Evidence on Child and Youth Savings

Programs promoting financial literacy and savings among children and youth have the potential to effectively promote financial inclusion over participants' lifetimes. Since 2009, Innovations for Poverty Action (IPA) has conducted randomized evaluations of three programs that aim to promote savings and financial education among children and youth and has found promising impacts in all three.

Providing access to formal financial services and a secure means of saving, as well as encouraging good financial practices through financial education, are widely considered effective ways to promote financial inclusion. Children and youth may be a sensible target audience for such interventions, especially if healthy financial habits that are learned at a young age benefit individuals for the rest of their lives.

In three recent studies by IPA, researchers measured the impacts of offering savings accounts and delivering financial education to children and youth in Ghana and Uganda. These studies tested the effectiveness of different combinations of savings account designs and financial education or information campaigns.

In all three evaluations, researchers observed positive short-term results from one or more of the tested interventions on savings behavior, savings attitudes, and income. Key results include the finding that strict restrictions on how savings can be spent may deter deposits; that encouraging children to save without providing social education may encourage them to work more at a young age; and that access to savings accounts and financial education may improve savings and earned income when offered together, but similar increases may be possible even when they are offered individually.

This note describes the design of the three programs that were tested and key impacts of each.

Smoothing the Cost of Education: Primary School Saving

PRIVATE EDUCATION DEVELOPMENT NETWORK AND FINCA | UGANDA | 2009 - 2011

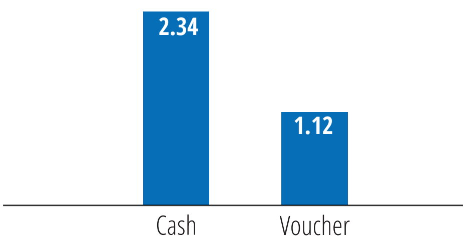
Research Team: D. Karlan (Yale University) and L. Linden (University of Texas - Austin)

The Supersavers program allowed children aged 10-15 years to deposit savings into a lockbox during a school term and receive their deposits as a payout at the start of the next term. One hundred thirty-six primary schools were randomly assigned to participate in two treatment groups and a comparison group. In one treatment group, students received their savings back in cash, and in the other they received their deposits in the form of vouchers that could only be redeemed at a market for educational supplies that was set up at the schools on the day of the payouts. Students were told in advance which type of payout they would receive. The comparison group did not receive the program. Treatment schools were also randomly assigned to a parent outreach program in which parents were informed about school fees, Universal Primary Education, and how to support their children's education. Researchers aimed to understand how restrictions on savings deposit spending and parental involvement affected children's savings and expenditures.

Results

As shown in Figure 1, students' **savings at school** were higher when they were offered the less restrictive cash treatment which returned their savings in cash. This suggests that the stricter restrictions of the voucher treatment may have deterred students from saving. Furthermore, students who received the cash payout and the parent outreach program bought more **school supplies** and had higher **overall test scores** than the comparison group. This supports the hypothesis that, though the parent outreach program did not impact how much students saved, it may have affected how the students spent their cash savings. No effects on school supplies or test scores were observed in the other groups.

Figure. 1 : Average Account Savings per Student
(in thousands of UGX)



Groups without parental outreach

Source: Karlan and Linden (2014)

School-Based Saving and Social and Financial Education for Children

AFLATOUN | GHANA | 2010 - 2011

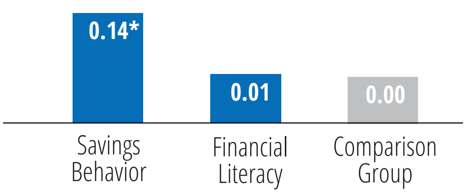
Research Team: J. Berry (Cornell University), D. Karlan (Yale University), and M. Pradhan (University of Amsterdam)

The Aflatoun program engages children in a school savings club and trains teachers to provide financial education and training in social skills, with an emphasis on children's rights and responsibilities, improving self-esteem, and the pitfalls of youth labor. One hundred thirty-five primary and junior secondary schools with children aged 6-14 were randomly assigned to participate in two treatment groups and a comparison group. One treatment group received Aflatoun and the other received Honest Money Box (HMB), a program similar to Aflatoun that focuses on teaching financial skills and savings behavior and does not include social education. The comparison group received neither program. The researchers aimed to determine the marginal benefits of the social components of the Aflatoun program.

Results

Based on an index that included the proportion of children who saved, amounts saved, savings inside and outside of school, and regularity of savings, both Aflatoun and HMB positively impacted **savings behavior** relative to the comparison group. The estimated impacts of the two programs on the savings behavior index were approximately the same. However, there was no evidence that **total savings** increased in either treatment group, so students may simply have shifted their savings into school, or the measure of total savings may have been inaccurate. The HMB program led youth to **work** more at the expense of activities other than schooling, but the Aflatoun program had no impact on labor outcomes (although note that the difference between these two estimates is not statistically significant). Neither program had a significant impact on **financial literacy** or **savings attitudes**, and few significant impacts on **risk preferences** and **spending**. Figure 2 shows the average impacts across the two programs on savings behavior and financial literacy relative to the comparison group.

Figure 2: Impact on Behavior and Knowledge Indices
(standard deviations)



Pooled effect of both programs

*statistically significantly different from the comparison group

Source: Berry, Karlan, and Pradhan (2014)

Financial Education and Savings for Youth

CHURCH OF UGANDA, FINCA, AND STRAIGHT TALK FOUNDATION | UGANDA | 2010 - 2011

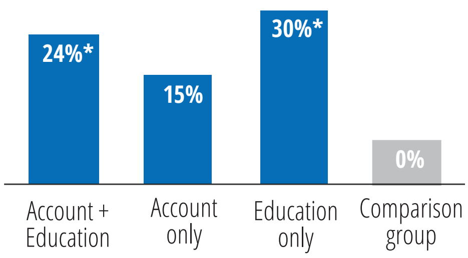
Research Team: J. Jamison (Consumer Financial Protection Bureau), D. Karlan (Yale University), and J. Zinman (Dartmouth College)

This study compared the impacts of offering a financial education program and a group savings account. Two hundred forty church youth clubs with members aged 16-28 were randomly assigned to participate in three treatment groups and a comparison group. One treatment group was offered financial education, a second was offered a group savings account, and a third was offered financial education and the account. The comparison group was not offered either program. The 15-hour financial education program spanned 10 weeks and focused on saving and also presented closely-related material on formal financial institutions, budgeting, borrowing, and interest. Each club in the two savings account treatment groups received one group savings account and was responsible for maintaining a ledger with individual members' savings. Selected members from each club served as bank field agents for handling deposits and withdrawals.

Results

Administrative data on the accounts suggests that clubs who were offered financial education in addition to savings accounts had higher **account savings** than those who received the account alone. However, the estimated increases in **total self-reported savings** were not significantly different across the three treatment groups (Figure 3). All three treatment groups reported significant and roughly equal increases in **earned income** relative to the comparison group. The similar increases among the three treatment groups for savings and income suggest that financial education and access to savings may have been substitute methods to generate higher savings and income, but that they did not have any additive effect when offered together. The financial education program also led to an increase in **financial knowledge** relative to the account-only treatment and the comparison group.

Figure 3: Impact on Total Self Reported Savings
(percentage)



*statistically significantly different from the comparison group
Source: Jamison, Karlan, and Zinman (2014)

Are financial education and formal savings accounts complements or substitutes? Do the impacts on behavior and income persist in the long term? What are the mechanisms underlying the increase in earned income? To answer these questions, the Citi IPA Financial Capability Research Fund supported by the Citi Foundation is planning a long-term follow-up of this evaluation.

WHY RANDOMIZE?

It is not always obvious which policy, program, or product will have the most desirable effects on the welfare of clients. Does microcredit for the average poor borrower lead to welfare improvements through business investment, or does it fuel consumption and lead to cycles of high-cost debt? What is the best way to support the accumulation of savings for particular life goals like retirement, the education of one's children, and financing lump sum investments in housing improvements and preventative healthcare? What types of information or training programs are most effective in enabling the poor to make sound financial decisions around their choice and usage of financial products?

To design sound policy and effective financial products, we need to know how well the program or product is working and whether it provides a good return on investment from a social and financial perspective. This involves assessing whether there are alternative ways of achieving the same outcomes at a lower cost. It also requires an understanding of whether some aspects of the program have no impact and only add to the cost of the program.

Randomized evaluations offer a simple way to test programs and innovations and to compare their effectiveness. Individuals are randomly selected to receive a program based on a lottery. Those who do not receive the program form a comparison group. At sufficient scale, the two groups are similar in every respect, except that one group receives the program—e.g. the offer of a new savings account—while the other does not (for the duration of the study).

It is then sufficient to compare outcomes, such as savings balances, across these two groups over some period of time to measure whether the new program has a direct and causal impact on the behavior and welfare of clients. If the program is deemed to be a success through this rigorous process, the case for the intervention's effectiveness is strong and gathering support and resources for scaling it up would make for good policy and sound management.

References

Karlan, D. and L. Linden. July 2014. "Loose Knots: Strong versus Weak Commitments to Save for Education in Uganda." Working Paper.

Berry, J., D. Karlan, and M. Pradhan. September 2014. "The Impact of Financial Education for Youth in Ghana." Working Paper.

Jamison, J., D. Karlan, and J. Zinman. May 2014. "Financial Education and Access to Savings Accounts: Complements or Substitutes? Evidence from Ugandan Youth Clubs." Working Paper.

About Innovations for Poverty Action

Innovations for Poverty Action (IPA) is a non-profit organization dedicated to discovering and promoting effective solutions to global poverty. We design and evaluate potential solutions to the constraints faced by the poor using rigorous evaluation tools, primarily randomized evaluations. We then mobilize and support decision-makers—policymakers, practitioners, investors, and donors working with the poor around the world—to build better programs and policies with these solutions at scale. In close partnership with over 250 leading academics and implementing organizations, we have results from over 125 completed studies with over 225 in progress around the world. Our studies cover solutions for effective agriculture, education, health, finance, governance, social protection, and post-conflict recovery.

With more than 40 projects underway since its creation in 2011, IPA's Global Financial Inclusion Initiative works to identify innovative programs that enhance low-income households' access to and usage of improved financial products, services, and tools. The initiative is focused on three key areas of research and evaluation in financial inclusion: financial capability, savings, and payments. GFII is supported by funding from the Bill & Melinda Gates Foundation and the Citi Foundation.

www.poverty-action.org/financialinclusion
gfii@poverty-action.org

Global Financial Inclusion Initiative

101 Whitney Avenue
New Haven, CT 06510 USA
Tel: +1.203.772.2216