Assets Africa: Wealth Effects of an Asset Building Intervention in Rural Households

2005 -2009

Background:

Throughout the Sub-Saharan Africa region, common pathways out of poverty are hinged on asset building including land improvement (e.g., access to land and start-up capital), higher education and skills, having multiple income sources, and business gains (e.g., improved production of cash crops and livestock; Krishna, 2010). A complementary pathway to building assets involves building savings. Savings is defined as either the postponement of consumption or moving resources through time (Schreiner, 2004). Access to financial services, including savings products, is an important pathway to asset accumulation. However, competitive and regulatory changes, high cost of providing banking services to poor rural-based clients, and lack of incentive and business case to bank the poor, have led to substantial rollback of retail banking services in sub-Saharan Africa (Bauman, 2001). As a result, most poor households in Sub-Saharan Africa tend to save using informal savings mechanisms.

Assets Africa was a quasi-experimental research project. The primary research objective of this project was to test the impacts of a savings intervention on the financial, health and educational outcomes of individuals and families in Masindi, Uganda.

Project Award:

$120,000 US Dollars

Principal Investigator(s):

Dr. Gina Chowa, PhD

Research Partner(s):

Center for Social Development at Washington University

Implementation Partner(s):

Build Africa Uganda

Funding Partner(s):

Ford Foundation

Research Core(s):

Economic Security
Financial Inclusion

Study Design:

The intervention implemented in this project was a structured asset-building program offered to approximately half of the study sample for a 3-year period. The intervention comprised a comprehensive program that provided participants with matched funds for their savings, financial education, and training on how to manage the asset they planned to acquire with their savings. Participants assigned to the intervention group (i.e., treatment participants) opened savings accounts in a commercial bank. To be eligible to receive the matched funds, deposits had to meet several criteria: (a) deposits had to remain in the accounts for a minimum of 6 months, and (b) matched funds had to be used for the purchase of qualified assets. In addition, to encourage sustainability and viability of the assets, qualified asset purchases were limited to productive assets (i.e., those that would generate income). Acceptable livestock assets included chickens, goats, cows, and oxen. Other acceptable assets included means of transportation, such as bicycles or motorcycles, which could be used to transport others for a fee; land for growing crops or building a home; materials to build commercial structures or personal houses; and items to start a small business, such as sewing machines or grinding mills. The match cap, which was the maximum of participant savings eligible to receive matched funds, was 500,000 Ugandan shillings or 285 US dollars. For livestock, the match cap of 285 US dollars can buy two to three cows, or eight to 12 goats, or five to 10 pigs, or 40 to 60 chickens. The match cap is also enough to purchase one to three sewing machines, or one small grinding mill. The study had 203 participants in the treatment group and 190 participants in the control group.

Findings:

Results indicate a positive effect of the interventions on family financial assets; that is, individuals who received the asset building intervention had almost $39 more in financial assets than those in the comparison group. Positive changes in financial resources of this magnitude among poor villages in rural Uganda are substantial. An increase of $40 to $75 more in financial resources can mean that children can stay in school for an entire year, household members can go to health clinics when they are sick and buy medications, and households can buffer the effects of income shocks and the associated long-term adverse consequences. Similarly, larger financial assets can also mean increased opportunities to accumulate additional assets that, in turn, can generate additional income for the household.

Next Steps:

In Sub-Saharan Africa, poor people's access to institutionalized asset-building instruments is quite limited. This lack of access to institutional banking is a primary reason poor household continue to use informal systems of accumulating assets. As few as one-quarter of households in developing countries have any form of financial savings with formal banking institutions (Mas & Siedek, 2008). Having access to financial services is a fundamental tool to building productive capacity of households, to smoothing expenditure when cash inflows are erratic (e.g., due to seasonality of crops), and to protecting against emergencies (natural disasters or death in a family). Although families accumulate some assets through informal savings groups, those savings tend to be small amounts that do not enhance long-term wellbeing or economic stability. Providing access to safe, secure, and simple asset-building vehicles that are protected by law may assist poor families to accumulate assets that can enhance their well-being. One of the main constraints to accessing asset building programs and other financial services is the cost of reaching geographically dispersed and low-income populations. Greater access may be achieved by adopting systems that use a low-cost, high-volume transactional environment such as branchless banking, or mobile banking using cell phones. A flexible banking system should allow people to pay into or cash out their accounts by interacting remotely with the bank using information technology in a trusted way. Given the expansion and reduction in costs of computer access and related information technology, the potential for greater—perhaps even universal— access seems promising.