Although microfinance institutions have provided millions of people with access to financial services over the past decades, provision of services in rural areas remains a major challenge. It is costly for microfinance organizations to reach the rural poor; consequently, many rural residents still lack access to formal financial products, such as savings accounts. Traditional community methods of saving, such as Rotating Savings and Credit Associations (ROSCAs), can provide an opportunity to save, but they do not allow savers to earn interest on their deposits in the way that formal accounts would.

The Village Savings and Loans Association (VSLA) model created by CARE attempts to overcome the difficulties of offering credit to the rural poor by creating groups of people who can pool their savings through the Accumulated Savings and Credit Association (ASCA) model. Members make savings deposits into a common pool, and can also borrow from it on an as-needed basis at moderate interest rates.

VSLAs are comprised of 15-30 self-selected members, each of whom is provided with an individual passbook. Members attend weekly meetings, where they make savings deposits by purchasing shares at preset prices that are established by the group. Each share is marked in a passbook, thereby simplifying accounting procedures. Members purchase between one and five shares at each meeting, based on their ability to save that week. At the end of each 8- to 12-month cycle, the accumulated funds are proportionally shared amongst members based on their individual contributions.

To ensure the security of funds in the VSLA, savings are kept in a locked box with 3 keys. These keys are held by members of a 5-person committee that is elected at the start of the cycle to manage the transactions of the group. In addition to providing a safe and flexible savings channel, VSLAs allow members to take loans from the group. Loans are paid back to the group with interest, thus giving members a positive return on their savings. Most groups also establish a social or emergency fund as an insurance and solidarity mechanism to provide the needed liquidity to members facing emergencies or financial shocks. Disbursements of the social fund are approved by the group and generally made in the form of a grant, or an interest-free loan.

As a self-sustainable and self-replicating mechanism, VSLAs provide reliable access to financial services even in remote areas. CARE partnered with IPA to conduct a rigorous evaluation that would measure the impact of VSLA programs on access to financial services, female empowerment, income generation and other socio-economic outcomes.

**THE STUDY**

Innovations for Poverty Action (IPA) implemented a randomized control trial to measure the impacts of a Village Savings and Loans Association (VSLA) program on households and women. The program began in 2009 and was implemented by CARE Malawi under the Access Africa program.
The evaluation was conducted in rural communities across four districts in Southern, Central and Northern Malawi. It was implemented by four implementing partners: Emmanuel International in Zomba, the Evangelical Lutheran Development Program in Lilongwe, and the Catholic Development Commissions of Lilongwe and Mzuzu, in Mchinji and Mzimba districts respectively.

The sample comprises 190 geographical clusters in regions with little to no previous exposure to a VSLA program. Two villages within each cluster were selected for data collection: a central village as the primary target for program implementation, and a secondary location chosen from the villages within a 4km radius from the primary village. The locations of these secondary villages were not revealed to implementing partners. The cluster design allows us to measure group formation and replication by community-based trainers and fee-for-service village agents, recruited amongst members of existing VSLA groups.

Each cluster was randomly assigned to either receive the VSLA program (the “treatment” group) or not to receive it (the “control” group). The random assignment at the onset of the study creates two statistically comparable sets of households. A randomized controlled trial, when appropriate, is the most rigorous way to carry out an unbiased assessment in order to determine the causal impact of a program, because the control group allows researchers to identify what would have happened had the program not existed.

IPA collected panel survey data on a sample of over 4,000 households across 380 villages. Baseline data collection took place between April and June 2009, prior to the implementation of the program, with an endline survey taking place two years later. The panel study spans 22 months of program activities in the treatment areas; upon completion of the study in June 2011, VSLA programming began in the control areas.

The two rounds of surveys covered a variety of welfare measures, including health, education and consumption, as well as social topics such as gender issues and levels of community involvement.

### Timeline of the Program

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<thead>
<tr>
<th>June / July 2009</th>
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<tr>
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### PROGRAM UPTAKE AND CHARACTERISTICS

**Who joins a VSLA?** After about 22 months of program activities, we find a take-up rate of 22% for female respondents in the program areas. Analysis shows that women who decide to join VSLAs are, on average, more literate, wealthier, more likely to have had a business before the program, and more experienced managing money than non-members. Below, we present some of the main differences between members and non-members.

Respondents who joined a VSLA are generally more educated than their peers in the community: their literacy rates average 65%, compared to 55% for non-members. Experience with financial services at the baseline is a good predictor of VSLA membership, with 22% of members having received a loan in the year leading up to the program, compared to 16% of non-members; similarly, 19% of members gave out a loan at the baseline, as opposed to 13% of non-members. Respondents who report saving with a formal savings institution, such as a bank or a microfinance institution, are also 3 percentage points more likely to participate in a VSLA. Virtually every household in the community is engaged in agriculture. It is less common to own a business, but VSLA members remain more likely to have one than non-members (48% of VSLA members compared to 38% for non-members). When comparing households based on an asset index, we find that members are, on average, wealthier than respondents that have not joined a VSLA. Finally, women who are more integrated into the community – measured by the extent to which they participate in village meetings, discuss issues with community-members and vote in local elections – are significantly more likely to participate in a VSLA.

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**Uses of the VSLA.** Female VSLA members report a median weekly contribution of 100 MWK (equivalent to $0.66 during the study period). Members have been part of the group for 12 months on average, and only 57% of VSLA members in Malawi had completed one or more full cycles at the time of the endline survey. The median share-out size is about 7,225 MWK ($48). Respondents most commonly spent these funds on fertilizer purchases (23%) and housing improvements (19%).

67% of members stated that they took a loan from the group at least once, with a median loan amount of 2,750 MWK ($18) per person. On average, each member had taken nearly two loans from the VSLA at the time of the endline survey. Loans are primarily used to finance business investments (40%) and food consumption (20%). Nearly every VSLA member in Malawi reports that her VSLA has a social fund. The social fund is most commonly disbursed in the form of an emergency loan that members have to pay back to the group. Only 27% of the members that had taken out a loan, the funds were typically directed towards expenditures on healthcare (61%) and funerals (26%).

**Group Formation and Replication.** The data shows fairly high rates of group formation in the primary target village and beyond. Owing to the activity of village agents, 14% of respondents in the secondary villages participate in a VSLA at the time of the endline survey. This is a little under half the take-up rate in primary villages (27%).

We find only minimal VSLA uptake amongst respondents in control areas (3% at the time of the endline survey).

**IMPACTS**

Within the study period, we find that just over half of VSLA members had completed their first cycle. The impact evaluation finds impacts on financial outcomes deriving from VSLA members’ improved ability to save, along with their access to the group’s loans and social fund. We do not find significant impacts on ultimate welfare outcomes such as asset ownership and overall expenditures. However, we cannot rule out such impacts in the longer run, as members are better able to finance investments and expenditures through end-of-cycle share outs, and are able to avail of the larger loan and savings sizes associated with mature groups. However, in order to test such hypotheses, research spanning a longer timeframe would be needed.

We summarize some of the most important findings from the endline survey below:

**The program increases access to and usage of financial services.** We find that VSLAs largely complement other financial tools instead of crowding them out, with respondents being 16 percentage points more likely to hold savings overall. Average total deposits in ASCAs increase, while deposits in other environments remain constant, increasing the total savings accumulated by respondents from 1,575 to 2,425 MWK (respectively $11 and $17). Access to credit also expands significantly, with respondents in treatment groups being 9 percentage points more likely to receive a loan; respondents in treatment areas are able to borrow nearly 775 MWK ($5.5) more in total loan amounts.
We find a significant increase in savings balances, from 1,325 MWK ($9.2) in control areas to 2,125 MWK ($14.9) in the treatment group; savings balances are defined as the difference between deposit balances and outstanding credits.

Although we did not find changes in expenditures on agricultural inputs, the program led to a 7.5 percentage point increase in the usage of agricultural inputs as calculated by an index comprising fertilizer, labor and other inputs.

The number of women that took a loan to fund a business rises from 8% to 22% in treatment communities, suggesting a growth in business investment. We do not find an increase in the number of women owning a business, or in overall business profits at the time of the endline survey.

We register a 5 percentage point increase in the number of women that report having a strong influence on business decisions within the household. We also find evidence of an increase in the share of women with a high ability to influence other areas of intra-household decision-making, such as food consumption and schooling expenses. Other indicators of women’s empowerment and participation in the community are not affected by the program.

The program led to a small (<1 percentage point), but significant, increase in the use of loans from savings groups to respond to economic shocks. We do not find evidence that households use these loans to substitute away from other means of responding to shocks, such as the sale of assets and livestock. In addition, we find that women increase their ability to receive credit for food consumption by 3.5 percentage points; however, this does not translate into any significant impacts on food security, measured by a set of indicators capturing instances in which the household had to reduce food or skip meals.

Although households in the treatment group do not differ significantly from households in the control group on overall expenditure levels and asset ownership, we find suggestive evidence that they spend more on housing improvements. This is consistent with our finding that 20% of VSLA members report spending the VSLA share-out on housing improvements.

Finally, households in treatment villages also own an average of 6.2 fowls, a 12 percentage point increase when compared to the control group. Other livestock categories are not affected by the program. Despite the short-term nature of the evaluation, there is also suggestive evidence that primary school enrollment increases for boys in treatment households. However, there is no measurable increase in investment in school expenditures. We do not find evidence that other education and health outcomes are affected by the program. Similarly, we find no impacts on asset ownership and housing indicators. However, we cannot rule out the possibility that the program would have an effect on these measures in the long-run.

This study is part of a set of research projects looking at the impacts of savings groups in sub-Saharan Africa. The comparison of findings across these different contexts will allow IPA researchers to draw confident policy conclusions on the impacts of savings group programs. Randomized evaluations of savings groups were conducted by IPA in collaboration with CARE in Ghana, Malawi and Uganda, and with Oxfam USA and Freedom from Hunger in Mali. The evaluations in Uganda and Ghana were completed at the same time as the Malawi study. Results for a three-year study in Mali will be available at the end of 2012. For more information visit: www.poverty-action.org/microsavings/savingsgroups_replications.

Innovations for Poverty Action (IPA) is a US-based non-profit research organization which applies rigorous research techniques to develop and test solutions to real-world problems faced by the poor in developing countries. IPA consists of a group of leading academic researchers in development economics, behavioral economics, and psychology, along with researchers based in the U.S. and in developing countries.

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