

FSD Updates

REACHING RURAL KENYA WITH GROUP SAVINGS AND LOANS ASSOCIATIONS

Group savings and loans associations (GSLs)

Group savings and loans associations (GSLs) are a simple financial intermediation model where members of a group (usually between 10 and 20) contribute equal amounts of savings or their multiples during meetings which are held weekly, fortnightly or monthly. The savings are then loaned out to members of the group at an agreed interest rate, building up the group's funds. The members' passbooks are the core form of documentation although in some GSLs a simple ledger showing each meeting's transactions is also kept. At the end of every 12 or 18 month period, an action audit is done and the savings together with interest from loans are distributed to the members in proportion to their savings. The GSL is then dissolved but reforms immediately. Research has shown that due to the simple nature of the model, GSLs continued functioning well and independently following initial support in the form of training. CARE Kenya with FSD's support has designed and is currently implementing a GSL development project which is testing cost-effective ways of delivering training to GSLs. Results from the project will be shared with other GSL implementing organisations semi-annually in forums to be organised by CARE.

In September 2008, CARE Kenya, with support from FSD Kenya launched a pilot project of group savings and loan (GSL) promotion, designed to test whether innovative management and incentive systems could lead to large outreach at low cost per member.



Rev. Elisha of the management committee of the Church of God in Kima (Western Province), standing with one of their groups. (CARE's Nelly Otieno seated in center). The committee manages four CBTs, who constitute, for now, the fastest growing segment of CARE's programme: they formed 26 groups with 756 members in February 2009.

CARE's Community Savings and Loans Project (COSALO), is simultaneously testing two innovations. CARE hopes that both innovations will permit greater outreach at lower cost, through empowering local entrepreneurs and faith based organisations to do work that previously was done by CARE or other implementors.

The first innovation being tested is that all the Community Based Trainers - CBTs - who do the actual work of group formation are being paid exclusively



Judy Angaya (L) with one of her five CBTs. Ms Angaya owns a bookstore, but is sharing management with her husband, so that she can work half the time with the CBTs.

on a commission basis. They receive approximately two dollars per group member in all the groups they form, with two-thirds paid when the group starts saving, and one-third coming when the group distributes its assets at the end of the year to ensure that CBTs monitor the groups' quality over the year. The CBTs are not CARE employees, but independent contractors working purely on a commission basis.

The second innovation is that CARE is transferring some of its management responsibilities to two groups of local partners: faith-based organisations (FBOs) and local entrepreneurs, (franchisees). The franchisees operate under a memorandum of understanding with CARE, and are recompensed for their work at about \$3/per member.

As part of the test, CARE is also directly managing a small group of CBTs; although they are managed by CARE, they also are paid on a commission basis.



Franchisee John Amisi sells agricultural inputs and promotes *moringa*, a tree with medicinal properties. He manages five CBTs who formed 65 groups between November 2008 and February 2009. His target is 155 groups by October 2009, and he feels confident that he will surpass it.

COSALO delivery channels

Category	Managed by	Number of CBTs
Direct CBTs	CARE	10
FBOs	Five churches	20
Franchisees	Four local entrepreneurs	20

Initially, CARE is directly responsible for the training of CBTs, and provides a great deal of technical assistance and oversight to the FBOs and franchisees. In future, CARE expects to delegate an increasing amount of responsibility to the franchisees and FBOs.

The ten Direct CBTs, like all the CBTs, are independent contractors managed by CARE’s field staff, and paid on a commission basis for each group member trained. Many of the Direct CBTs are recent graduates of teachers colleges, who either could not find a teaching job, or preferred to work for CARE.

CARE has signed memoranda of understanding with five FBOs – the Catholic Church, the Church of God of East Africa, the Quakers, the Seventh Day Adventists, and the Word of Faith Church. In each case, the churches have set up committees who in turn supervise the CBTs, and assist with mobilisation of new groups. The church committees each manage three or four CBTs. CARE signed an MOU with the predominant church organisation in each district, but the FBOs agree to be non-denominational, and publicize their services to everyone, regardless of religious beliefs.

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Two groups, sponsored by the Catholic Church, meeting in Ekerubo, Nyamira District. Groups frequently meet in clusters, which aids efficiency. CARE has to fight a tendency of groups to continue to add members; many groups have as many as 40 members, leading to long meetings.



Leonida Makori is a franchisee who also runs a hair salon, sells clothes, and manages three MPESA outlets. She oversees five CBTs who have started 75 groups since November 2008. She spends more time on the CBTs than on her other enterprises, and would like to expand the GSL business, and turn her other activities over to other people.

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CARE has also signed MOUs with four *franchisees*, local entrepreneurs, who in turn supervise groups of CBTs. The *franchisees*, two men and two women, all have existing businesses: they sell agricultural products; run a hair salon and sell MPESA money transfer services; own a bookstore; and transport goods. The *franchisees* have about five CBTs each, and most say they could manage twice that number.

In all three cases, CARE provided the initial training to the entrepreneurs and FBOs, and to the CBTs. CARE staff provide regular support and visits to the CBTs and the franchisees and FBOs.

The initial results, four months after the first groups were formed, are positive. The project is well ahead of its goal of having each CBT form three groups a month; in February 2009, the average was 4.4 groups per CBT. Group quality seems to be very good. Operational costs are now about eleven dollars per member; the goal for the entire project is ten dollars.

CARE will continue to study the progress of the experiments carefully. It is bringing in a consultant on franchising to help perfect the agreements with the franchisees and FBOs; in particular the consultant will help re-examine the remuneration plans, and help develop a code of conduct to separate the other businesses of the entrepreneurs from the savings group business. CARE still needs to strengthen its data management substantially, put in place safeguards against double-counting of members of multiple groups as well as the eventual creation of fictitious groups, and develop both an exit strategy for the regions where it is working, and an expansion strategy that will allow it to take advantage of the large networks of the FBOs, as well as allowing the most successful franchisees to expand their businesses into other regions.

Compiled by Anthony Murathi, Nelly Otieno (of CARE Kenya) and Paul Rippey, an independent GSL consultant.



Ekerubo Catholic Church Parish Committee. The group oversees four CBTs, with 31 groups. The original committee, formed in November 2008, had not fully understood their responsibilities, and had to be replaced as did one of the CBTs. As a result, the Catholics are off to a relatively slow start, but expect to catch up soon with the other FBOs. One of the committee members said, "Instead of going to the priest and saying 'We want...'; the parishioners now say, 'We have...'"



Established in early 2005, FSD Kenya aims to support the development of inclusive financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry our goal is to significantly expand access to services among lower income households and smaller scale enterprises. FSD operates as an independent Trust under the supervision of professional trustees, with policy guidance from its programme investment committee. Finance is provided by a number of development partners including the UK's Department for International Development (DFID), the World Bank, the Swedish International Development Agency (SIDA) and Agence Française de Développement (AFD) together with the Government of Kenya.

WORKING WITH FSD

FSD works with a wide range of partners across government, the private sector and non-governmental organisations. We are always open to any new ideas and partnerships where they can contribute to our mission of increasing financial inclusion in Kenya. Since our aim is to help in developing markets which are changing rapidly, we do not prescribe a specific rigid process for organisations wanting to work with FSD. There is no application form. Nevertheless we do have principles which guide the way in which we work. Anything in which FSD is involved must clearly contribute to the development of inclusive finance in Kenya. FSD can invest in building financial markets through technical assistance, grants, loans or equity. The long-term return we seek is in terms of the contribution to increasing financial inclusion. A major concern is to ensure that our funding does not contribute to market distortions – especially anything which might give an unfair competitive advantage to a particular market player.

We always expect to see our partners taking a significant and tangible stake in projects, sharing the costs and risks. In working with the private sector an appropriate level of financial contribution is essential. Where our funding is used by ourselves or our partners to purchase goods and services, best practice

procurement principles must be followed. We want to encourage fair and open competition stimulating the development of markets while simultaneously ensuring the process is efficient and maximises value for money. In partnering with the private sector, we take a business-like approach. Our commitments will always be clear and honoured. Simultaneously partners are expected to achieve agreed targets.

MORE ABOUT FSD

We have an active information programme and are always delighted to answer questions about our work or Kenya's financial sector. Often the easiest way to obtain information is simply to visit our web-site on www.fsdkenya.org. This provides a range of up-to-date information and links to the sites many of our partners. All the studies published by FSD are available for download electronically from our web-site. If you have a specific question then this can be addressed to info@fsdkenya.org. We will respond to all queries as quickly as possible and you should always receive a reply within one week. Our quarterly newsletter contains updates on FSD's programme and can be downloaded from our web-site or e-mailed to you directly (let us know if you'd like to be included on our mailing list). Many of our publications are also available in hardcopy form and can be obtained on request.