

# Contractual Children Savings Accounts in Low Resource Communities: Who Saves?

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## **Abstract:**

### **Objectives**

The study examines variation in saving behavior of poor families enrolled in a children savings accounts program for orphaned and vulnerable school-going children in Uganda.

### **Literature Review**

This paper focuses on Child Development Accounts (CDA)—bank accounts opened in a child's name. This may be as early as at birth (Bennett, Quezada, Lawton, & Perun, 2008; Nam, Kim, Clancy, Zager, & Sherraden, 2012; Prabhakar, 2010; Zager, Kim, Nam, Clancy, & Sherraden, 2010) or when children are already enrolled in primary school (Ssewamala & Curley, 2006; Ssewamala, Han, & Neilands, 2009; Ssewamala, Han, Neilands, Ismayilova, & Sperber, 2010; Ssewamala, Neilands, Waldfoegel, & Ismayilova, 2011). The argument behind CDAs is that if savings are good for old people, they are even more essential for the young ones: CDAs do not only contribute to overall child development, but they also contribute to children's psychosocial behavior (Ssewamala et al., 2009).

Although, studies exist on the impact of contractual savings, including Child Development Accounts in poor communities, specifically those in Sub-Saharan Africa (Ssewamala et al., 2009; Ssewamala & Ismayilova, 2009; Ssewamala, Ismayilova, et al., 2010; Ssewamala et al., 2011), we know very little about the drivers of the saving behavior of participants in contractual savings being implemented in poor countries. In other words, what factors account for variation in saving behavior among participants in these programs? Can we use the existing western focused theory to explain the observable variations? To address this gap, we use data from an NIH funded study on CDAs, called Suubi-Maka, implemented in Southwestern Uganda between 2008 and 2012. We specifically address the following question: What accounts for saving variations among poor participants in a contractual Child Development Accounts Program? Saving variation will be measured by three outcomes: whether participants opened up a CDA, average monthly savings in CDA; and deposit frequency in CDA.

### **Methodology**

Paper uses data on treatment group (n=179) in randomized control trial – Suubi-Maka. Children in the treatment group (n=179) had CDA opened for them. Deposits up to US\$8 were subject to match (rate 2:1) on a monthly basis for a total period of 20 months. Withdrawals from accounts were allowed only to cover educational expenses or a family small business initiative. Information on savings outcomes is an administrative data collected from the banks. Data on predictor variables was collected in three waves (i.e., baseline, a 12-month follow-up, and a 24-month follow-up). Data on outcome variables reflects savings by the end of the intervention. Multilevel models are fit to predictor measures changing over the course of three waves—to obtain empirical Bayes predictions of random intercepts and random slopes. After obtaining the empirical Bayes predictions on



predictors, we fit regression models of three outcome measures onto estimates of random intercepts and slopes separately.

### **Findings and Analyses**

Out of 179 families enrolled in treatment group, 81.6% (n=146) had Child Development Accounts opened up as a result of participation in the study. Out of the 146 accounts opened, 8.2% (95% CI=0.3, 72) were opened in Kakuto Microfinance Institution; 35% (95% CI=4.2, 87) were opened in Centenary Bank and 57% (95% CI=8.8, 95) were opened in DFCU bank. Financial institutions were unevenly distributed across the schools, which may explain significant variation in 95% confidence interval estimates. Out of 146 accounts opened, 11 accounts were never activated and 17 accounts had no deposit made during the project implementation period—beyond the opening amount provided by the project. In 118 CDA, each participant saved an average of UGX 5,477 per month (an equivalent of USD 3.04. Average exchange rate was 1USD for 1,800 UGX at the time of the study). The bottom 10% saved an average of UGX 171 while the top 10% saved an average of UGX 19,090. Average frequency of depositing equaled to 0.29, that is, participants deposited 29% of time when the account was opened.

Our analyses locate the following significant results: (1) financial institutions' characteristics affect average monthly savings and deposit frequency; (2) reported high levels of family cohesion are associated with higher deposit frequency; (3) children in the care of female guardians report higher average monthly saving and deposit frequency.

### **Policy Implications**

The study has the following key implications: financial institutions and family relations matter in children savings mobilization.

In line with institutional theory of saving and previous findings on importance of institutions in affecting savings outcomes, our findings show that financial institutions significantly affect savings in Child Development Accounts. Further research may be needed to understand what specific operational procedures within financial institutions affect saving behavior of their clients. This being said, however, our findings suggest that institutional structures of asset-building initiatives affect savings among poor children and their families in poor communities of Sub-Saharan Africa. Specific institutional features, therefore, shall be focus of policy initiatives encouraging asset building among poor communities in Sub-Saharan Africa.

In agreement with previous studies, families play an important role in children saving mobilization. This finding suggests that families—both biological and extended families—shall be seen as a vital component in building assets for poor children in Sub-Saharan Africa.

### **Policy Recommendations**

Having savings accounts help children better understand concepts related to savings and investment, and this may have a long-term impact on children's savings behavior as adults, thus, break the circle of intergenerational poverty. Identifying factors that account for saving behavior—specifically among children and their families in poor communities in Sub-Saharan Africa—can help improving saving performance and, therefore, contribute to successful asset-building in the long-run. Furthermore, it may add to the knowledge on feasibility of social welfare policies focused on asset-building (in this case savings)—rather than meeting immediate consumption needs—for the poor.

**Keywords:** Child Savings Accounts, family-based economic empowerment, Uganda

