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FSD News

EDITORIAL

There has been a recent resurgence of interest in micro-finance impact research with new evidence emerging from the use of randomised control trials (RCT) and financial diaries. The former is a long-established technique for establishing the efficacy and safety of drugs and is regarded by many researchers as providing a more robust measure of impact. It tackles the problem of the 'counterfactual' - what would have happened without the intervention - in this case access to finance. This is achieved by the use of 'control' groups which have similar characteristics to the 'treatment' groups. While the treatment groups are offered the micro-finance product under scrutiny, the control groups are not. Financial diaries meanwhile track people's financial lives and use of financial services on a day-to-day basis, revealing complexities which can be invisible to a purely survey based approach.

The well-publicised results from two recent RCTs (one in Hyderabad and the other in Manila) have fuelled a new debate over the impact of micro-credit. Both studies failed to find evidence of a dramatic impact on the livelihoods of users. While some positive effects were certainly found, equally there were a number of areas where there was no measurable impact and even some negative. A recent reappraisal of data from an often cited survey in Bangladesh has challenged the earlier findings of a strong positive impact from credit. Interestingly however a RCT conducted on access to savings in Kenya showed more consistent evidence of positive impact on the livelihoods of poor women saving with a Financial Services Association (FSA). All these results suggest a much more complex and nuanced story, strongly consistent with the insights obtained from the use of financial diaries.

While the publication of these findings has led to much angst in the micro-finance world, these results should come as no surprise. Micro-credit is not a magic bullet. As the sub-prime crisis in the US demonstrated so compellingly, credit can be a double-edged sword. The emerging challenge will be to maximise the positive impacts of micro-finance while minimising the negative. Perhaps a good starting point would be greater emphasis on access to safe and convenient ways to save rather than credit.

David Ferrand
Director

NEWS AND VIEWS

The press briefing after the launch of the credit information sharing project. From left: James Kashangaki (FSD Kenya), John Wanyela (KBA), Jared Getenga (the Project Manager), Prof. Njuguna Ndung'u (CBK Governor), David Wachira (KBA) and Peter Munyiri (Kenya Commercial Bank).

Credit reference

On 27th August 2009, while launching the implementation phase of the credit information sharing program in Kenya, the Governor of the Central Bank of Kenya (CBK) Prof Njuguna Ndung'u noted that sharing of credit information "offers Kenya an opportunity to promote access to affordable credit....because information lowers the risk premium and search costs" for lenders. During the function, Mr. Jared Getenga, Kenya Bankers' Association (KBA) Project Manager engaged with FSD support, confirmed that all banks had set up Credit Reference Bureau (CRB) project teams that will drive the process within the banks.

The CBK is processing three applications for banking sector CRB licenses. One of the applicants, CRB Africa, received an approval in principle and is undertaking an independent third party system and security audit. This will be followed by CBK's on-site inspection before a licence is granted. The Project Manager is working towards a pilot run early next year, and is in the process of identifying consultancy support that will work with a bankers' ICT committee to systematically tackle the complexities of data exchange between 43 banks. The aim is to work through a structured process for a smooth and sustainable roll-out of the information sharing mechanism.

Governor to champion financial education

Prof. Ndung'u, recently agreed to become the champion for the public-private Financial Education Partnership (FEP) initiative. He reiterated CBK's commitment to increasing financial capabilities in Kenya. Financial education will empower consumers, strengthening understanding of their rights and obligations and helping them to make informed decisions. Improved financial capabilities are key to strengthening the beneficial impact of financial services on people's lives. The partnership extended a warm welcome to Prof. Ndung'u.

Dairy value chain finance initiative

FSD and USAID's Kenya Access to Rural Finance (KARF) programme are working in partnership on a new initiative to support the development of finance in agricultural value chains. In the first phase, the focus will be on the dairy sub-sector for which a detailed analysis was undertaken earlier in the year. Results from this analysis showed clear evidence of the potential to develop profitable new financial products addressing the sub-sector. The project will provide specialist technical assistance to partner financial institutions wanting to design and pilot new products to take advantage of opportunities identified. Institutions wanting to participate should contact FSD or KARF. Other sub-sectors will be addressed in the next phase.

SME supply chain finance

Lack of sufficient working capital is a constraint for growing small and medium enterprises (SMEs) involved in many supply chains in Kenya. Responding to increased interest from the financial sector, FSD has created a new facility to support banks and other financial providers develop new products to unlock cash tied up in unpaid invoices and inventory. Factoring, invoice discounting and warehouse receipt discounting are some products that have worked well to achieve these goals in other markets. There is also interest in financing of local purchase orders (LPO) and bid/performance bonds. FSD will be offering technical assistance to partners to help make these products a permanent feature of the way SME trade is financed in Kenya.

IN DEPTH

FSD Kenya
Financial Sector Deepening

GROUP SAVINGS AND LOANS ASSOCIATIONS (GSLs)

A GSL meeting in rural western Kenya.

What are GSLs?

Group savings and loans associations (GSLs) are a simple community based financial intermediation model pioneered by CARE International, also referred to as village savings and loans associations (VSLAs). Members of a GSL (usually between 10 and 30) contribute equal amounts of savings or their multiples in the group meetings which are held weekly, fortnight or monthly. The savings form the loan capital which is lent to members at an agreed interest rate for short periods of time, building up the group's fund.

The members' passbooks are the core form of documentation although in some GSLs simple ledgers showing the meetings' transactions are also kept. The group's business is conducted during the meetings in view of all the members and this coupled with the simplicity of the model enhances transparency and accountability within the group. Use of a triple lockable cash box ensures security of the group documents (passbooks and ledgers - where used) and any cash which is not immediately lent out. Each key is kept by a different member of the group. The cycle of the GSL which is time-bound is agreed at the time of formation of the group and usually lasts between 12 and 18 months. At the end of this period an 'action audit' is undertaken and all the group funds distributed to the members in proportion to their individual savings. The group reforms immediately after the distribution, starting a new cycle of operations. Research has shown that due to the simple nature of the model, GSLs continue functioning well and independently following initial support in the form of training.

Are GSLs making a difference in access?

Results of the FinAccess 2009 survey show that 26.8% of the adult Kenyan population using informal financial services had no access to any other source. Meanwhile 32.7% of Kenyans remained completely excluded. These findings point to the significant current and potential role played by informal intermediation models such as GSLs in improving access.

CARE International Kenya started implementing the GSL model in 2004 and results of the pilot project showed that the average transaction sizes for the project were far below those reported by micro-finance institutions (MFIs), savings and credit co-operatives (SACCOs), and other informal service providers such as financial services associations (FSAs). The annual savings per member and loans averaged KShs 1,673 and 1,472 in the third year of the project. Small transaction sizes as well as the relative remoteness of the groups from the urban centres are a strong indication of the poverty level of the target populations.

FSD Kenya's involvement with GSLs

The results of the pilot together with research on other GSL projects strongly suggests that the GSL model has the potential to sustainably provide access to financial services to a large segment of the currently excluded remote, rural low-income population. However, the high cost of delivery of training posed a real constraint to scale-up.

CARE International Kenya with FSD Kenya's support has designed and is currently implementing a GSL development project aimed at: (i) refining the basic GSL model - to simplify training and improving group operations; and (ii) testing innovative delivery channels for training groups to enhance cost-effectiveness. In relation to the latter, the project is testing two innovations:

- Using community based trainers (CBTs) instead of direct CARE staff in formation and training of the groups. The CBTs are to be paid a KShs 130 commission per GSL member, with two-thirds of this paid when the group starts operations and the balance at the end of the first cycle after liquidation. This final payment will be subject to the quality of the training, to be gauged by the level of the fund loss and the ability of the group to reform following liquidation.
- CARE has contracted and is delegating part of its supervisory and management role to franchisees and faith based organisations (FBOs) within the project area. Once trained on the model and their management role, the franchisees and FBOs are charged with the responsibility of recruiting and supervising the CBTs and are paid a commission by CARE on similar terms as the CBTs. In addition to training the CBTs under these two channels, CARE is also monitoring the quality of training through random sampling.

CARE has on a small scale continued directly supervising CBTs as a control to these two innovations. While no variances have been noted regarding the quality of training to the GSLs (based on their ability to manage own operations and duration of meetings), the FBOs and franchisees are proving to be much more cost-effective than the direct CARE approach, reducing the cost per member by over half. Results of the project will be regularly shared with other GSL implementing organisations in the country to inform a possible scale-up. The target is to reduce the total training cost per member to $10 or less.

EVENTS CALENDAR

22nd February - 13th March 2010	**Certificate Programme in Microfinance Management (CPMM),** Pretoria - South Africa (Enrolment: www.cebeatup.co.za/enrol/EnrolmentForm.pdf Information: info.ce@up.ac.za)
4th-5th March 2010	**Marketplace on Innovative Financial Solutions for Development,** Paris – France (Application form: www.fininnov.org Information: info@fininnov.org)
7th-12th March 2010	**Making markets work for enterprise in Africa,** Mombasa – Kenya A training programme from the Springfield Centre (www.springfieldcentre.com)
7th-10th April 2010	**Africa and Middle East Regional Microcredit Summit (AMERMS),** Nairobi – Kenya (www.microcreditsummit.org)

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