Supplementing Savings Groups with External Funds to Expand Access to Lending in Uganda

Sector(s): Finance

Ubicación: Uganda

Muestra: Individuals, Savings Groups

Grupo objetivo: Rural population Adults

Resultado de interés: Attitudes and norms Credit balance/repayment Savings/deposits

Tipo de intervención: Credit Social networks Defaults

Número de registro del AEA RCT Registry: AEARCTR-0005498

Research Papers: Community Lending with Outside Capital

Many people in low-and-middle-income countries struggle to access capital because they can't take out formal loans. While Savings Groups (SGs) offer a solution, they are constrained by members' collective funds. Researchers conducted a randomized evaluation to test whether supplementing SGs with additional funds impacts SG members' financial access and behavior. Capital infusions to SGs increased members' access to loans and members received more money at the end of year payout, without increasing defaults and debt.

Problema de política pública

One-third of adults in low-and-middle-income countries do not have an account at any financial institution, making applying for loans and saving money difficult. Saving Groups (SGs) present a potential solution. Composed of 10-25 people from a community, members of SGs save their own money and lend it out to each other to earn interest. SGs avoid many common pitfalls of other microloan systems. Members don't have to travel to a bank or pay fees for an account. SGs can offer flexibility in repayment terms. SGs often have high repayment rates and low default rates in part because the members of the SG come from the same community and therefore hold each other socially accountable which banks cannot do.

However, SGs face a crucial problem: they have limited funding at the beginning of each cycle. Since they are self-funded, SGs rely on their members' savings to give out loans, and these savings add up throughout the year, culminating in an annual payout to each member. After the payout, the groups are left with much less communal capital, limiting the amount of loans available to members at the beginning of the next cycle. Could providing outside capital help SG members access loans without affecting their likelihood to save or default?

Contexto de la evaluación

In 2021, more than one-third of Ugandans did not have an account at a financial institution or with a mobile-money-service provider.[1], Even those who did often had to travel long distances to reach bank branches or did not have sufficient collateral to take out a loan. About 37 percent of Ugandan adults belonged to an SG in 2020.[2] These groups are an essential way for people to access loans. However, only about halfway through their annual cycle do most SGs in Uganda have enough funds to meet the needs of their members.

The evaluation took place in Nkozi, a rural sub-county in central Uganda. Seventy percent of participants were women, 76 percent were married, and almost all worked in agriculture. Many women reported experiencing debt during their lifetime and about 70 percent had taken out a loan from their SG before the study. In the last SG cycle before the study, people received a payout of about UGX 370,998 (US$100 in 2019).

Interviewing community members who have the savings box and the ledger, which is used to maintain the savings group's records in Uganda.

Photo credit: Danice Guzman, University of Notre Dame

Detalles de la intervención

Researchers conducted a randomized evaluation from November 2019 to December 2021 to test whether supplementing SGs with additional funds impacts SG members' financial access and behavior. Beginning in 2019, researchers identified existing functional SGs across eight parishes in the Nzoki sub-county, and randomly assigned the SGs into two groups:

1. *Outside money group (1,107 members across 46 SGs):* At the start of their annual cycle, SGs received UGX 1,500,000 (US$450 in 2019) to add to their pooled funds, which was about 25 percent of annual savings for these SGs.
2. *Comparison group (1,022 members across 46 SGs):* SGs did not receive any outside funds.

Researchers surveyed members before and after the study to measure how additional funds affected the number of loans SGs gave out, how much money each member collected at the end of the year, and whether the members failed to pay or delayed repaying their loans. The researchers also collected data on education, access to healthcare, and work-related activities. The researchers collected data on a rolling basis depending on the start date of each group's cycle from November 2019 to December 2021, with each group receiving a survey at the start and end of their cycles.

Resultados y lecciones de la política pública

SG members whose group received additional funds were more likely to take out a loan and receive a higher payout at the end of the year. As a group, members did not reduce their total savings and were not more likely to default or make delayed payments.

Loans: Members whose SG groups received outside money were 8 percentage points more likely to take out a loan relative to the comparison group where 68 percent took out a loan (an 11.76 percent increase). This indicates how additional funds were needed for SGs to supply loans to all members who requested them.

Default and delays: SGs that received additional capital were no more likely to have a member default on their loans relative to the comparison group, in which 69 percent of SGs had a member default. Researchers suggest that the infusion of cash did not cause members to make riskier choices.

Payouts: Members of SGs who received additional funds ended the year with a UGX 74,000 (US$20 in 2021) higher average payout. The group's average total payout was higher than the total amount of outside money supplementing the SGs. This indicates the capital could continue to be reinvested and grow allowing SG members to take out more loans in future years.

Cost-analysis: Assuming the external capital is reinvested into the SGs every year*,* after five years, researchers predict an economic rate-of-return of 61 percent, making the program more cost-effective over several years than many forms of direct cash transfer.

Based on the results of this study, researchers see an opportunity for organizations and policymakers who work with SGs to provide infusions of funds, especially during emergency situations like floods or droughts to help SG members take out loans.

---

1. "Account Ownership at a Financial Institution or with a Mobile-Money-Service Provider (% of Population Ages 15+)." World Bank Open Data. https://data.worldbank.org/indicator/FX.OWN.TOTL.ZS.

2. Sheidu, Precious. "How Savings Groups in Uganda Drive Poverty Reduction." The Borgen Project, January 10, 2025. https://borgenproject.org/how-savings-groups-in-uganda-drive-poverty-reduction/.