

## Do community based microfinance groups work for their members?

### Summary

Many development practitioners currently promote community-based microfinance initiatives – such as ‘Self-Help Groups’ and ‘Village Savings and Loan Associations’ – as a way to expand financial access to poor populations in rural areas. We recently surveyed community-based microfinance groups in northern Malawi, to investigate patterns of membership and how individuals are using these groups for saving and borrowing.

### Key findings

- Participation in community-based microfinance institutions is particularly high amongst women – 75% of members in the groups studied are female, even though both genders are equally eligible to participate.
- 95% of the groups studied are still actively used 2-4 years after their initial NGO training.
- Members use their savings in such groups for agricultural inputs and investments, whilst they take loans to invest in small business activities.
- Participants who are likely to have high savings needs tend to form groups with participants who are likely to have high borrowing needs.



### Policy conclusions

Policies should recognise that women in rural communities appear to have a particularly high unmet demand for financial services. However there is still sizeable demand amongst men, and thus any attempt exclusively to target women with this kind of financial inclusion programme would be unadvisable. The longevity of these groups suggests that they are a sustainable intervention and that individuals truly find their services useful over time. In particular, access to a diverse portfolio of financial instruments appears to benefit participants.

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## Policy context

The 'Village Savings and Loan Association (VSLA)' model was first developed by CARE International in Niger in 1991. VSLAs are designed to provide a secure way for members to save and to earn interest on savings, as well as to access loans in villages where formal credit may be non-existent or very expensive: the communities targeted are typically underserved even by microfinance lenders. VSLAs and similar 'Self-Help Groups' have experienced rapidly-growing popularity in recent years, and now have over 100 million members worldwide.

## Project findings in more detail

We revisited all 150 VSLA groups originally trained as part of a 2009-11 intervention. We took a census of all members and collected their individualised accounts data, as well as conducting a group-level survey on institutional practices.

We find significant evidence that participants sort themselves into groups based on various characteristics. Across more social dimensions, such as whether participants come from a female-headed household or belong to a wealthy family, participants tend to form groups with individuals who are similar to them. However, across certain key economic dimensions a different pattern of sorting emerges: in particular, participants who most likely join the groups as a way to save (ie. farmers, and individuals who may experience difficulties saving at home) tend to form groups with participants who most likely use the groups for borrowing (ie. individuals working in business and trade, and individuals who do not experience difficulties saving at home).

The fact that VSLAs comprise both savings and lending facilities appears to enable participants to meet different needs. Groups report that their most important uses of savings are agricultural

inputs (43% of groups), agricultural investments (13%), building materials (9%) and livestock (3%); suggesting that individuals use VSLAs to save for particular lumpy agricultural investments or durable consumption goods. For loans on the other hand, the most important uses are trading/business (74%) and agricultural inputs (13%, much less than for savings); thus credit from these groups is predominantly used to support non-farm business activities.

Many groups also report that a secondary motive for both saving and borrowing is to buy food, and that a further secondary motive for borrowing is for emergencies. This would appear to indicate that savings and credit are partly being used as insurance, and that these communities could benefit from increased insurance provision either as part of VSLAs or via another channel.

## For more information

Further details about this project can be found at <http://www.iig.ox.ac.uk/research/62-savings-in-community-microfinance-malawi.htm>

## Information about the Researchers

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