

---

# RESEARCH PEARLS | FEDU PEARL #4

---

*In our series “Research Pearls” we are providing first-hand insights into our dynamic and powerful diaries research. The first three Research Pearls presented information about the research methodology. As finance and energy are the two core topics that are addressed in the research, the following Pearls will focus on finance and energy. This edition dedicated to “finance” will focus on savings groups.*

## Savings groups

In the baseline we included a relatively large number of questions related to savings groups. The reason for this focus is that in Uganda FinScope, which carries out surveys since 2006, have reported a steady increase in savings group participation. In fact, the percentage of financially excluded people in Uganda in the latest FinScope (2013) was a mere 15% which is one of the lowest financial exclusion percentages in the region, lower than in Kenya. This dramatic decline in excluded people can be ascribed to the increase in savings groups’ participation. According to [www.VSLA.net](http://www.VSLA.net) Uganda counts more than 1 million savings group members. In the baseline L-IFT wanted to verify to what extent indeed people report to be part of savings groups, whether this was more common for women, whether the incidence of ASCA methodology exceeds that of ROSCA and burial society.<sup>1</sup>

Other savings groups’ issues that L-IFT investigated in the baseline was related to challenges within savings groups and incidence of savings groups falling apart. This will be reported in a later Pearl.

### Findings on savings groups

Almost half of respondents are members of a savings group. As seen in the graph on the following page, there are slightly more female than male members, but the difference may be smaller than those familiar with user-managed savings groups may expect. Slightly more rural respondents are members of a savings group as compared to those who grew up in an urban area.

Contrary to what may be expected, wealth was not a strong determinant of savings group membership. There was little difference in the membership from ultra-poor to wealthy. A substantial portion of respondents is part of more than one savings group. Of the female respondents who were members of a savings group, about 40% are members of 2 or more, while this is true for about 30% of men in savings groups.

The trend shows that the poorer the respondent, the more likely she/he is to be part of more than one savings group. Similarly, those who grew up in a rural setting are more likely than those who grew up in an urban setting to be member of more than one savings group.

---

<sup>1</sup> The definitions we used for these savings groups methodologies were:

*Burial society:* A group saving together for large expenses, usually funeral costs. The payments are accumulating until such an event happens to one of the members. In addition, members would be asked to pay when a negative event happens.

*ROSCA:* A group where each member contributes the same amount periodically and one member receives all the contributions of that meeting. Members do not repay what they receive but simply take turns to receive the “pot”.

*ASCA:* A group where each member contributes savings periodically. Savings amounts are either stipulated or have a minimum and maximum. Members can take loans from the group, usually repaying the loan with interest: These groups pay back all savings to members plus interest at the end of a cycle, usually a year.

*Savings collectors:* Members only deal with the group leader. Members pay periodically their savings to the manager of a group. They receive their savings back from the manager. Members do not always know each other.

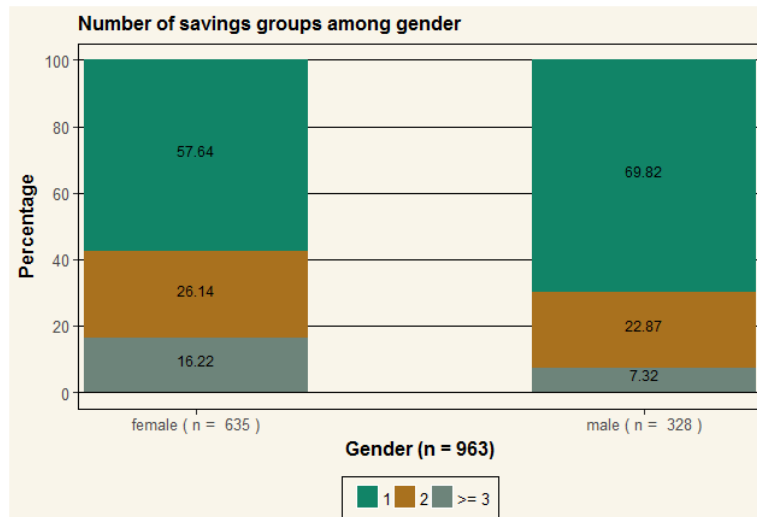


Figure 1: Savings Groups membership by gender

30% of both female and male respondents are member of a savings group using the methodology burial society. Membership of an ASCA methodology savings group is also about 30%. Remarkably, the ROSCA methodology is less common than may be expected: about 22% reported to use that methodology. About 8% of the respondents reported to use savings collectors, which was not anticipated when we designed the questions. We found a strong pattern according to wealth level. The wealthier the respondents are, the more likely they are part of a ROSCA. A burial society is more common in the lower wealth bands.<sup>2</sup>

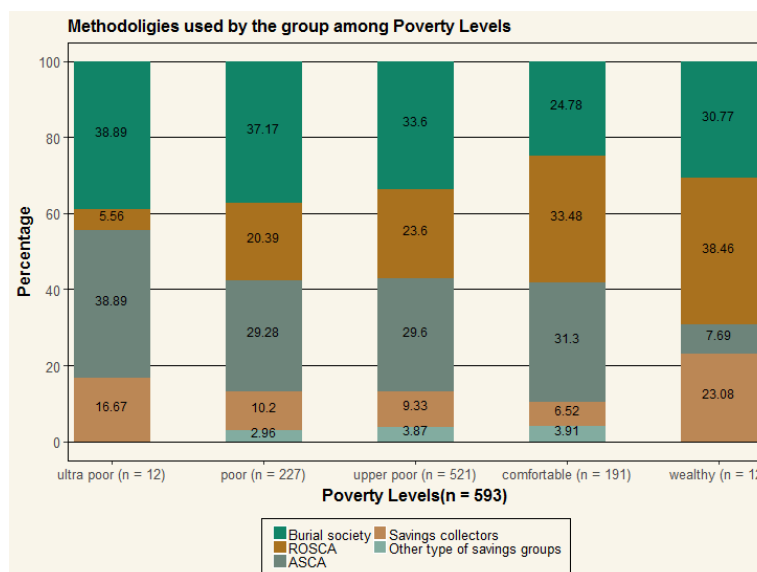


Figure 2: Type of methodology used by groups

The large majority of both gender respondents (about 85% female and 90% male) answered that their groups are initiated locally rather than by an external organization. Slightly more groups are initiated by an external party in a rural setting, about 10% more than in an urban setting. The poorer wealth bands are part of savings groups that are more likely to be initiated by external parties.

<sup>2</sup> N.B. the two extreme wealth bands, what we call “ultra-poor” (with 1-20 PPI score) and “wealthy” (with 81-100 PPI score) are very small respondent groups, with each just 12 savings groups members, so for wealth patterns we should focus on the middle three bands.

## Reasons to become member of a savings group

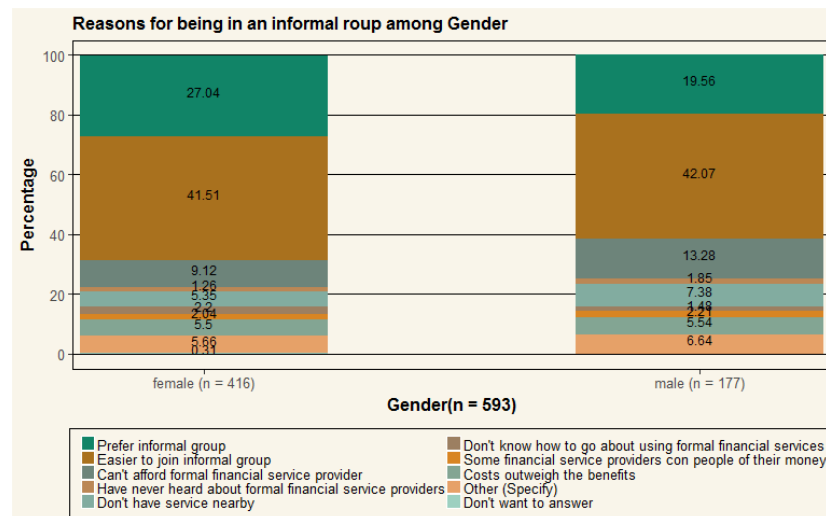


Figure 3: Reasons for becoming a Savings Groups member by gender

The main reason for respondents to become member of an informal group is that it is easier to join than using formal financial services, followed by the reason that they simply prefer an informal group. Other reasons include that they can't afford a formal financial service provider, don't have a service nearby or that costs outweigh the benefits.

More rural than urban respondents (70%) answered that they prefer an informal group and that it is easier for them to join than urban respondents (50%), who were more likely to give the other reasons mentioned above.

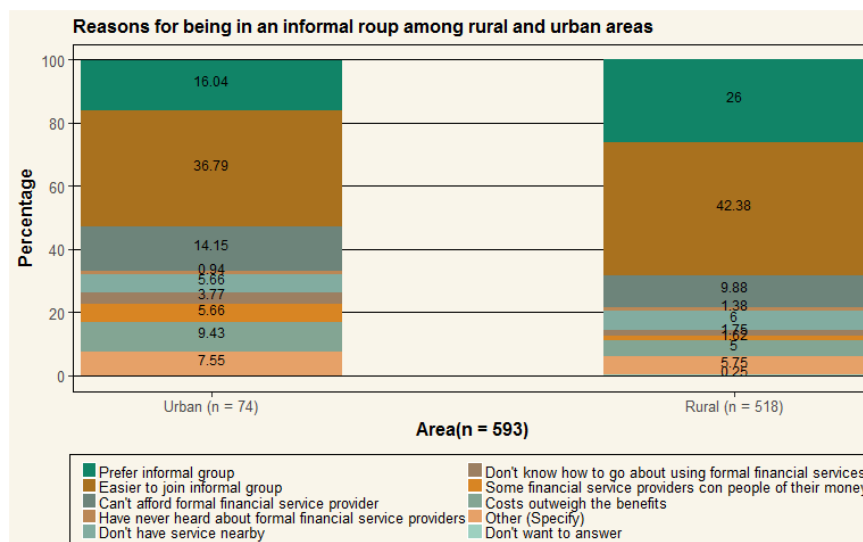


Figure 3: Reasons for becoming a Savings Groups member by area

### Implications for financial service providers

There are a couple of important learnings for financial service providers in the presented information. First of all, FEDU research confirmed that a substantial percentage of Ugandans are part of one informal savings group or another, roughly 40% and that many even participate in several groups. This means that when you are a bank or an MFI you best take into account the possibility that your clients likely use your

services alongside other informal mechanisms. Therefore, you may wish to keep into account their savings obligations and their loan possibilities from the savings group, when deciding on a loan repayment schedule. For instance, you could include a relatively larger repayment obligation soon after the share-out date of an ASCA group.

Similarly, membership of a burial society may be useful information for a bank or MFI. In case of a death in the family those people who are part of a burial society can largely cope with the financial consequences of the death which means that these people have reduced risks than those not in a burial society.

MFIs and banks may also contemplate to use people's track-record in the savings group as an extra source of information which can be considered as a loans and savings track-record. For example, someone who steadily contributes the maximum amount of money to a savings group, is more likely to be a good saver with a formal financial institution as well. Repayment of loans in a savings group may also be considered a predictor of good loan repayment to an MFI.

Finally, financial service providers may want to carefully investigate why people become part of a savings group. They could learn about people's priorities for financial services, people's ideas about what is a fair reward for savings, what is a fair price for loans. An MFI or a bank might like to replicate some of the features and advantages of savings groups in their product offer, which may lead to attract new customers who currently only feel comfortable in informal savings groups.