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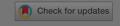
# Are savings groups a livelihoods game changer for young people in Africa?

Justin Flynn 🔀 & James Sumberg

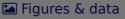
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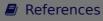
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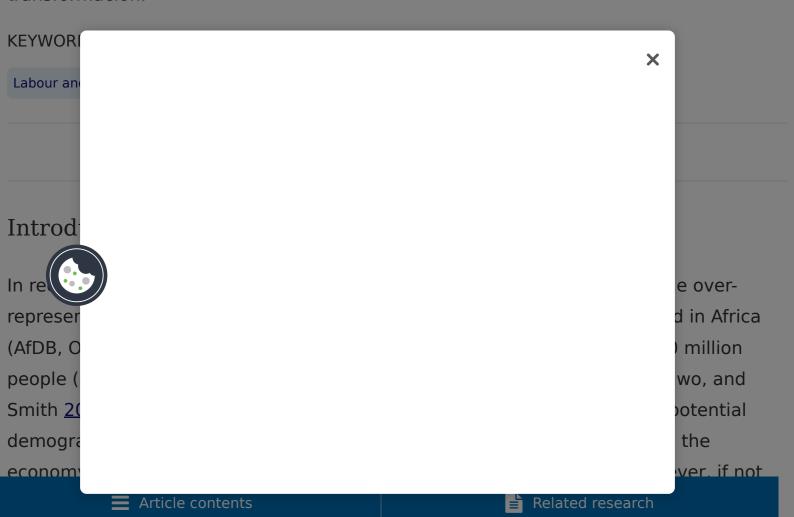
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de l'autonomisation économique. Cet article rend compte des liens entre les activités génératrices de revenus de 57 membres de ces groupes en Tanzanie, en Ouganda, en Zambie et au Ghana, et leur appartenance à ces groupes. Il avance, dans sa conclusion, que si les groupes d'épargne peuvent aider à faciliter les dépenses opérationnelles et les flux de trésorerie – et par-là, soutenir les microentreprises des membres – dans les contextes privés d'opportunités, leur potentiel transformationnel est probablement survendu.

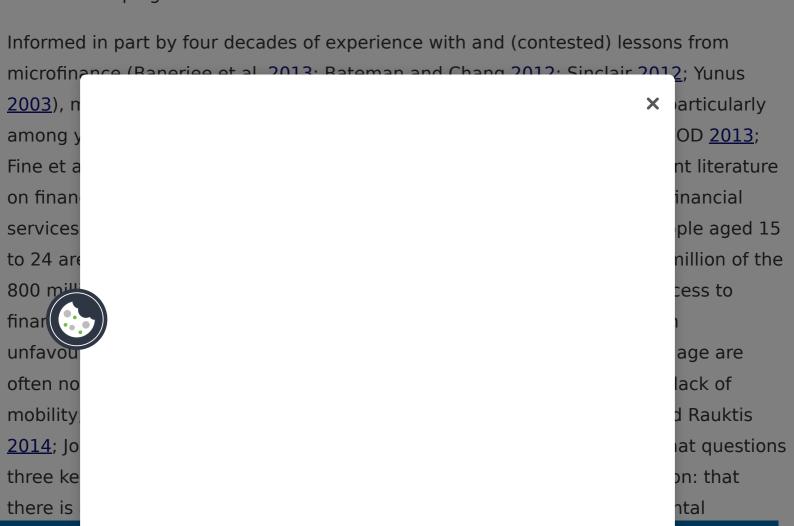
La tríada capacidad empresarial, autoempleo e inclusión financiera apuntala las intervenciones de políticas públicas y de desarrollo orientadas a hacer frente a la elevada tasa de desempleo entre los jóvenes de África. Como paso inicial hacia la inclusión financiera y el empoderamiento económico, se han promocionados ampliamente los grupos de ahorradores jóvenes. El presente artículo da cuenta de los vínculos existentes entre las actividades generadoras de ingresos en las que participan 57 integrantes de grupos de ahorradores jóvenes de Tanzania, Uganda, Zambia y Ghana, y el hecho de ser miembro de estos grupos. En este sentido, se concluye que, si bien los grupos de ahorradores pueden facilitar la realización de ciertos gastos operativos y los flujos de caja —asegurando a las microempresas de sus miembros— en contextos yermos de oportunidades, es posible que se haya exagerado su potencial de transformación.



managed well, Africa's "youth bulge" is also seen as a potential liability linked to political instability (Agbor, Taiwo, and Smith 2012, 9).

It is in this context of a "youth employment crisis" (ILO <u>2012</u>) that national governments and international development agencies are now prioritising young people and particularly their access to economic opportunities (FAO, CTA, and IFAD <u>2014</u>; MasterCard Foundation <u>2015</u>; USAID <u>2012</u>). With limited growth in formal sector jobs, the focus has turned very much toward self-employment and small-scale entrepreneurship within the informal sector as a route into remunerative work (Gough and Langevang <u>2016</u>; Langevang, Namatovu, and Dawa <u>2012</u>).

This article is about the links between financial inclusion and livelihoods of poor young people. We follow the OECD in defining financial inclusion as "providing access to an adequate range of safe, convenient and affordable financial services to disadvantaged and other vulnerable groups, including low income, rural and undocumented persons, who have been underserved or excluded from the formal financial sector" (FATF 2011, 12). Our specific focus is on youth savings groups as these are promoted as a means of instilling the habit of savings and providing access to financial services to young people in the developing world.



beneficial to the poor; and that there is an untapped business opportunity in providing financial services to the poor.

It is in this context that some NGOs promote the use of savings groups as a means of providing young people with financial services. Informal savings groups are seen as a "springboard" to financial inclusion, fostering good savings behaviour and asset accumulation (Smith, Scott, and Shepherd 2015, 7). One particularly important claim about savings groups is that:

[I]ivelihoods of households and entire communities have been transformed by the power of members knowing that at any time they can call on savings, credit, and insurance benefits in a manner that is flexible, appropriate to their situation, and set in an administrative and social culture where they feel understood and valued. (Allen and Panetta 2010, 5)

It is also suggested that by encouraging savings and providing access to loans, youth savings groups can help young people to start or expand income-generating activities. Although the benefits of savings groups have been widely proclaimed (Ashe and Neilan 2014; Boonyabancha 2001; Lowicki-Zucca et al. 2014; Wilson, Harper, and Griffith 2010), as with the experience with microfinance more broadly, programme evaluations and randomised control trials have yielded mixed and inconclusive results (Gash and Odell 2013; Karlan et al. 2012)

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of global poverty" (Snodgrass 1997, 1), others have painted a different picture. Bateman and Chang (2012), for example, argued that the microfinance model is likely to keep people in a poverty trap because the addition of microenterprises in what is already usually a saturated informal sector increases competition for the limited amount of available resources, thereby reducing the returns and viability of such enterprises. The poor are also not able to start or expand their microenterprises through microfinance, for example, by investing in and using more sophisticated technology, given that the returns are usually over the longer term, or small-scale farmers simply cannot produce enough surplus to pay back the high interest rates from microfinance institutions. This is an important aspect of what Dichter (2006) described as the "paradox of microcredit" – "the poorest people can do little productive with the credit, and the ones who can do the most with it are those who don't really need microcredit, but larger amounts with often longer credit terms" (4).

Apart from the problematic link between access to finance and entrepreneurship, a recent review of self-employment interventions targeted at young people published by the International Labour Organization (ILO) cast doubt on the emphasis on self-employment. Specifically, it found that while self-employment can serve as a coping mechanism for individuals and families to generate income in contexts where few economic or employment options exist, "promoting self-employment is probably not a particularly effective policy mechanism by which to promote upward social mobility or

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The article is structured as follows. The next section provides a description of our research methodology. We then present findings on the income-generating activities undertaken by members of youth savings groups, and the roles that loans and shareouts from the savings group play in these activities. The term shareout refers to the distribution of all savings, plus accrued interest, to the individual members of a savings group at the end of a "savings cycle" (typically between six and 12 months). The final section discusses the implications of these findings. We conclude by suggesting that the assumptions underpinning the promotion of youth savings groups need to be critically examined, particularly as they relate to the potential role of savings groups in supporting positive transformation of youth livelihoods through income-generating activities.

### Methodology

The data used in this article were collected as part of an academic partnership between the Banking on Change (BoC) programme and the Institute of Development Studies (IDS) (Flynn and Sumberg 2016). BoC was a joint programme involving Plan International, CARE International, and Barclays Bank. It supported access to financial services by mobilising individuals from opportunity constrained communities into

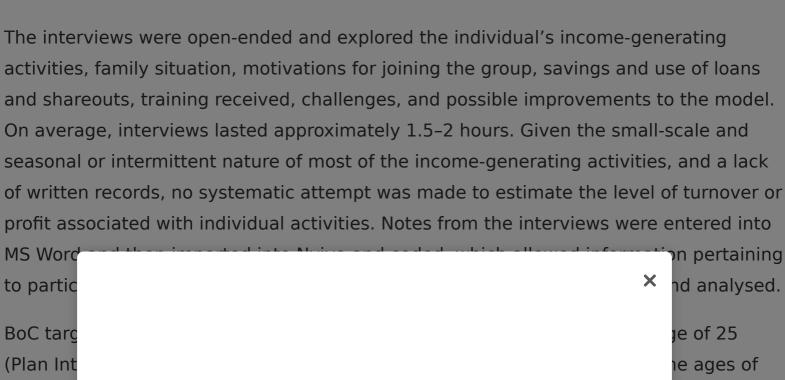
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also mindful of their age and sex, and whether they had participated in the baseline survey. The strategy used to identify savings groups and group members, as detailed in Flynn and Sumberg (2016), was meant to capture the diversity of members and savings and borrowing patterns, rather than to arrive at a representative sample. We also analysed savings and borrowing activities as recorded in group ledger books and individual passbooks. In total, over the eight groups, the ledger books and pass books allowed us to construct indicators of savings and loan activity for 280 individuals (these data are not reported here; see Flynn and Sumberg 2016).

# Table 1. The Banking on Change youth savings groups.

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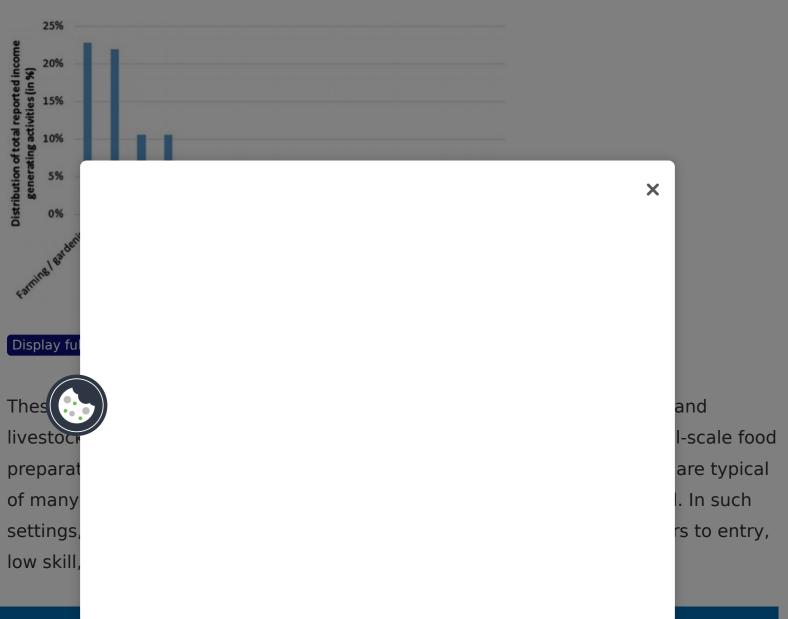


## **Findings**

#### Types of income-generating activities

We start by providing an overview of the types of income-generating activities engaged in by savings group members. The 57 interviewees reported being involved in 114 income-generating activities (Figure 1). The number of activities per interviewee ranged from none (this was the case for six interviewees, five of whom were students with the other having recently completed junior high school) to five. The mean and median number of activities per interviewee was two.

Figure 1. Income-generating activities of interviewees.



For example, a 16-year-old female student in Zambia (ID 39, Cat. 1) sold sweets to her classmates at school. A 22-year-old married mother in Uganda (ID 18, Cat. 5) traded charcoal and farmed a 1.25-acre plot which belonged to her husband's family, and rented another 1.5-acre plot. Maize, cassava, and potatoes provided her with some food for household consumption and some income. She estimated selling three basins of charcoal (a basin is about the size of a large suitcase) per week. Sometimes she ran out of both crops and charcoal to sell. A 19-year-old single man in Uganda (ID 19, Cat. 2) said that he generated income as a DJ and through farming, brick making, and livestock raising. He performed as a DJ at least once per weekend, and sometimes during the week as well, using his own computer (but renting out the sound system). He farmed a 0.5-acre plot of his parents' land, producing mainly maize and cassava, some of which was sold. He also reported making a pile of bricks which he was still waiting to sell. He used a loan from the savings group to treat some piglets he had purchased, but they all died. He had still not been able to achieve his goal when joining the savings group, which was to purchase his own sound system. A 20-year-old mother in Uganda (ID 25, Cat. 5) farmed and traded charcoal and fish. She started her fish trading activity three years ago with a small amount of capital she had set aside from doing casual labour, and now traded fish four days a week (when the market was open). She started trading charcoal through a loan from the savings group because she "didn't want to be idle on the days where she wasn't trading fish". She farms with her

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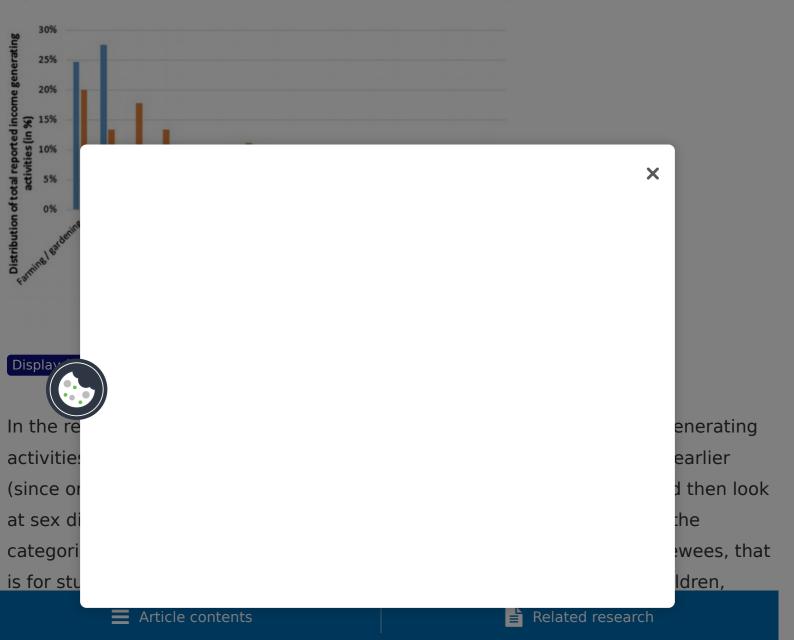
ng area. He

"research" (specifically to identify cheaper suppliers); his ambition was to open a wholesale shop. A 22-year-old single man (ID 33, Cat. 2) was trading charcoal before using a shareout to buy a computer and printer to establish a copy shop and recording studio. He also recently started a carpentry business in the same location.

#### A disaggregated view of income-generating activities

This section presents a disaggregated view of income-generating activities. Figure 2 shows the distribution of all income-generating activities by gender of interviewee. While farming (including commercial gardening) was equally important for both females and males, engagement in other economic activities was more or less strongly gendered. For example, female interviewees more commonly engaged in trading, food preparation and selling, hairdressing, and shopkeeping, while males were more likely to engage in casual labour (typically agricultural wage labour) and livestock raising. Brick making and building-related activities were only undertaken by males.

Figure 2. Income-generating activities of interviewees, by gender.



were involved in a total of 66 income-generating activities (Table 3). Three activities – trading, farming, and food preparation – formed a strong common core across all categories, accounting for between 54% of activities for interviewees in Cat. 2 and Cat. 4, to 68% for those in Cat 5. There was little difference in the scale of trading activities across these categories, and few signs of growth over the approximately one and a half to two-year timespan covered by the interviews. The scale of farming also varied little, with the vast majority of interviewees farming no more than 2 acres, usually on their partner's or parents' land.

Table 3. Income-generating activities of female interviewees, by category.

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Beyond this common core, interviewees with children but no partner (Cat. 4) were more likely to engage casual labour. In contrast, those with fewest domestic responsibilities (Cat. 1 and 2) were more likely to engage in livestock rearing. All livestock activities were small-scale: interviewees in Cat. 1 were raising a few chickens, while the two Cat. 2 interviewees both bought and raised one goat (which in one case had given birth to two kids). Members had thus not been able, in the time covered by the interviews, to cignificant livestock assets. Finally, nearly a quarter of the activities of Cat. amass an 5 intervi X running a small sh ese activitie students We proc (Cat. 1) artner" (Cat. 2). Thirt -generating able 4). With activ the ex , a strong trading, and gender o male stu all-scale

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who was keeping two goats and three chickens. He said he had been able to acquire his livestock by raising chicks from chickens he bought after a harvest, and selling some of them to buy goats.

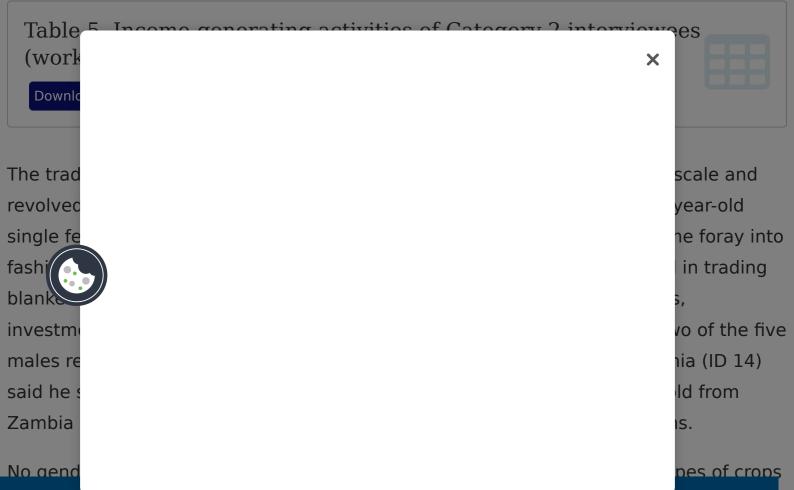
Table 4. Income-generating activities of Category 1 interviewees (students), by gender.



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We now turn to Cat. 2 interviewees, who were "working, without children, without a partner". This is an important category because these individuals are just starting out: they have limited domestic responsibility, but neither do they benefit from the potential support of a partner. The 15 interviewees in this category reported engaging in a total of 38 income-generating activities (Table 5). Both males and females were involved in trading, farming, and livestock raising, and together this common core accounted for 56% and 69% of activities reported by males and females respectively. Some activities, including food preparation, hairdressing, and money lending, were only reported by females, while others including brick making, casual labour, and building-related activities, were only reported by males.

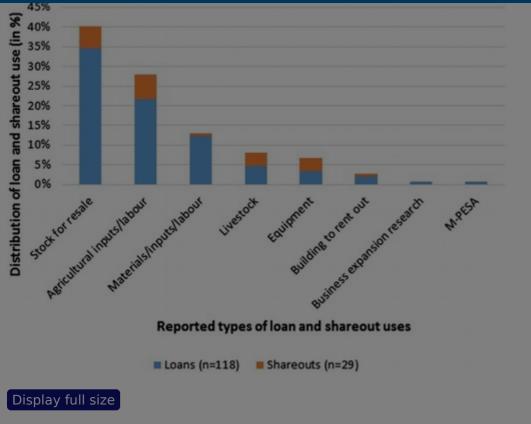


reported rearing single goats, while males reported rearing multiple (e.g. three) pigs or chickens.

#### Savings groups and income generation

In this section we ask the question, how have the savings groups been used to support these income-generation activities? Overall, 189 cases of loan use and 105 cases of shareout use were reported – 62% of cases of loan use and 28% of cases of shareout use were associated with interviewees' income-generating activities. The greater use of loans to support income generation may reflect the fact that the financial literacy training that most interviewees received through the BoC project emphasised the need to use loans "productively". For example, one member (ID 34, a 27-year-old single mother of two) recognised that a challenge within her group was that some people "still don't borrow for productive purposes" (which hinders members' abilities to repay the loans and which consequently reduces the amount of money available for borrowing), despite the fact that members had been told by the trainers to invest in things such as assets. In contrast, most shareouts were used to meet household expenses, such as groceries, children's education, land (for housing), and home improvements such as metal roofing sheets and furniture, especially mattresses.





Females used both loans and shareouts to purchase stock for resale (48% of loan and shareout use), while the single most important use of loans and shareouts by males was for farming (36 percent of loan and shareout use). There were few examples of loans or shareouts being invested in new skills, technology or equipment (Figure 4).

Figure 4. Loan and shareout use towards members' income-generating activities, by



Among the 34 females in Categories 1, 2, 4, and 5, 89 loan and shareout uses were reported (Table 6). The purchase of stock for resale and of agricultural inputs and labour accounted for the majority of uses across all categories. Outside this common core, interviewees with fewer domestic responsibilities (Cat. 1 and 2) purchased livestock, while only four female interviewees, all of them with both children and a partner, invested in equipment.

Table 6. Loan and shareout use of female interviewees, by category.



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Within categories, eight of 18 students (44%) reported 12 loan and shareout uses. Both male and female students used loans and shareouts to purchase stock for resale, agricultural inputs and labour, other materials and labour, and livestock. The number of cases is limited, but there is little indication of consistent gender-based differences in the way loans and shareouts were used by the students. The same is true for Cat. 2 interviewees (working, no children, not with a partner), thirteen of whom reported 55 uses of loans and shareouts to support their income-generating activities (Table 7). Again, a strong common core of uses is apparent, including purchase of stock for retail,

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ultimately unable to use his pool table as it was irreparably damaged during shipment). Finally, a 28-year-old married doughnut maker from Uganda (ID 16, Cat. 5) used a shareout to buy a bicycle to increase the range and number of customers he could reach; he was observed carrying his doughnuts through the village on the bicycle.

Beyond this, a few interviewees also reported buying equipment in order to initiate activities at a later date. For example, a 21-year-old married woman from Dar es Salaam (ID 3, Cat. 5) bought a fridge for a "kef" activity she wanted to start (a kef is a small snack bar); she planned on investing additional money from the savings group to buy the equipment she was still missing, including tables and chairs. Another married woman from Dar es Salaam (ID 7, Cat. 5) had used three loans to buy equipment for a hair salon she wanted to open; she intended on using the money from her next shareout to rent space for the salon.

#### Discussion and conclusions

In the previous sections we presented data on the income-generating activities of 57 members of youth savings group from Tanzania, Zambia, Uganda, and Kenya, and their use of loans and shareouts. Four key points emerge from this analysis. First, the vast majority of the income-generating activities were small scale, involved little technology,

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activities tends to increase competition for resources and income, thereby restricting the viability and growth of such activities. In these contexts, therefore, the transformational potential of savings groups, and financial inclusion more generally, is limited, at least in the short term. This signals the need for a critical re-evaluation of the "entrepreneurship-self-employment-financial inclusion" triad that is now so central to policy and development programme responses to the youth employment challenge.

None of this is to say that savings groups may not be valuable in supporting young people's income-generation activities and their efforts to build their livelihoods. For members and their families, savings groups may provide an additional way to access and distribute usually small quantities of cash, without which it might be more difficult to sustain their economic activities and generate income through trade, farming, or investing in assets such as land and livestock. But, however important this may be, it is far from the general claim that informal savings groups can underpin a revolution in local economic activity.

Yet, there are other possible ways to think about savings groups, which put less emphasis on the short term or direct link with income generation. For example, it may be that the real benefits of membership are in terms of learning, behavioural change (being more business minded, controlling expenses, and restricting "youthful" behaviour), building social capital, and the possible slow but steady accumulation of

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#### Acknowledgments

We are indebted to the BoC partners, including Plan UK, CARE International, and Barclays, for their support during the course of this work. We also thank the two anonymous reviewers for their useful suggestions.

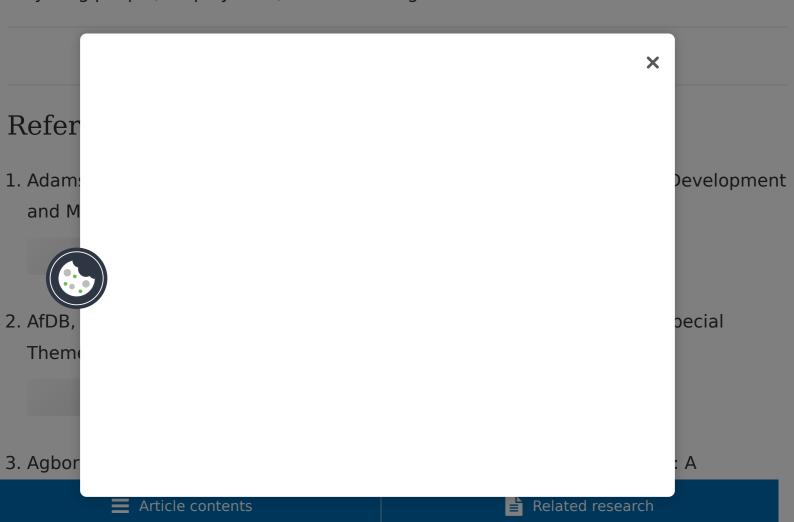
#### Disclosure statement

No potential conflict of interest was reported by the authors.

#### Notes on contributors

Justin Flynn is a Research Officer at the Institute of Development Studies (IDS) in the UK. He has a background in history and development and has work experience mainly relating to young people, savings groups, entrepreneurship, and employment in Africa.

James Sumberg is an agriculturalist by training. He currently works as a Research Fellow at IDS, where he leads the Rural Futures Cluster. His research presently focuses on young people, employment, and the emergence of the Livestock Revolution.



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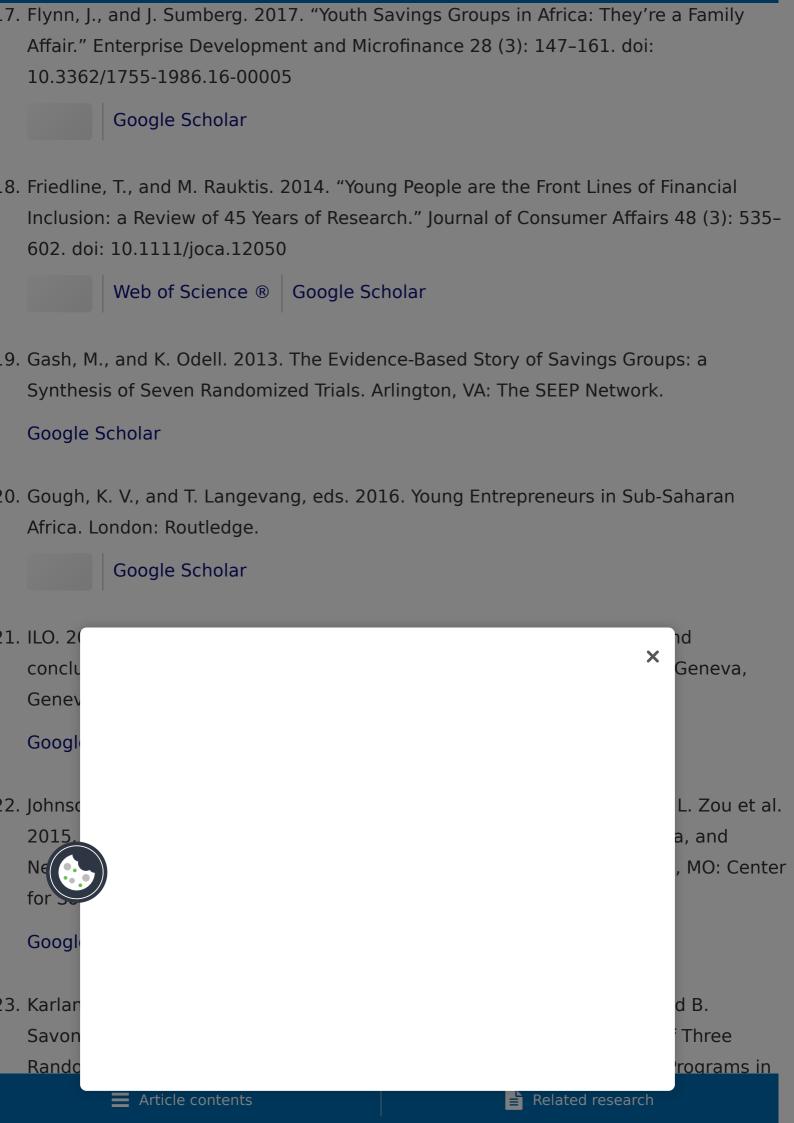
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