

Authors

Dean Karlan
Northwestern University

Beniamino Savonitto
International Finance Corporation

Bram Thysbaert
Dutch Development Bank

Christopher Udry
Northwestern University



Impact of savings groups on the lives of the poor

Dean Karlan^{a,b,*}, Beniamino Savonitto^b, Bram Thysbaert^c, and Christopher Udry^a

^aDepartment of Economics, Yale University, New Haven, CT 06511; ^bInnovations for Poverty Action, New Haven, CT 06510; and ^cDepartment of Economics, Brown University, 8000 George Street, Providence, RI 02912

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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.

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The 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 flexibility (1). The quest to improve access to appropriate financial services for poor households has traditionally focused on providing credit via formal intermediaries to informal households. 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 microsavings and micromining shows strong welfare impacts of the latter type of programs, suggesting that they might have more transformative impacts than credit programs as discussed earlier (2, 3).

In parallel to the development of microcredit and micromining 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: savings clubs to raise savings (John called Rotating Savings and Credit Associations (RSACAs)) although often implemented in a stand-alone program, these savings groups are also often a component within financial programs (4). The approach of the savings-led microfinance groups is driven by the “power of the poor,” which now reach over 30 million people in more than 70 countries¹ after only a few years of significant expansion efforts. Many actors, including international donors, such as the Bill and Melinda Gates Foundation², and nongovernmental organizations³, have pushed to create and expand such groups, viewing them as a grassroots and low-cost alternative to provide a bank-like informal financial services to the poor. Similarly, the MicroSave Project in India is a large promoted a self-help group model (Vidya) in an alternative to formal microcredit during a crisis in 2004 (5). The model, which is being copied 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 (Compassion for Assistance and Relief Everywhere) have partnered with Banks for this purpose).

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 traditions, which were in general of these groups can be seen at tinyurl.com/yd2qzv3.

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 are the most common savings mechanism used by informal intermediaries. Although group members can decide to contribute more than the required minimum and can take a loan from the group without having to wait for their designated 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 “shared 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 used 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 pot simply grows 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 evaluate the impact of the program on impact across eight outcome areas. The growth in formal intermediaries resulting from the program led to improved microenterpreneur 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 average 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 savings-led 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, microentrepreneur activity, income, female empowerment, consumption, and the ability to cope with shocks.

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Volume correspondence should be addressed to: Bram Thysbaert, Institute for Economic Research, Maastricht University, P.O. Box 616, 6200 MD Maastricht, The Netherlands (e-mail: bram.thysbaert@unimaas.nl).

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Volume correspondence should be addressed to: Bram Thysbaert, Institute for Economic Research, Maastricht University, P.O. Box 616, 6200 MD Maastricht, The Netherlands (e-mail: bram.thysbaert@unimaas.nl).

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