

Savings-led community finance in Mali and Ghana

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Background

MFIs have been successful at providing financial services to hundreds of thousands of poor people. But outreach to rural areas where the majority of the world's poor are located is still limited. On the supply side, the operational costs to deliver financial services in rural areas are high and the financial stakes are small. On the demand side, the very poor may be reluctant to take on the risk of business loans.

Financial services could allow the rural poor to invest more, build up assets and reduce their vulnerability to shocks. The potential benefits are big. But how can it be realized? The basic observation behind savings-led community finance models is that the poor are not too poor to save. Even the rural poor have income streams that allow them to save small amounts of money. Instead of relying on external finance, savings-led community-finance models attempt to mobilize savings in the community and use the collected funds to finance capital needs. The ambition of community-based finance models is to be an easy to implement, low-cost, flexible and safe mechanism for saving and credit that works even for the very poor.

The model

The model – initially developed by CARE in the early nineties as the Village Savings and Loan (VSL) model – builds on the tradition of rotating saving and credit groups (ROSCAs) that exist in many developing countries but attempts to introduce more flexibility. VSL groups are self-managed groups of about 20-30 women. Participants meet regularly and at each meeting save an amount they committed to at the beginning of the cycle. Unlike ROSCAs where each member receives the collected funds as a lump sum in turn, the VSL groups use the collected funds to make loans to group members. All financial transactions and loan requests are made in front of the whole group and the group collectively decides about the allocation of loans. Loans are repaid with interest which makes the fund grow over time. Typically, loans are small (\$10-50) and are repaid over a period of 1 to 3 months. At the end of the cycle the fund is divided according to each member's share in the savings.

After its initial development, the model has been further refined focusing on transparency, inclusiveness and easy dissemination. To prevent illiteracy from being an obstacle a system of oral record-keeping has been developed. If we take outreach as a measure of success, the program can be called extremely successful. In Mali, for example, Oxfam started Saving for Change (SfC), its version of savings-led community finance, in 2005 and by the end of 2007 the program had reached 72,000 participants. In many villages the participation rate among adult married women is 80% or higher. Besides the apparent demand for the services provided by the program, an important reason for the program's rapid expansion is to be found in its simplicity, which permits groups to form with limited outside support. After the initial formation of a first group by NGO trainers, the group members themselves become trainers of other groups in their village and other villages.

The evaluation projects

Innovations for Poverty Action is conducting two randomized evaluation studies of savings-led community finance programs. The first study is an evaluation of CARE's VSL program. In northern Ghana CARE selected 180 potential VSL villages. Of the 180 villages, 90 villages were randomly selected for implementation of the VSL program. In the 90 remaining villages no VSL groups will be trained by CARE and its partners. In May 2008, a baseline survey of 5400 households has been conducted in the 180 villages. A follow-up survey will be conducted in two years.

The second study is an evaluation of Oxfam's Saving for Change program implemented in partnership with Freedom from Hunger. The study, funded by the Bill and Melinda Gates Foundation, will be conducted in Mali's Ségou region. The evaluation sample consists of 600 villages of which 250 will be randomly selected as treatment villages. In each village 10 households will be surveyed before the start of the implementation and the same households will be interviewed three years later. In addition, a subsample of households will be interviewed at regular intervals during the study period.

Evaluation questions

The fact that savings-led community finance – a simple and low-cost program – can generate such a high demand is intriguing. The research will look at three sets of questions:

1. Outreach: What is the participation rate? Who participates and who doesn't? Does the program reach the poorest and socially least connected women in the community? Through what channels does the program spread within and across villages?
2. Impacts:
 - a. What are the impacts on savings, asset accumulation and income? Does the project cause people to save more or do the savings kept in the savings and loan groups merely replace other forms of savings (grain stocks, animals, tontines, etc)? And do people engage in new income-generating activities?
 - b. Does access to savings and credit services reduce vulnerability? What is the impact on food security and households' ability to cope with health shocks? The high-frequency surveys that will be conducted in Mali will be of particular importance to answer these questions.
 - c. How do the savings and loan groups affect solidarity between women? Do women become more likely to voice their needs? And does the program lead women to take up more active roles in the organization of the community?
3. Cost effectiveness: The Mali study will experiment with different dissemination strategies and compare costs and benefits. This will allow Oxfam and Freedom from Hunger to determine the minimal amount of inputs that's needed to cover a region, without putting program quality at risk.