Savings groups and educational investments

the Plan:

to remove financial barriers to girls' and boys' school attendance

Where
WORLDWIDE

What
RESEARCH BRIEFING SEPT 2013

Result
A better understanding of how savings groups can support education

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Research Briefing

Despite the introduction of free primary education in many developing countries, households continue to face direct and indirect costs of education. Particularly at higher levels of school and for communities still dependent on subsistence farming, these are a barrier to learning. Could access to better, village-level facilities for saving and borrowing money help lower these financial barriers?

Savings groups – a low-risk form of microfinance based on members' own savings, often known as Village Savings and Loans Associations – are a key strategy employed by Plan to enhance household economic security. Savings groups are an effective way to foster a savings habit, smooth household income, and build household financial assets. These groups meet periodically (usually weekly), require members to contribute savings, allow members to take loans with interest, and "share out" the accumulated savings and interest to members at the end of a cycle (usually annual). Plan International has facilitated savings groups since 2003, reaching about 850,000 people – around 82% of them women – in 25 countries.

Plan UK commissioned a report to better understand how, and to what extent, savings groups can help break down the financial barriers to education.

An extensive review of research and evaluations of savings groups facilitated by Plan and others around the world was undertaken, as well as qualitative research in two communities in rural Ghana.[1]

The research suggests that while savings groups don't necessarily allow for increased household education spending or increased enrolment rates in the short term, probably their greatest potential comes from the income smoothing effect: participants are able to pay formal and informal education fees in a more timely manner, thus reducing absenteeism.

Improved attendance rates are an important outcome – especially if it helps improve progression and learning outcomes, and means that girls and young women can access money for school fees in ways that don't put them at risk of violence, abuse or pregnancy.

Over the longer term, savings groups can help support livelihoods that may lead to increased household investments in education. There is also some evidence of savings groups affecting health and nutrition, and household-level decision making processes, in ways that are likely to positively affect education in the medium to long term.

The authors identified a number of direct and indirect mechanisms through which savings group participation could hypothetically have a positive effect on education:

1. Households use share outs to meet educational expenses.
2. Households use loans to meet educational expenses.
3. Savings groups improve overall income or livelihoods, making more money available for education.
4. Savings groups improve overall income or livelihoods, reducing the need for child labour.
5. Savings groups improve health and nutrition, with subsequent effects on school attendance and learning outcomes.
6. Savings groups foster changes in who makes decisions, with women taking on more economic decision-making in the household and investing more of their income in children's education or health.
7. Savings groups foster changes in patterns of spending or work in ways that increase the financial resources available for education.

Taken together, the results of the literature review and qualitative research in Ghana suggest that savings groups may be quite diverse in their effects on education across these different mechanisms.

There are several cases where education is among the major reasons given for taking loans, and several cases of using savings group share outs to cover educational expenses.

Now any time I go for a loan, it's for the payment of my child's school fees.
Adult savings group member,
Central region, Ghana

But do saving groups actually increase the amounts families spend on education? Or, for instance, do loans supposedly taken for education end up getting channelled elsewhere? A number of evaluations have found increased educational expenditure, but among the most rigorous studies in particular, the evidence is mixed. Moreover, in some cases savings groups have been combined with other interventions intended to promote education, making it hard to isolate the effects of the savings component.

There are several studies claiming an improvement in education outcomes, usually measured in terms of enrolment or attendance. The mechanisms remain difficult to pin down, but in Ghana appear to involve a combination of overall, gradual improvement in income, especially from small businesses operated by women, and better ability to pay fees on time, resulting in children being sent home from school more rarely.

I use [loans and share outs] to hire labour on my farm which increases my productivity....I can now also cater for my children's educational expenses.
Adult saving group member,
Central region, Ghana

In the literature review, an effect of savings groups on overall income or livelihoods was difficult to discern. This may be because savings groups emphasise consumption smoothing rather than increases in total income. It may also be because the savings groups examined are not yet fully mature, and new income generating activities do not immediately result in large increases in income.

There is some evidence of savings groups affecting health and nutrition in ways that are likely to affect education in turn, in the medium to long term. In some contexts, loans or share outs are used for food and healthcare expenses, and there is evidence from several studies of positive health and nutrition impacts, although not from the most rigorous studies.

Savings groups do appear to shift expenditure decisions towards female household members, which past research has suggested may increase expenditure on children.

On child labour, there are mixed results. In Ghana, study participants said that the use of loans for urgent expenditures and to increase production was helping to avoid the need for children to work. In the literature review, there are studies suggesting both decreases and increases in child labour resulting from savings groups. This finding is not surprising given that increased business activity, and increased farming inputs, may raise the demand for extra labour. More research is needed on this issue.

Savings groups hold considerable potential to improve educational outcomes. The effects may often be at the margins: the households that are not quite able to afford fees or school uniforms every time they are needed; the children who do not drop out altogether, but whose education is cumulatively affected by time out of school. Further research on this topic therefore needs to use more sensitive educational indicators, be rigorous enough to account for wider social and economic changes, and acknowledge that any impact may be indirect, through channels such as income, health, and decision-making that are observable only over the medium or long term.

The evidence base is still sparse, but expanding with longer-term, larger-scale, and better-designed evaluations underway. In the meantime, there is a need for caution about over-selling the educational effects of savings groups, both in international debates and at the level of the villages where they are being introduced.

There is no evidence to suggest savings groups are harmful – with the possible exception of sometimes appearing to foster changes in livelihood strategies that increase child labour – and they do fulfil a modest but important role in helping households to smooth consumption. This in turn helps many families, in Ghana and elsewhere, manage the small expenses required to keep girls and boys attending school consistently.

But savings groups should not be seen as a cheap substitute for other interventions that are needed to ensure that children's rights are fulfilled, including free access to a quality education. And given the evidence that some people do not join savings groups because their incomes are too low or because they migrate for work, savings groups may not be the best instruments for reaching the poorest or those who are otherwise marginalised, meaning complementary measures may be needed that target these groups.

Notes

[1] The researchers visited communities with savings groups facilitated by Banking on Change, a partnership between Plan UK, CARE International UK and Barclays.

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The full report can be downloaded from **http://www.plan-uk.org/resources/.**

Please contact Karen Moore, Economic Security Adviser, at **karen.moore@plan-uk.org** for more details.

About Plan

Plan is a global children's charity. We work with children and young people in the world's poorest countries to help them build a better future. A future you would want for all children, your family and friends.

For 75 years we've been taking action and standing up for every child's right to fulfil their potential by:

- giving children a healthy start in life, including access to safe drinking water
- securing the education of girls and boys
- working with communities to prepare for and survive disasters
- inspiring children to take a lead in decisions that affect their lives
- and enabling families to earn a living and plan for their children's future.

We do what's needed, where it's needed most. We do what you would do.

With your support children, families and entire communities have the power to move themselves from a life of poverty to a future with opportunity.

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