



ipa
INNOVATIONS FOR
POVERTY ACTION

IMPACT OF VILLAGE SAVINGS AND LOAN ASSOCIATIONS

FINDINGS FROM GHANA, MALAWI AND UGANDA

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Motivation



- Most of the world's poor lack access to formal financial services
 - ▣ According to one World Bank estimate, 2.5 billion people don't have access to formal financial services
- Lack of access to reliable financial services may negatively affect welfare
 - ▣ Economic or health shocks -> severe setbacks
 - ▣ People may be unable to get sufficient capital together to invest in profitable economic activities
- Of course, informal savings tools exist

Motivation



■ Saving at home

Issues:

- Theft
- Social pressure
- Self-control

■ Rotating savings and credit associations (ROSCAs)

- People meet regularly, make contributions and one person takes home the entire pot
 - Safer
 - Commitment feature
- But ROSCAs lack flexibility
 - One pay-out
 - Timing often set at beginning





The intervention

- Village savings and loan associations (VSLA) aim to improve upon ROSCA model
- How do VSLAs work?
 - Around 25 members meet weekly (mostly women)
 - At every meeting members make savings contributions (commitment)
 - Members can take loans and repay with interest, providing interest on savings – loans are typically repaid after 1 to 2 months with 10% interest rate
 - At end of 10 to 12 month cycle, fund is shared out in proportion to contributions
 - Most VSLAs also have a social fund that provides either transfers or interest-free loans to members in need



The intervention

- Main advantages
 - Compared to saving at home
 - Safety
 - Commitment
 - Compared to ROSCAs
 - More flexibility
 - Allows to save up lumps sums and creates pool for risk sharing
 - Cheap in terms of implementation
 - No external capital
 - Training in first cycle – self-reliant afterwards
 - Self-replicating through village agents
- Developed by CARE in 1991 in Niger and has spread to 58 countries with 6 million participants – mostly in Africa but also in Asia and Latin America

The intervention



The intervention



Theory of change



The hypotheses we test:

- **H1:** If VSLAs meet unmet demand for financial services, the intervention will increase financial *savings* and the use of *credit*
- **H2:** Through access to loans and the social fund, members will be able to cope better with unforeseen *shocks* and improve food security
- **H3:** Through loans and share-outs, VSLAs will spur *investment* in livestock, agriculture, small businesses and human capital
- **H4:** Participation in VSLAs renders women more *powerful* within the household and increases their involvement and influence within their communities
- **H5:** In the long run, VSLAs increase consumption levels and reduce *poverty*

The evaluation



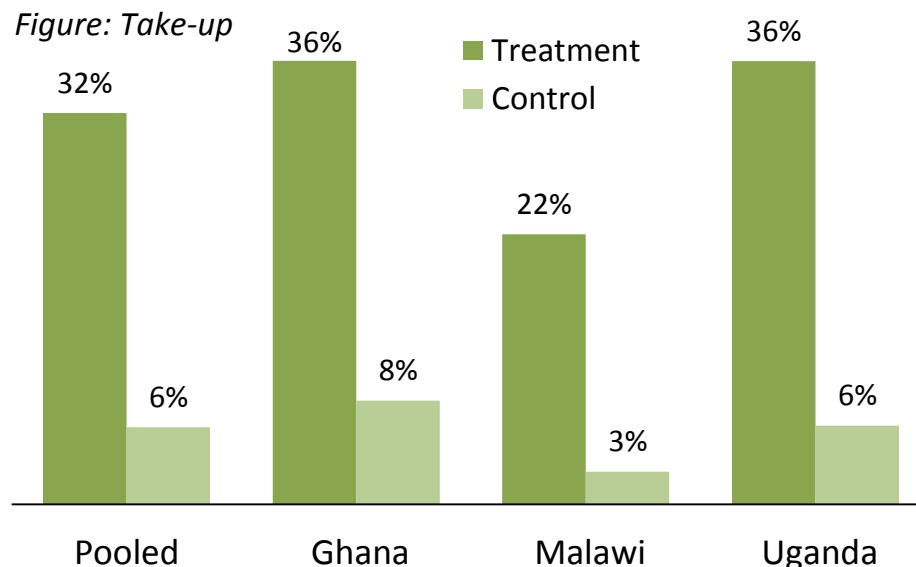
- IPA is conducting large-scale, randomized evaluations of VSLAs in four countries to investigate impacts on households
 - Uganda, Malawi and Ghana with CARE
 - Mali with Oxfam (Saving for Change)
- Focus here is on Uganda, Malawi and Ghana
 - Analysis for Mali still underway – results soon!
- Since implementation is at the village level, so is the randomization (or cluster of villages)
- Two rounds of household surveys
 - Baseline survey in 2008 in Ghana and in 2009 in Malawi and Uganda
 - Endline surveys in first half of 2011
 - Information on health, education, income-generating activities, consumption, use of financial tools, social capital, etc.
- Sample of over 15,000 households in almost 950 rural villages



Take-up

- What percentage of women join a VSLA?
- 2 to 3 years after baseline
 - 32% joined a VSLA in treatment villages
 - 6% in control villages
 - Very similar in Uganda and Ghana - lower take-up in Malawi

- More likely to join are women
 - From wealthier households
 - With small businesses (at baseline)
 - With prior access to savings and credit





Use of VSLAs

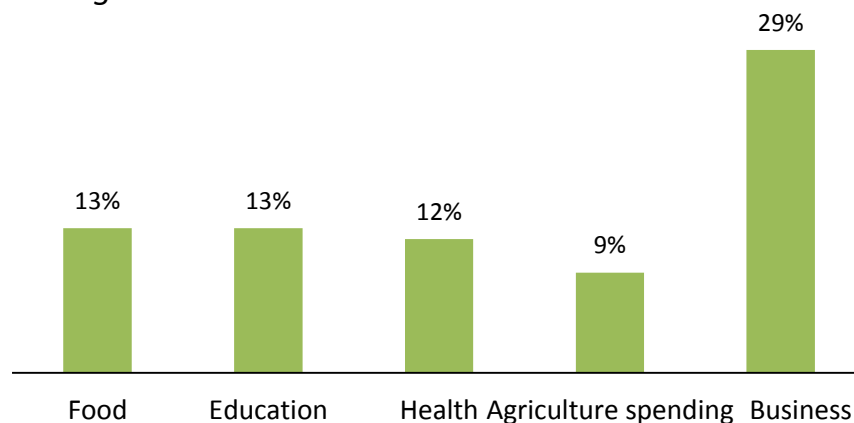
■ Savings contributions

- Typically between \$0.5 to \$1 per week
- Median of \$0.66

■ Credit

- At endline, 68% of members had taken a VSLA loan
- Median loan size is about \$20
- Most frequent uses are small businesses, food, education, health and agriculture

Figure: Loan uses



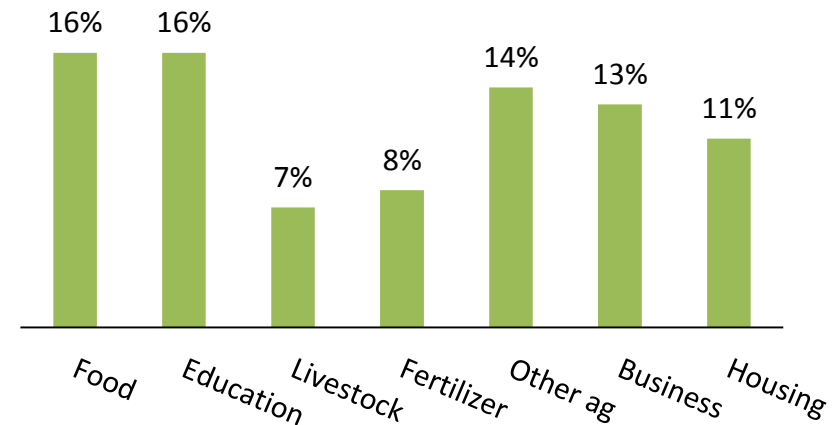
Use of VSLAs



■ Share-out

- Share-outs are typically \$30 to \$50
- Most frequent uses for the VSLA loans are small businesses, food, agriculture and education

Figure: Share-out uses

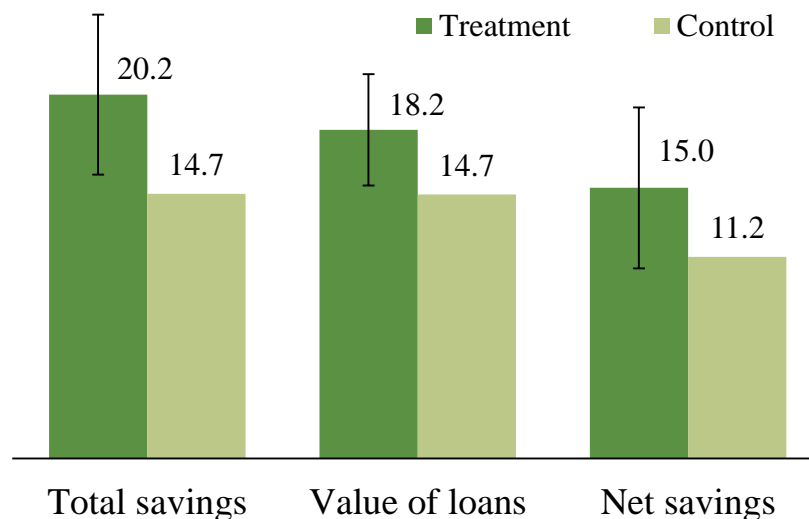




H1: Financial management

- Savings
 - Increase in total financial savings
- Loans
 - Respondents in treatment areas report take more loans
 - Total amount borrowed increases
 - Some substitution away from other lending sources (formal, family and friends)

Figure: Impacts on Financial Management



Evidence supports hypothesis that VSLAs meet previously unmet demand for savings and credit services



H2: Shocks

- Reactions to shocks
 - Households in treatment areas are somewhat
 - more likely to use loans from savings groups to cope with shocks
 - less likely to sell assets, livestock or crops to deal with health shocks
 - But effects are small (<2 percentage points)
- Recovery from shocks
 - We don't see impacts
- Food security
 - We see slight improvement in food security for adults

H3: Income-generating activities and investment



- Agriculture
 - We don't see effects on agricultural input usage
- Businesses
 - Increase in likelihood of running a business for women (from 18% in control to 20% in treatment)
 - Income from businesses also increases
- Animal holdings and household assets
 - We don't see impacts
- Human capital
 - Non-robust evidence that school enrollment increases
 - Should be considered suggestive

H4: Intra-household decision making and social capital



- Intra-household decision making
 - Women in treatment villages are more likely to report having influence in household decision making
- Social capital
 - We don't see impacts on our measures of
 - Community participation: participation in groups, attend village meetings, etc.
 - Political empowerment: feel people can change things, feel women should be involved in village decision making, etc
 - Collective action: time spent on community work



H5: Consumption and poverty

- Do VSLAs increase food and non-food consumption and reduce poverty?
- We don't detect effects on
 - Food consumption
 - Non-food expenditures
 - Poverty score (PPI)

Conclusion



- Popular program
 - Relatively high take-up
 - Program is spreading to control communities
- We find support for some of short run effects predicted by our theory of change
 - Increase in financial savings and use of credit
 - Business development
 - Increased household decision making
- We do not detect impacts on
 - Asset accumulation
 - Ultimate welfare outcomes
- Evaluation is relatively short term - we cannot exclude that effects will materialize in the longer run
 - In Mali study, exposure to VSLA is longer on average. Results soon!

Take-away



■ Two readings

■ Pessimistic

- We don't see welfare impacts
- Let's look for something else

■ Optimistic

- Popular program
- Not revolutionizing lives
- But small changes
- Given that program is cheap, that's good enough