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Savings-and-Loan Groups in Uganda Spring up after Funding Ends

New study measures self-replicating development

(Washington, DC—November 7, 2013) Years after international development organizations helped Ugandan villagers create savings-and-loan groups, new groups continued to form on their own, according to a new study released today by global economic research firm Datu Research. The study found that these new, "replicated" groups outnumbered the original project groups by 2 to 1.

"Post-Project Replication of Savings Groups in Uganda" concludes that villagers learned by observing the success of existing groups, leading them to form their own groups.

Savings-and-loan groups currently reach about 8.5 million people worldwide. Unlike Bangladesh's Grameen Bank and other micro-finance institutions, these groups are completely organized and managed by villagers themselves, with 100% of returns accruing to the members.

About 20 friends and neighbors each bring a required savings amount to weekly meetings. Everyone has the option to take a loan from the pooled savings at a reasonable interest rate. At the end of the year, the savings pool has grown, thanks to the loan interest, and all members get back their fair share.

"Before we started this group, whatever money we would get, we would spend it," said a member of a replicated group in the western district Kasese. "When we started this group, we learned how to save."

New groups performed similarly to the original "project" groups, helping members save, buy assets, pay school fees, start businesses, and cope with emergencies. Average return on savings appeared slightly higher among replicated groups—35% compared to 30% for project groups. Overall, 74% of groups had a default rate of 4% or lower, with 66% reporting a rate of 0%.

CARE and Catholic Relief Services, the two NGOs behind the original project groups, had trained village "agents" specifically to continue forming and training new groups.

"Replication of the model was their intent all along, and it succeeded," said Sarah Mine, the study's lead author. "What surprised us was that, by far, most of the new groups sprang up on their own, even without agent help."

The study also found that nearly half of the self-formed groups, once operating, subsequently sought training from agents. They even appeared more willing to pay for this help: nearly 70% of self-formed groups provided compensation, compared to only 33% of agent-formed groups.

"This strikes me as how development should work," said Marcy Lowe, president of Datu Research. "People are given knowledge rather than funding and, as they become successful, they seek out and pay for further knowledge."