village Savings and Loan Association (VSLA) model developed in the early 1990s in Mali by CARE, one of the leading promoters of these groups and the main partner in this study. The VSLA model was designed as an improvement of the local *tinajas*, a type of savings group where members gather at regular meetings to contribute a fixed amount of money and the total pot is assigned in full to each member in turn. VSLAs adopt the same meeting and contribution structure but introduce flexibility. At each group meeting, members can decide to contribute more than the agreed minimum and can take a loan from the group without having to wait for their preassigned turn. These loans are charged an interest rate, so that the money deposited by group members can earn interest. Savings and loan repayments are kept in a group ledger that can only be opened at group meetings and “absent out” among members at the end of a predefined cycle. A VSLA may have an additional social or solidarity fund, which is an insurance fund managed by the group that can be accessed by members in the form of an interest-free loan or cash grant in case of an emergency. Disbursements for these purposes are assessed and determined by the group. VSLAs do not receive any capital through grants or external loans; the pots simply grow over time as individuals collectively accumulate more savings. We present the results from three randomized, controlled trials of the VSLA program implemented by CARE and its partners in Ghana, Malawi, and Uganda over a period of 22–30 mo.

First, we report evidence on the program's impact across eight outcomes. The growth in financial intermediation resulting from the program led to improved microenterprise outcomes and women's empowerment. The positive impact on female empowerment stands in contrast to the results of six of seven randomized trials on microcredit (3, 7–13). However, when examining stronger treatment effects, much like the microcredit studies, we do not find impacts on typical welfare indicators, such as household income, consumption, food security, asset ownership, or community participation.

**Significance**

We conducted a large randomized evaluation of a widespread microfinance program across three countries. This evaluation provides important evidence on the impact of a popular development intervention on the lives of low-income households in rural communities by looking at its effects on usage of financial services, microenterprise activity, income, female empowerment, consumption, and the ability to cope with shocks.

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We welcome your questions about this submission. Email: [karlan@ipaaction.org](mailto:karlan@ipaaction.org).

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<sup>5</sup>As of the growth of these groups can be accessed at [www.vslagroups.org](http://www.vslagroups.org).

<sup>6</sup>For example, [www.bmgi.org](http://www.bmgi.org).

<sup>7</sup>In 2008, the Bill and Melinda Gates Foundation awarded a grant to CARE “to develop and test a model for savings-led financial services for the poor” ([www.gatesfoundation.org](http://www.gatesfoundation.org)).

<sup>8</sup>For more information on the VSLA model, see [www.vslagroups.org](http://www.vslagroups.org).

Examples are available at [www.vslagroups.org](http://www.vslagroups.org) and [www.vslagroups.org](http://www.vslagroups.org).

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