

BUILDING FINANCIAL CAPABILITY OF SAVINGS GROUP MEMBERS IN KENYA

FINANCIAL LITERACY AND CONSUMER PROTECTION REVIEW

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This report was commissioned by FSD Kenya. The findings, interpretations and conclusions are those of the authors and do not necessarily represent those of FSD Kenya, its Trustees and partner development agencies.



The Kenya Financial Sector Deepening (FSD) programme was established in early 2005 to support the development of financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry, the programme's goal is to expand access to financial services among lower income households and smaller enterprises. It operates as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). In addition to the Government of Kenya, funders include the UK's Department for International Development (DFID), the World Bank, the Swedish International Development Agency (SIDA), Agence Française de Développement (AFD) and the Bill and Melinda Gates Foundation.



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Abbreviations

AKF	Aga Khan Foundation	MFO	Microfinance Opportunities
ASCA	Accumulating Savings and Credit Associations	NHIF	National Health Insurance Fund
CBT	Community-based Trainer	NSSF	National Social Security Fund
COSALO	Community Savings and Loan	PRA	Participatory Rapid Assessment
CRS	Catholic Relief Services	PSP	Private Service Provider
DAI	Development Alternatives, Inc.	ROSCA	Rotating Savings and Credit Association
DFS	Decentralized Financial Services	SACCO	Savings and Credit Cooperative
FA	Facilitating Agency	SEEP	Small Enterprise Education and Promotion
FBO	Faith-Based Organization	SG	Savings Group
FE	Financial Education	SILC	Savings and Internal Lending Communities
FGD	Focus Group Discussion		
GSL	Group Savings and Loans		
KShs.	Kenyan Shillings		
KWFT	Kenya Women's Finance Trust		
MFI	Microfinance Institution		

EXECUTIVE SUMMARY

In February, 2012 Financial Sector Deepening (FSD) Kenya engaged Microfinance Opportunities (MFO) to propose the broad outlines of a financial education curriculum for Savings Groups (SGs) as well as options for its delivery. The scope of work included:

- Gauging SG members' financial literacy and consumer protection needs;
- Reviewing existing, nascent financial education efforts targeted to SGs; and
- Making recommendations on incorporation of financial literacy and consumer protection into SG training.

The consultant visited CRS and CARE program sites in Malindi and Kisumu, respectively. She conducted a total of 9 focus group discussions with Savings Groups and 4 with field staff, in addition to 7 individual interviews with agency management.

OBSERVATIONS ON FINANCIAL EDUCATION NEEDS

Applying the lens of financial education to savings groups highlights that the SG methodology itself is a powerful tool for teaching members the basics of saving and borrowing. During the first cycle, members are somewhat tentative, but increase both their savings and borrowing after the first share-out, when they recoup their savings plus interest. At this point, members realize that the more they borrow, the more they earn on their savings. Interestingly, in the SG model, saving and borrowing are inextricably linked. Saving is good for borrowing, increasing capital available for loans, and borrowing is good for saving, with loan interest increasing the dividend members receive at the end of the cycle. The intertwined nature of savings and borrowing within SGs poses a challenge to a basic message of financial education: Borrow Wisely. Two key questions are raised:

- Do SG members borrow wisely? Do they know what it means to borrow wisely?
- Are SG members pressured to borrow in order to increase dividends on everyone's savings?

While the evidence does not point a serious problem with debt management, there are indications that members could improve their financial stability through a better understanding of how to borrow prudently and make the best use of loans.

Another observation relevant to financial education is that SG members do not budget or plan ahead with any regularity. They don't anticipate their income or how they will spend it; they don't save outside of the SG. Members are motivated to participate in SGs initially because of the promise of a lump sum of money at the end of the cycle. Yet, there is wide variation in how they plan (or don't plan) to use these funds.

The consultant observed that members lack a vehicle for short-term savings where they can keep their cash safe from temptations and family pressures. Members report numerous occasions on which they are holding more cash than they feel is secure, including money received at share-out but awaiting investment, and surplus cash that exceeds the maximum allowed to be saved in a given week (or month). Some SG members use the box for short-term savings. However, in Nyamira, they are increasingly using M-Pesa to store their cash, and report holding it there for as little as one day and as long as three months. The increasing access to and popularity of M-Pesa points to the need for members to learn about both the benefits and costs of e-wallet services.

Consumer protection for SGs is a growing concern. Most internal threats (e.g. elite capture, fraud etc) are addressed by the groups' constitutions and there is little evidence of actual external threats (e.g. aggressive lenders or vendors, pyramid schemes etc). However, with evolving delivery strategies, a compelling consumer protection issue is emerging. The increasing use of fee-for-service remuneration for the trainers raises questions about the power of SGs to negotiate contracts, exercise rights and responsibilities vis-à-vis the contracts and resolve contract disputes. These are unfamiliar skills for many SG members who hold their trainers (PSPs and CBTs) in high regard and may be hesitant to question or challenge them.

The use of formal financial institutions elicits diverse opinions. On an individual level, an estimated 20% of SG members have accounts or have taken loans from formal institutions. Many report leaving MFIs in favor of the SG. However, at the group level, the need to manage excess liquidity on a short-term basis is very real. Whether banks offer the appropriate solution to this group problem is not clear. Some banks don't allow group accounts, forcing the SG to trust its collective savings to one account-holder; some rural groups resist paying the costs of travel to/from the bank to manage the account for such a short term (Most SGs have excess liquidity to manage for only a couple of months each cycle.) Nevertheless, it is safe to assume that over time, both individual members and groups will find their way to the bank, and they should know how to acquire and interpret the information they will need to use these services effectively.

RECOMMENDATIONS

Based on these observations, the consultant recommended a financial education curriculum of six modules: 1) Financial Planning; 2) Wise Borrowing 3) Mobile Technologies 4) Formal Financial Institutions 5) Consumer Protection and 6) Managing Risk. Each module will contain three to five sessions.

Relevant and meaningful content will lose its value if its delivery does not correspond to recipients' needs. In Kenya, stakeholders have largely embraced a face-to-face training approach as the main delivery channel. Furthermore, the trained SG trainers (both PSPs and CBTs) are seen as the logical choice for trainers in financial education. However, the following key questions need

to be addressed regarding how the training is delivered; given the variations in programming, it is likely that each facilitating agency will find their own answers.

1. Timing and sequencing: When should SGs participate in FE?
2. Integrated or Separate? Should the FE training be integrated with the SG training or conducted separately as a service for which the SGs pay separately?
3. How to charge for FE? The shift to a fee-for-service model will necessarily affect all components of the SG program. Consequently, the PSPs and CBTs will need to charge the SG members for any financial education training they provide.
4. Can any conflicts of interest be anticipated with fee-for-service trainers offering any parts of the proposed curriculum? For example, are there disincentives for CBTs/PSPs to deliver training on consumer protection themes?

Chapter 1

INTRODUCTION

1.1 BACKGROUND INFORMATION

In recognition of the continuing importance of informal markets in providing financial services to low-income populations, Financial Sector Deepening (FSD) Kenya has undertaken a number of initiatives to improve the efficacy, security and outreach of community-based informal finance in Kenya. Major activities have encompassed working with accumulating savings and credit associations (ASCAs) under the Decentralized Financial Services (DFS) project and terminating ASCAs through the Group Savings and Loans Association (GSL) development project with CARE. The latter are now widely referred to generically as savings groups (SGs), a term that FSD has adopted to avoid confusion with a reference to particular models.

As potentially powerful touch points to strengthen financial capabilities for excluded and partially included low-income populations, savings groups can make a significant contribution to the underlying goal of broadening financial inclusion. To this end, FSD Kenya envisions a national scale up of savings groups, to begin in 2013. However, in preparation for this major expansion, it plans significant strengthening activities for savings groups, including building members' capabilities in financial literacy and consumer protection. Strongly linked to FSD's on-going work in financial education, this project component seeks to develop and pilot approaches for enhancing member understanding of 1) basic elements of financial literacy, such as budgeting and debt management; 2) formal services and products as needed in concert with future linkage efforts, and 3) personal rights and responsibilities as consumers of both informal and formal financial services. Strengthening these capacities will enable SG members to make better use of their participation in savings groups.

1.2 PURPOSE OF THE EXERCISE

Based on this background, FSD engaged Microfinance Opportunities (MFO) to provide technical support in gaining these insights and propose the broad outlines of a financial education curriculum for SGs as well as options for its delivery. Specifically, the purpose of this exercise was to gain better understanding of the key financial capability challenges that these groups and their members face, in order to design a relevant and appropriate financial education curriculum that promotes desired changes in personal money management behaviour. Basic market research can establish how savings group members allocate their resources to meet competing needs, what financial instruments and providers they choose to use, as well as how they believe they are protected from losing their money. The exercise was to be inclusive, that is, involve multiple SG practitioners – at least those agencies participating in the Kenya SG working group.

MFO contracted Senior Technical Advisor, Ms. Candace Nelson, who brings to this task both extensive experience in financial education and broad knowledge of savings groups and their facilitating agencies. In addition to her work with MFO since 2004, Ms. Nelson currently serves as the facilitator of the Small Enterprise Education and Promotion (SEEP) Network's Savings-led Working Group (SLWG), under which capacity she interacts with a wide range of SG practitioners. She designed the program for the very successful Arusha Savings Group Summit (October 2011) and has conducted case study research on SGs in Tanzania and Uganda for Agakhan Foundation. Her scope of work included:

- Gauging SG members' financial literacy and consumer protection needs;
- Reviewing existing, nascent financial education efforts targeted to SGs; and
- Making recommendations on incorporation of financial literacy and consumer protection into SG training.

Chapter 2

THE ASSESSMENT PROCESS

The assessment exercise was carried out between January 16 and February 9, 2012. It involved a desk review of relevant documents and conversations at multiple levels in the infrastructure supporting Savings Groups including FSD Kenya, management staff at the facilitating agencies (CARE and CRS), field staff and, of course, the Savings Group members.

Table 1: Overview of Contacts and Interviews

Workshop/Meetings	No. of participants
Opening Stakeholder Workshop: FE and SGs.	7
Stakeholder De-Brief: Findings/Observations	12
Individual Interviews	No. of interviews
Facilitating Agency Management Simon Karoki (CRS) Marc Bavois (CRS) Josephine Wangare Munene, Program Manager, SILC Innovations, Malindi (Catholic dioceses) Allen Odera (CARE) Nelly Otieno (CARE) CARE franchisees (2) Richard Mokaya (Manga District) Leonida Bironga (Nyamira District)	7
Focus Group Discussions	No. of FGDs
with Field Staff	4
with Savings Groups	9

2.1 DESK REVIEW

The consultant reviewed project documents related to the COSALO II project in order to fully understand the delivery model that CARE has been piloting, working through faith-based organizations and franchisees. She also reviewed training materials used by both CARE and CRS, including a preliminary FE curriculum for SGs developed by CARE and the SG training manuals that guide SG formation and operation. Finally, she was given access to FSD-sponsored research on SGs, focusing on the delivery models and replication.

2.2 STAKEHOLDER WORKSHOP

On January 31, 2012 the consultant facilitated a workshop for stakeholders involved in the effort to build SG capacity, including representatives from FSD, CARE, CRS and Aga Khan Foundation (AKF). The purpose of this workshop was to engage stakeholders in a substantive discussion about financial education and secure their participation in determining the way forward. Discussion focused on FE content, the many options for delivery, and stakeholders' priorities for FE for Savings Groups. The consultant presented a case study of another Savings Group programme that had incorporated Financial Education and facilitated sample FE learning activities.

2.3 MEETING CRS AND CARE

Individual interviews with facilitating agency (FA) management staff helped to set the context and identify agency specific interest in and priorities for financial education and consumer protection with SGs. These discussions highlighted methodological details that pose both opportunities and challenges for financial education content and delivery.

2.3.1 CRS's Savings and Internal Lending Communities (SILC)

Although CRS has integrated its 'basic' savings group methodology, called SILC, into other projects (e.g. HIV and Aids, Agriculture, Water and Sanitation initiatives) implemented by diverse partners, its SILC Innovations program promotes savings groups as a standalone service. CRS implements SILC Innovations in three countries – Kenya, Tanzania and Uganda with 4 partners in Kenya. It includes a research component that assessed the viability of the pioneer Private Service Provider (PSP) model, and all the lessons learnt from this research will later be incorporated in the other basic 'SILC' for the sake of uniformity across the SILC programme.

In Kenya, CRS implements the SILC Innovation project in Malindi and Eldoret through local dioceses. To date, CRS Kenya has helped organize approximately 139,000 people into almost 6,800 SILC groups, and, collectively, these groups have saved \$3,732,434. CRS promotes SILC through a network of 265 certified Private Service Providers (PSPs) who now contract with groups to provide training and technical assistance on a fee-for-service basis. To achieve this status, PSPs spent one year working and training as paid field agents (FAs), who then had to successfully complete an established testing and certification process. Now, the PSPs are organized into three networks that serve as their governing and support entity. Because the PSP model will be CRS's delivery channel moving forward, consumer protection will become a highly relevant component, as these fee-for-service agents market and deliver their services to potential clients. To ensure the effectiveness of this new contractual relationship, both parties may need to learn how to function therein. Thus, CRS management indicated that the PSP behavior, contractual negotiations with SGs, and SG rights and responsibilities vis-à-vis PSPs could merit attention under the theme of consumer protection. Furthermore, because PSPs are self-employed, financial education would need to be developed as a service that PSPs can market to SGs, raising some obvious questions related to conflicts of interest.

2.3.2 CARE's GSL

Savings Groups, or Group Savings and Loans (GSLs), form a significant component of the CARE Kenya program. Since 2008, CARE has partnered with FSD in the implementation of the COSALO I and COSALO II projects, both of which were preceded by a smaller pilot (COSAMO) that ran between 2004 and 2008 in six districts (Homabay, Suba, Migori, Rachuonyo, Nyando and Kisumu

East). According to the GSL impact study commissioned by FSD and conducted by Development Alternatives Inc (DAI) in 2010, approximately 8,800 people were trained in 388 groups under COSALO I. As of July 2011 when the project came to a close, it had trained 125,022 people who were in 4,505 groups. This project piloted a novel approach to SG promotion, one that significantly reduced cost per member by contracting out the group formation, training and supervision to faith-based organizations and franchisees. Each of these entities identified its own community-based trainers who CARE then trained. All were compensated for their work through a stipend system based on the number of new SG members recruited. CARE is currently implementing COSALO II in collaboration with FSD, experimenting with even lower stipends for group formation and training.

CARE has developed a draft FE curriculum which has been piloted with a small number of SGs. At the request of FSD, it put further refinement of this curriculum (e.g., to embed the FE content in training activities, commission drawings, etc.) on hold pending the results of this assessment and its follow-up program.

2.4 STUDY METHODOLOGY AND SAMPLE

The team carried out field visits to Malindi between 1-3 February 2012 and to Western Kenya between 5-7 February 2012, including Oyugis on 5th February 2012, Nyamira on 6th February 2012 and a debriefing meeting with CARE staff in Kisumu on 7th February 2012. The assessment was carried out with the help of three different tools: individual interviews guides, focus group discussion guides (including a participatory rapid assessment - PRA) and a skills-prioritization exercise.

2.4.1 Interview guides

The interview guides used with the program managers were designed to investigate their understanding of FE, their priorities for FE content and delivery and challenges in implementing FE and consumer protection, as well as to get the overview of the programme described above.

2.4.2 Focus group discussions

Focus group discussions were held at two levels: with SG trainers (CBTs of CARE and PSPs of CRS) and with SG members. We used the same PRA (described below) with both groups but also used a prioritization/sorting exercise with the trainers. In Western Kenya, the trainers' supervisors – representatives from the faith-based organizations (FBOs) and the franchisees – participated in the focus group discussions with the trainers. In Malindi, the team interviewed the CRS partner - the Catholic Diocese (Josephine Wangare Munene) at its offices in Malindi town.

Table 2: Focus groups conducted with SGs

Area	No. of FGDS	No. of participants
Malindi	4	36
Oyugis	2	20
Nyamira	3	30
Total	9	86

The team used two variations of a PRA with SG members to help them feel comfortable talking about money and how they manage it. The facilitator asked the participants to describe a typical SG member, encouraging them with questions about this person (Is the typical member a woman or a man? Is she old or young?). As they talked, she drew a picture of the person they described on flipchart paper, creating a visual image of this 'typical' SG member. Once the profile of the fictitious member was complete (with a name, number of children, type of business, etc.), the facilitator asked FG participants to name her expenses; each identified expense was written in Swahili and English on a post-it sticky note and placed on the flipchart paper. If necessary, the facilitator prompted for expenses (Does she ever have visitors? Does she need money for special events? Which ones?) Once most of the expenses had been identified, the facilitator asked the group to sort these according to how the member pays for them: Which expenses come out of her pocket? Which does she save for? Which does she borrow for? Gradually, the facilitator shifted focus from the 'typical' member to those participating in the FGD, asking more detailed questions about when and where they save and borrow, how they spend their loans, what they used their share out for, etc.

For those FGDs held outdoors, the team used a variation on the PRA described above because drawing was problematic. Instead of drawing a 'typical' member on paper, the facilitator explained that her assistant, who had been introduced to them as 'Sharon,' would now become someone else. While members had their eyes closed, Sharon dressed herself in kangas to 'transform' into a typical SG member. When participants opened their eyes, the facilitator introduced them to this typical member, and, after their laughter had subsided, asked participants to give her a name and assign her age, number of children, etc.

The second set of FGDs involved SG trainers. While the discussion here began with the same PRA activity, it moved more quickly into the actual behavior of SG members. The facilitator was more interested in trainer observations and experiences regarding members' challenges meeting their savings obligations, repaying their debts or responding to consumer challenges posed by external lenders, fraudulent marketers, etc. She also probed members' reasons for borrowing, loan sizes, repayment issues, external borrowing, demand for links with formal financial institutions, threats to SG security and learning preferences.

Chapter 3

KEY FINDINGS AND OBSERVATIONS

Applying the lens of financial education to savings groups is fascinating. It highlights aspects of the SG model that, while always present, have not received significant attention. The first observation is perhaps the most obvious and significant: the SG methodology itself is a powerful tool for financial education. Through experience, it teaches group members the basics of saving and borrowing more effectively than any classroom or curriculum or key messages communicated via posters, pamphlets or SMS messages. Thus, a key recommendation is to strengthen how the model is taught, reinforcing its lessons with clear explanations of the rationale underlying its policies and practices.

The second observation is both compelling and challenging from the perspective of financial education. In the SG model, saving and borrowing are inextricably linked. Saving is good for borrowing, increasing capital available for loans, and borrowing is good for saving, with loan interest increasing the dividend members receive at the end of the cycle. As will be noted in greater detail later, such a relationship challenges some of the basic tenets of debt management.

Despite the powerful lessons inherent in the SG model, we found areas of weakness that can be addressed by financial education. These are presented by theme below.

3.1 SAVINGS

3.1.1 Experiential learning and behavior change

SG members have learned basic savings skills through experience in the group. They save regularly and save in a safe place, and these actions constitute an important change in behavior for most members who report that they had not been able to save prior to joining the SG. Members can readily articulate how the SG enables them to save now:

- The SG is in their community, affording easy, no cost access.
- There is flexibility in the amount they have to save. The minimum share price is set to be affordable to all members.
- Storing their savings with the group takes it out of their reach and protects it from unnecessary spending.
- Access to a lump sum at share-out provides motivation to save; and
- The possibility of accessing money from the social fund in an emergency is a comfort to them.

“Before SILC, it was hard to save, but now the money for emergency is not accessible to me because it is in the box.” - Member, Ushindi SILC, Malindi

What is less apparent is how spending habits have changed to permit saving. Some respondents articulated reduced spending on luxury items such as soda and tea with milk. However, field staff cites many cases of members spending on such items daily while claiming that poverty makes it difficult for them to save even 50 shillings a week. The point is, even with the positive behavior change towards savings, people are not always aware of where their money goes.

Furthermore, although basic lessons about savings are embedded in the SG model, most group members still need time for their experience to translate into knowledge, attitudes and skills that support behavior change. Saving (and borrowing) is somewhat tentative during the first cycle, but increases after the first share-out, when people realize the profit of the cycle —and observe that not only does their money come back to them, but it also comes back with interest!

3.1.2 Short-term savings (or safe keeping)

The SG methodology offers a good long-term savings vehicle widely appreciated both for the discipline it imposes and for the profit earned on savings. However, members lack a vehicle for short-term savings and keeping their cash safe from temptation and pressure from family. Members report numerous occasions on which they are holding more cash than they feel is secure. These include money received at share-out but awaiting investment¹ and surplus cash that exceeds the maximum allowed to be saved in a given week (or month)². We found short-term savings options to represent an acute need in every location we visited, but more so in Malindi.

Some SG members use the box for short-term savings. They request group permission to keep surplus cash in the box where it is wrapped in a plastic bag, physically separate from any group funds in the box. The depositor’s name and amount ‘on deposit’ are both recorded and read out to the members. This way, the member’s cash is in a ‘safe’ place until the next meeting when she can withdraw it and redeposit it as that week’s savings or use it for other purposes. This practice helps members avoid the temptation of using the money for unintended purposes were it kept at home. As one member commented;

“...the box doesn’t have eyes. If I save at home, I have eyes; I will know where it is and can easily get it.”

In Oyugis, a member came into the meeting after the savings session had been ‘closed’ and loan repayment was underway. As the group’s constitution

¹ For example, a member in Malindi has a charcoal business for which he plans to purchase a motorbike. The lump sum he received at the last share-out was not quite enough to make the purchase, but he plans to secure the necessary funds before the next share-out and does not have a safe place to keep his ‘motorbike money’ in the interim.

² Many savings groups now set a share price that is the same for everyone; however members can purchase more than one share at a time. Typically, the minimum is one share and the maximum is five.

dictates, deposits are not allowed after the session has been closed. Instead of returning home with her money, this member opted to keep it in the box.

“It would be nice to have a safe place to put money after the share-out other than home to avoid temptation of using the accumulated savings in things not intended for.”

However, in Nyamira, SG members are increasingly using M-Pesa for short-term savings. Two of the five groups we met actively used M-Pesa to hold their cash as opposed to keeping it at home. They use it for all short-term saving – or perhaps better terms are ‘safekeeping’ or ‘storage’ – needs, and report holding it there for as little as one day and as long as three months. Both SGs report having learned about M-Pesa and other similar mobile wallet services during a financial education workshop offered by CARE. Although M-Pesa points are ubiquitous in this region, we were not able to ascertain how widespread the service use is among SGs or whether the active usage we were told about could be attributed to CARE’s intervention. However, it is safe to assume that opportunities to use mobile wallets and other forms of e-money will appear soon enough and SG implementers should understand and prepare for how they will impact SGs.

Another glaring need for a short-term savings vehicle is linked to the group itself. And that need arises from surplus cash in the box. Among COSALO groups in Western Kenya, this problem occurs towards the end of the cycle when loan repayments come in and new loans stop going out, in anticipation of share-out. Significant amounts of money can accumulate in the box, posing an obvious security risk. To date, members have responded by dividing up the cash among themselves for safekeeping, but few are happy with this solution.

Among the SILC groups in Malindi, issues surrounding surplus funds are slightly different. We observed a significant amount of money being left in the box (mid-cycle) after the savings, loan repayments and disbursements were completed. The largest amount that we observed left in the box at the end of the meeting was KShs. 30,000, which may or may not pose a security risk. In addition, these funds may well be absorbed during the next meeting a week later, making any kind of formal short-term savings vehicle apart from an e-wallet impractical. In Malindi, limited infrastructure for mobile service has stunted the growth of mobile money options outside of the town.

3.2. BORROWING

3.2.1 Learn by doing

As is the case with saving, SG members are learning about borrowing through experience. At the beginning, many don’t understand or trust that loans will be available to them. There are cases of members who borrow during the first cycle, hold onto the cash, and repay their loan, simply to assure themselves that they can do it. However, in subsequent cycles, members increase their

borrowing; they take multiple loans during the cycle for many different reasons spanning investment and consumption. They appreciate the opportunity provided to access loans easily and with few questions asked.

“With SILC, I don’t have to borrow from my friends and thus have avoided embarrassing situations with owing friends/neighbours. We now live peacefully because it is only the box that lends to me.”
Member Ushindi SILC, Malindi

As group savings increase, thereby increasing funds available for borrowing, members do not always know how to best invest the loans they take. As a result, many expressed a desire to learn about investment options and to receive training in business skills.

3.2.2 Do SG members feel pressure to borrow?

By the end of the first cycle, members realize that the more they borrow, the more they earn on their savings. The purpose of the SG is to both save and borrow and both are good. These dynamics raise a question about group pressure on members to take loans. As noted earlier, the intertwined nature of savings and borrowing within SGs poses a challenge to a basic message of financial education: Borrow Wisely. Two key questions are raised:

- Do SG members borrow wisely? Do they know what it means to borrow wisely?
- Are SG members pressured to borrow in order to increase dividends on everyone’s savings?

For most respondents, the answer to the first question is “not always”. But the answer to the second question is less obvious. Staff, including field supervisors and management, insists that, while the pressure to borrow may exist, it does not come from the group. Rather, they identify three other sources of pressure to borrow: 1) ever-present family needs; 2) competition among members to build and improve their businesses; and 3) the desire to absorb excess cash in the box, especially as the cycle nears closure and the large amounts of money coming pose a security risk.

A COSALO franchisee in Nyamira expressed the dominant feeling when he said: **“Borrowing comes from the heart. There is no pressure to do so.”**

And yet, respondents did admit (albeit with hesitation) that members who only save might be frowned upon; there seems to be an unspoken consensus that a member should borrow at least once in a cycle. When there is surplus money in the box, it is not uncommon for group leaders to ask for volunteers who can (vs. ‘need’ or ‘want’) borrow it. Furthermore, one measure of group progress is growth in share-out, which is fueled by borrowing. The ambiguous nature of the evidence is exacerbated by the fact that most ‘informants’ on the ground are both a source and agent of presumed pressure, pointing to a need for further exploration of this question. It is understandable that members

would put pressure on other members to borrow in the interest of raising group “profits”. When it’s their turn, regardless of need, they acquiesce and accept the loan for the same reason. So, to the extent that it exists, the pressure is felt by all, but it is pressure none the less.

3.2.3 Unwise borrowing

Pressure to borrow or not, for purposes of determining a financial education curriculum, we need to know if SG members engage in unwise borrowing – borrowing that will get them into trouble when it comes time to repay, either because they have made poor investments, borrowed too much or borrowed without knowing how they would repay. The data show frequent loans (resulting in growing rates of return at the end of the cycle) and low default rates, indicating at first glance that, for the most part, loans are taken and repaid. However, these numbers do not indicate what people may be doing to repay, what sacrifices they are making, what assets they are selling, or the extent to which they may be borrowing from one source to pay another. There is a grey area between loan disbursement and repayment that is difficult to articulate.

While there is not overwhelming evidence to indicate a serious problem with debt management, there are indications that members could improve their financial stability through a better understanding of how to borrow wisely and make the best use of loans. Some red flags include:

- Membership in multiple SGs. An estimated 20–30% of members in both programs visited participate in more than one SG. Typically, members join a second and third group because they want to save more than is permitted in one group. Replicators often join the new group they have helped to organize and because groups tend to form by social affinity (neighborhood, church, ROSCA), a woman often wants to be part of whatever her friends are doing. The risk, of course, is that membership in multiple groups enables one to take more than one loan at a time, and might result in over-indebtedness. None of the members we asked said that this was a problem, insisting that they were very careful. They admitted borrowing from one SG to repay a loan from another.
- Couples as members. While having more than one member of a household belong to the same group could be a red flag due to the risk of multiple loans taken by the same household, SG trainers assured us that they welcome couples to the SGs. They claim that when a husband is also a member, he doesn’t “bother” his wife about her SG and all the money that goes there. Furthermore, the SG has a better idea of the household borrowing when both husband and wife are borrowing from the same source.
- Poor investment planning. People do take loans without knowing how much their business idea requires or how to invest these borrowed funds. Loans often do not yield the anticipated returns.

- Frequent borrowing for consumption. A CARE staff person characterized this phenomenon as ‘constant’. For most members, the SG serves as the sole source of credit for consumption smoothing, but this represents a cost that likely has negative repercussions elsewhere.
- Loans repaid with savings at share-out. We did hear of incidents in which members had to use their share-out capital to repay outstanding loans, resulting in a zero sum game for that member.

Delinquency seems to be a common occurrence for which there is high tolerance (despite fines). Default is less common, but it does happen. In Oyugis, an SG identified default as a challenge, reporting that at their last share-out, they had KShs. 84,000, but KShs. 24,000 in unpaid loans, which translates to about 28% delinquency rate (if not default). Several months into the next cycle, they had lost two of the defaulters. Members commented:

“These people are fellow church members, and thus we cannot punish them or take them to court. It is like a betrayal.”

“We lose a lot of money, but these people are our neighbors. We have to live with them.”

According to CARE staff, cases against defaulters “never end.”

Most SG trainers and staff agree that ‘unwise’ borrowing does exist, and that learning how to better manage debt would yield greater stability both for individual members and for the groups as a whole. However, this consensus around the need to address unwise borrowing has two caveats:

- SG practitioners do not want to advise members against borrowing for consumption. An important advantage of the SG, in contrast to MFIs, is the opportunity provided to borrow for almost any purpose, with few questions asked. Enabling the all-important consumption smoothing, SGs need to remain a source of consumption loans, particularly when the ability to borrow protects a member’s assets; and
- A few stakeholders worried about the prospects for ‘wise’ borrowing, to translate into lower profits at share-out.

3.3 FINANCIAL PLANNING/BUDGETING

We found that, in general, SG members do not budget or plan ahead with any regularity. They don’t anticipate their income or how they will spend it; they don’t save outside of the SG, and relatively few plan ahead for the lump sum of money they receive at share-out. It should be noted, however, that we draw these conclusions in part from the opposite experience that a few ‘positive deviants’ described and with which few others could resonate.

Respondents admit that they spend their money as it comes in. Only upon joining a SG did they learn to do otherwise. Now, at least they set aside their

weekly deposit. Only those few who participated in CARE's financial education training developed budgets, planned ahead, and had short-term as well as long-term savings in their SG.

Members are motivated to participate in SGs initially because of the promise of a lump sum of money at the end of the cycle. Yet, there is wide variation in how they plan to use these funds. Some members start thinking about how they will spend their share-out several months in advance. Others report that it is not their custom to think ahead. Still others claim they cannot make a plan for the money until they know how much they will receive. The most commonly reported use of share-out money is school fees. However, most group members also borrowed for school fees. It may be impossible to save enough for this expense; alternatively, the need to borrow may be explained by the fact that school fees are due three times each year (at the beginning of each term) while share out happens only once. A third explanation may be that members don't know how much they will need and don't prepare for it far enough in advance (It should be noted that local officials in Western Kenya have thanked CARE for solving the problem of school fees through SGs).

SG members indicated experiencing difficulty in planning for expenses and, more specifically, in understanding how to prioritize them. To emphasize the point, a member of Maelewano SG in Malindi commented:

“...up to now we are not there yet in terms of planning ourselves and managing money.”

There were a few 'positive deviants' who against significant odds had anticipated their income and expenses and developed a budget to guide their cash flow management. One saved for the following four short- and long-term goals: household uses, SG deposits, school fees, and emergencies.

3.4 MOBILE TECHNOLOGY

Given the acute need for short-term savings vehicles noted earlier, M-Pesa seems like a miracle, at least in Western Kenya, where M-Pesa shops are evident wherever there are commercial establishments. Yet, associated transactions costs and possible security issues point to the need for caution. Some members of FSD staff cited the questionable bank guarantees for cash stored in M-Pesa, particularly related to the larger amounts typical of SGs towards share out. What will happen to members' savings should any one of the participating banks fail? Given these inherent risks, they advocated for a strategy that would guide the members to the formal banking system, where their money would be safer.

In the short-term, however, some SG members are already using M-Pesa and other similar services. As the use of mobile money spreads, others will be drawn to it and will need to know how to make best use of this platform, including understanding its costs, how to protect one's PIN, and the best strategies for managing transactions.

3.5 CONSUMER PROTECTION

Risks to the SG member can be internal or external. Internal risks include the potential for elite capture, fraud, damaging default and other group dysfunctions that place group funds (and thus member savings) in jeopardy. External risks can be posed by aggressive lenders who have their eyes on the savings power of SGs, pyramid schemes, and vendors who encourage the group to 'open the box' to purchase any number of attractive goods promising benefits to the whole group (improved stoves, solar lamps, water pumps and irrigation systems, etc.).

Many of the internal risks are addressed by the SG constitutions. The rationale underlying some of these constitutional provisions, however, may need greater explanation and emphasis for members to understand why they exist and, in turn, be able to observe and respect them. That said, a preliminary impact assessment done by DAI in 2010 noted the need to look more into who is borrowing within the groups and whether the most influential group members are borrowing at the expense of the others. The MFO team observed a range of socio-economic levels among members of the nine SGs visited. Given the dearth of affordable local financial services, the SG model is attractive to all of them. The long-run challenge, then, is to better understand self-selection into homogeneous groups or how well heterogeneous groups function for the benefit of the rich and poor alike.

Another internal consumer protection issue is linked to members forming and joining new savings groups. Such a situation poses a conflict of interest if members do not apply the group rules to their "teacher".

On the external front, we found little evidence of actual threats to consumer protection of SGs. External lenders do visit groups, but members are both well aware of the comparative advantages of their SG and fearful of the visiting MFIs, SACCOs and banks. They do not seem vulnerable to aggressive marketing from external lenders.

However, there is a compelling consumer protection issue that is emerging as the methods of delivering services to SGs evolve. Both CRS and CARE envision a future in which new SG formation and training will occur on a fee-for-service basis, with contracts established directly between the group and the trainer. CRS has described this process in detail as part of its experimental SILC Innovations program. CARE is transitioning from paid staff (or those working for a stipend paid by CARE) to a fee-for-service system in a more fluid way. Both arrangements raise questions about the power to negotiate contracts, exercise rights and responsibilities vis-à-vis the contracts and resolve contract disputes. These are unfamiliar skills for many SG members who hold their trainers (PSPs and CBTs) in high regard and may be hesitant to question or challenge them.

3.6 USING FORMAL FINANCIAL INSTITUTIONS

While not very common among the SG members we interviewed, the use of formal financial institutions generates a lot of discussion and elicits diverse opinions. On an individual level, an estimated 20% of SG members have accounts or have taken loans from formal institutions (The institutions most frequently cited are KWFT, Equity and Faulu.) A few of these individuals have abandoned the MFI or bank in favor of the SG for its community-based, member-controlled and transparent nature. Others fear the formal institutions, worrying that they would not qualify for their products and services or be able to fulfill their obligations vis-à-vis bank loans. Still others are curious; they know they could benefit – particularly from short-term saving facilities – and want to know more about the options available to them.

At the group level, the need to manage excess liquidity on a short-term basis is discussed above. Whether banks offer the appropriate solution to this group problem is not clear. Some banks don't allow group accounts, forcing the SG to trust its collective savings to one account-holder; rural groups may reject the costs of travel to/from the bank to manage the account for such a short term (Most SGs have excess liquidity to manage for only a couple of months each cycle.)

In rural Malindi, only one group (located in a shopping centre) has seriously considered opening a savings account with Equity Bank in Malindi town. Only three members of another group in Malindi indicated desire to open a savings account with a formal financial institution. Other stakeholders share SG members' ambivalence towards the formal sector. On the one hand, the FA staff is eager to resolve the great risk they see in the large amounts of money stored in the box near the end of the cycle. On the other, they appreciate why members show little interest in formal institutions. For its part, FSD is interested in addressing the risk of loss of surplus funds in SGs by facilitating linkages through products that the formal financial providers can offer. While FSD wants to bring SG members into the financial mainstream, it wants to be careful that its support of FE in this theme does not translate into marketing on behalf of the banks with SG members.

Chapter 4

PROPOSED CURRICULUM

The consultant presented a tentative proposed curriculum to the stakeholders at the end of her field exercise. While in large part this curriculum flows from the observations detailed in the previous section, it has also been informed by a skills ranking exercise carried out with the SG working group and field staff of CARE and CRS. Initially, the ranking exercise was used to prioritize financial literacy skills, but it evolved with repetition. The most useful format was one in which CARE staff in Kisumu was asked to sort the skills cards into two groupings “what SG members know” and “what they still need to learn”. Table 3 shows the results of this exercise³.

Table 3: Skills SG members know and need to learn

Skills they know	Skills they do not know
Saving	
<ul style="list-style-type: none"> How to save money regularly Has at least one savings goal Has savings for emergencies 	<ul style="list-style-type: none"> Saves money in a safe place Has enough savings to invest in a business opportunity Has enough saved to cover one month of household expenses Knows when to use savings or borrow to pay for an unexpected emergency (large expenses)
Borrowing	
<ul style="list-style-type: none"> The importance of repaying loans on time What interest is The difference between interest calculated using flat and declining balance methods 	<ul style="list-style-type: none"> Avoids borrowing for daily consumption Avoids borrowing from money lenders Can calculate what she can afford to borrow
Budgeting/Planning	
	<ul style="list-style-type: none"> The difference between wants and needs Avoids wasteful spending Keeps track of income and expenses How to make and follow a budget
Formal Financial Institutions	
	<ul style="list-style-type: none"> Knows what questions to ask the lender about the costs and contractual terms of a loan

This sorting exercise confirms the team’s field observations: SG members have learned important basic skills related to savings and borrowing from their experience in the SG. This finding has important implications not only for the curriculum content, but also the timing and sequencing of FE messages for SGs. There is value in members using the first cycle to get used to the methodology and what it enables them to do. They learn a lot through experience (see Section 5). Members’ learning needs in these two core themes have more to do with short-term cash management and balancing saving and borrowing. There is widespread agreement among members and stakeholders on the need for building skills in budgeting and basic financial planning.

4.1 RECOMMENDED TENTATIVE FE CURRICULUM⁴

Incorporating observations from the field and discussions with FSD, CARE, CRS and AKF, the proposed curriculum includes six modules. Each module contains several distinct lessons. The vision is that each SG practitioner can select from among these modules and lessons those that are relevant for the SGs they support. Given the differences in the contexts in which the CARE and CRS programs operate, it is anticipated that priorities for financial education topics and lessons will vary across facilitating agencies. It should be noted that, although SG members often cited a need for business skills to help them make better investments of both SG loans and lump sums acquired at share-out, business training is not included in this FE curriculum.

Table 4: Suggested FE curriculum for SGs

Modules	Training sessions
1. Financial Planning	1.a. Anticipate income and expenses 1.b. Make a budget 1.c. Avoid unnecessary expenditures 1.d. Save for short and long term goals
2. Wise Borrowing	2.a. Borrow to invest 2.b. Borrow carefully for consumption 2.c. Compare cost of lenders
3. Mobile Technologies	3.a. Save with m-money 3.b. Compare service providers 3.c. Keep your m-money safe 3.d. Know what it costs to use m-money
4. Formal Financial Institutions	4.a. Does the SG need a bank account? 4.b. How can an individual member benefit from a bank account? 4.c. Questions to ask at the bank
5. Managing Risk	5.a. Use of NHIF and NSSF

³ This exercise was not carried out with SG members due to potential complications with low literacy and local languages.

⁴ It should be noted that curricula developed originally for face-to-face training often serves as a blueprint for materials needed in other delivery channels. For example, radio scripts have been based on FE curricula.

Table 4: Suggested FE curriculum for SGs (Continued)

Modules	Training sessions
6. Consumer Protection	6.a. Know your rights and responsibilities as a member of SG 6.b. Negotiate with your SG trainer for services and make a contractual agreement

4.1.1 Financial planning

This was the most widespread and commonly identified need. Almost all SG members who had received FE cited budgeting as the most useful lesson they learned in the training. This module will address a common need for a majority of SG members. As discussed above, although people are managing to save regularly in their SG, they often do not know what they are doing differently in order to have money to save. A conscious effort to identify wasteful spending and plan for anticipated expenses will strengthen members' saving.

4.1.2 Wise borrowing

Activity in the SG indicates that members both know how to borrow and understand that they must repay. However, the path from taking the loan to repaying it can be fraught with risk. People may be borrowing unnecessarily for consumption, borrowing from multiple SGs, borrowing on behalf of others, or borrowing for investment without knowing how to manage the investment. This module will reinforce some of the basic budgeting and planning lessons of the first one and help members think through how much they need to borrow and how they will invest their loans. Yet stakeholders clearly want to avoid restricting the conditions on borrowing within the SG because the availability of small loans for any purpose – and often that purpose is consumption – represents one of its distinct advantages. Messages about 'wise borrowing' should be crafted carefully and demonstrate a recognition of SG members' need to borrow for non-productive purposes, as well as of the potential for internal pressure to borrow.

4.1.3 Mobile technologies

Because M-Pesa and other m-money services are growing in popularity and are currently the most convenient vehicle for short-term savings, this module is very important – though more so for CARE's SG members in Western Kenya than for CRS's SILC groups in Coast Province, where m-money services (more specifically, network coverage) have yet to penetrate. As indicated by the session titles, SG members need to develop strategies for m-money covering everything from basic security practices to comparing providers

and understanding the transaction costs. In addition, the role that mobile technologies can play in linking users to banks may provide further reason to pursue training on this theme.

4.1.4 Formal Financial Institutions

Many SG members have left formal financial institutions in favor of SGs and can readily tell you why they prefer the latter. But the issue of security surrounding SG funds that accumulate during and near the end of the cycle cannot be ignored. In addition, individual members in both CARE and CRS programmes expressed interest in learning about bank services. Finally, most observe that formal sector institutions are becoming friendlier to the poor and acknowledge that in future, SG members will have reason to interact with them.

4.1.5 Managing risk

Government led products such as the National Health Insurance Fund (NHIF) and National Social Security Fund (NSSF) could work well for SGs. The local representatives of these agencies can be invited to explain to SGs how their product works and its benefits for users. These would include the premiums to be paid under NHIF and contribution under the newly introduced 'Mbao plan,' among others. Time will need to be invested in both assessing prior experience in introducing these products to the poor and discussing with product sponsors the options for doing so with SGs. Curriculum linked to these products should reflect the actual choices of products (and associated terms) that are available to SG members.

4.1.6 Consumer protection

The landscape for forming and training new SGs is evolving, with fee-for-service delivery models replacing the subsidized training originally used to launch the SG approach. Inherent in this evolution is a host of consumer protection issues linked to the new contractual arrangement that should guide the relationship between groups and their trainers. What are the rights and responsibilities of each party? What services will the trainer provide? With what frequency? How is the trainer to be paid? What recourse do SGs or trainers have in the case of breach of contract? Although each program will approach the fee-for-service model differently, these questions should be addressed in a transparent manner in order to facilitate a clear path to contracts.

Chapter 5

DELIVERY METHODOLOGY AND NEXT STEPS

Although it is exciting and challenging to research and deliberate the content of any curriculum, how that curriculum is delivered is equally important, despite seemingly more mundane issues of scheduling and venues. Relevant and meaningful content will lose its value if its delivery does not correspond to recipients' needs. In the case of delivering financial education to savings groups in Kenya, stakeholders have largely embraced a face-to-face training approach as the main delivery channel. Furthermore, the trained SG trainers (both PSPs and CBTs) are seen as the logical choice of trainers in financial education. However, key questions need to be addressed regarding the details of that training:

1. Timing and sequencing: When should SGs participate in FE?

- At the beginning, before the start of the first cycle?
- Before and during the first cycle, at various intervals, during the period in which the trainer is contracted to visit the SG regularly?
- During the second cycle, after members have gained experience with saving and borrowing?
- All of the above?

2. Integrated or Separate? Should the FE training be integrated with the SG training or conducted separately as a service for which the SGs pay separately? Options include:

- Incorporating FE into the SG curriculum, both at the beginning and during the weekly meetings, for example, by adding short 30–45 minute sessions to the regular SG meeting at set intervals (perhaps monthly?); and/or
- Organizing separate workshops at strategic times in each cycle.

Three additional and very important questions are linked to the core delivery issues discussed above:

1. How to charge for FE? The shift to a fee-for-service model will necessarily affect all components of the SG program. Consequently, the PSPs and CBTs will need to charge the SG members for any financial education training they provide. In the case of an 'integrated' program, the addition of FE will extend the time a trainer spends with the SG, and should thus increase the cost per member and eventually the fee trainers are paid by groups. A separate FE training would have to be priced and marketed to SGs on its own.
2. Can any conflicts of interest be anticipated with fee-for-service trainers offering any parts of the proposed curriculum? For example, are there (dis)incentives for CBTs/PSPs to deliver some of the training, in particular on consumer protection themes?

3. Will FE be replicated along with the SG model by member – initiated group formation/replication? This key question pertains to all aspects of SGs. Which messages, principles and activities are effectively transmitted as the model is 'taught' to new groups by existing members? Is there a way to maximize the chances that FE will 'travel' with the rest of the SG model?

Although neither question can be answered easily, each is addressed in the response to the core issues of sequencing and integrated/separation.

5.1 OBSERVATIONS

Attempts to incorporate financial education into savings group programs will resist a one-size-fits-all approach, as each program operates with its own schedule and process. CARE Kenya organized a separate FE workshop for about 50 SGs and offered it as a distinct, one-time event, separate from the group meeting. CARE Burundi chose to incorporate FE into the SG curriculum, designing one seamless curriculum that covered both topics starting with orientation and continuing throughout the first cycle at the weekly group meetings. Stakeholder responses to all proposed options are detailed below:

5.1.1 Timing and sequencing

1. Some sessions are appropriate for the beginning, some may be better delivered in later cycles, after members better understand the SG model and have learned the valuable lessons it offers in saving and borrowing. Some are better placed in Cycles II and III.
2. Some participants in CARE's pilot effort reported that they would have benefitted more by having the FE training even before they started saving in Cycle I.

5.1.2 Integrated or separate?

1. For CRS and SILC, members can start savings after the 7th training session; the program has a total of eight sessions, delivered in as little as 2 weeks, or as long as 2 months, depending on how the groups negotiate the organization of the training with their PSP. Adding FE into this existing training will further delay the beginning of savings.
2. CARE's SG training is packaged into five two-hour training sessions over five days, with groups saving on the 5th day. CARE staff resists the option of extending this initial training in order to add FE.
3. CARE objects to adding FE to the regular SG meeting agenda because it would make the meetings too long for both members and trainers (CBTs). It is not fair to ask members or trainers to spend more time in weekly meetings because everyone is so busy.

4. Lengthening the time a trainer spends with each SG in order to conduct an FE learning session could reduce his/her productivity and efficiency (ability to maximize number of SGs formed and trained).
5. Members may be challenged to remember content from week to week, or session to session.
6. CARE trainers in the COSALO II project cannot take on additional responsibilities at this time; FE should be piloted in areas other than those in which this project is active.
7. Financial education program that is offered as a separate workshop will be easier for fee-for-service trainers to package and market to SGs, especially in the case of existing SGs.

5.2 RECOMMENDATIONS

All recommendations in this report should be thoroughly vetted with SG practitioners before adoption. Incorporating FE into SG programming makes sense given that the two are interrelated and mutually reinforcing. Nevertheless, doing so constitutes a major under-taking that should be 'owned' by all stakeholders for maximum benefit.

5.2.1 Timing and sequencing

Because the proposed curriculum contains messages that range from basic to advanced, it will be most effective if delivered at appropriate times, when most relevant to SG members. This calls for sequencing, or spreading, the delivery of the curriculum over a period of time instead of delivering it entirely in one workshop. The basic messages would be incorporated early. For example, during the basic SG training that members receive before cycle I, messaging could focus on simply strengthening the explanation of the principles and rationale underlying the SG rules and procedures, while more advanced topics, such as those targeting use of formal financial institutions and insurance options, would likely be more appropriate for cycle II or III. How the core of the FE curriculum (budgeting, wise borrowing and m-money) is distributed or sequenced between basic and advanced topics should ultimately be decided by each facilitating agency. Such decisions should be based on an assessment of when members are ready and most receptive to absorb these lessons.

In principle, we like the option of waiting until cycle II before delivering most of the FE curriculum, in order to let the SG model 'work its magic' during cycle I. During this time members learn to save and borrow and gain the confidence that they in fact can do both successfully. Once equipped with this awareness and confidence, they are more open to take the plunge into budgeting, planning their investments, and making conscious decisions to borrow and borrow carefully. However, this option presumes an ongoing relationship between the trainer and SG beyond cycle I that may or may not hold true in practice. In order to take advantage of the period when trainers are in

regular contact with SGs, FE should be introduced in cycle I to make it easier to market subsequent sessions or phases after cycle I ends. Members need the confidence to know that they can learn and adopt what FE has to offer, but they also need to know what FE is.

5.2.2 Integrated or separate?

That financial education and savings groups fit together like a hand in a glove suggests an integrated approach in which SG members would be exposed to financial education messages while they are engaged in the SG, in a sequenced way as discussed above – in principle. However, stakeholders currently have multiple objections to integrating FE into the SG training both before members start saving in cycle I and during their (weekly or monthly) regular meetings. Some of these objections stem from a resistance to change (the initial SG training is set at X number of days and cannot be changed), some objections result from what is currently an extremely tight schedule and ambitious outreach targets that leave the CBTs with no extra time for additional services. Some arise out of legitimate concerns about feasibility. Can a trainer afford to add 30-45 minutes to each SG meeting he/she attends? Are the transactions costs associated with longer meetings prohibitive to trainers and/or members? Any programme that includes financial education must adjust trainer caseloads accordingly to accommodate the additional activity.

The vision for integrating FE and SG training is to craft a seamless curriculum in which the two are indistinguishable. FE is part of the SG orientation and part of the SG meeting – at least on a periodic basis. Integrating the two should facilitate replication of both as SG members train new groups (This is a theory vs. fact, as little is known about the process of 'spontaneous replication' among SGs.)

Stakeholders suggested piloting both approaches (integrated and separate) as one way to determine how FE should be offered to SGs. For existing SGs, FE could be offered separately, while an integrated approach could be piloted with new groups. CARE highlighted the importance of measuring the additional time required for the CBTs to offer FE during SG meetings. Additional questions the pilot could address include:

- What content is most relevant?
- What is the best sequencing of FE content?
- How much FE content can be self taught?

5.3 NEXT STEPS

The next steps will be determined by FSD but should include:

- Developing FE curriculum with a team composed of an FE specialist and SG practitioners in Kenya;
- Training trainers in FE curriculum (This will require determining who from each facilitating agency is best suited to train the relevant CBTs, PSPs and trainers from other working group members such as AKF);
- Piloting the curriculum and revising as necessary; and
- Designing monitoring and evaluation indicators. Will the same indicators for COSALO I/II be used or will other indicators be developed?

MFO has already outlined these steps in greater detail in a memo submitted to FSD in late 2011. It would be pleased to pursue the ideas proposed therein with FSD.

Annex 1

FOCUS GROUP DISCUSSION GUIDE (SG MEMBERS)

Instructions to Facilitator and Recorder:

All instructions to facilitators and recorders are written in italic and underlined.

The participants in these focus groups are members of Savings Groups facilitated by CARE Kenya and CRS.

PURPOSE: To find out how financial education could help SG members become better money managers and consumers of financial services.

Step 1. Welcome to the discussion – 10 minutes

Say:

- Thank you for joining this discussion, I know that your time is valuable. I would like to first introduce our team. My name is Candace Nelson and this is my colleague Sharon Mosin.
- We work for Microfinance Opportunities, an NGO based in the U.S. that promotes financial literacy and trains people to manage their money better. We are helping CARE/CRS to think about how it can best provide financial education to VSLAs/SILCs
- We have come here today to learn from you how CARE VSLA members manage their money. As members of a VSLA, you have knowledge and experience in these issues. Your thoughts and ideas are important to us. There are no right or wrong answers to our questions. Please feel free to express all of your ideas and opinions. Any information that you provide will be considered private and confidential and will be used only for this research. We will ask you your name, but we will not use it in any reports we write. Your answers will be grouped with the answers of other participants and only your village may be identified in the report.
- You are encouraged to participate in the discussion as much as possible. Your participation is voluntary. If you are not comfortable with a question, you may choose not to answer it. You may leave the discussion without penalty. You are free to ask questions at any time.
- **Do you agree to participate in the study?**
 NO [Ask participant to leave the discussion/end the discussion]
 YES [continue]
- During our discussion we would like to use a tape recorder to record our conversation. The tape allows us to remember what you said. No one in this community will hear the tape and it is only used by members of the study team.

Do I have permission to tape record our conversation?

NO [Make sure the Note Taker can take good notes!]

YES [Turn on the tape recorder]

- **Before we start do you have any questions?**
- We have rules for this discussion. Please speak one at a time so that everyone can hear what is being said. Also if anyone has a cell phone, they should turn it off to make sure that we are not interrupted. (THIS MEANS THAT ALL RESEARCHERS AND ANY OBSERVERS SHOULD TURN OFF THEIR CELL PHONES, TOO.)

Step 2. Warm Up – 10 minutes

Purpose: Welcome the participants

Say: Now, it is your turn to introduce yourselves. Please tell us:

What is your name?

What is your age?

What does your household do to earn income?

When did you join your VSLA?"

Write out a name tag for each person and provide it to them after they introduce themselves.

Note Taker instructions: Moderator invites each respondent to shortly introduce him/herself. Ensure you note down:

- person's name,
- age,
- household occupation,
- village
- how long they have been a member of a VSLA.

Write out a name tag for each person and provide it to them after they introduce themselves.

Step 3. Expenses and how they are paid for- 20 minutes

Purpose: Understand members' expenses, and how they pay for them. Assess KSAs re: savings.

Post a flipchart and prepare to draw an image.

Say:

I ask you to think about a typical member of a savings group. Is it a woman or a man? How old is she? What kind of work does she do? How does she earn money?

Draw a figure of a typical member on the flipchart large enough for everyone to see. Give her hair, other decorations. Ask participants to name her.

Ask:

How does _____ spend her money? What does she have to buy?

Write each item mentioned on a card and place the card on the flipchart next to the drawing.

Does she buy tea at the market?

Probe for all expenditures large and small.

- Does she have to pay school fees?
- Does she ever use transport?
- Does she give her children money for lunch at school?
- Is she responsible for her family's clothing?
- Does she give her husband money for beer?
- Does she have to purchase inputs for the planting season?
- Does she have regular contributions to make to a merry-go-round or VSLA?
- Does she pay dues to any other groups?
- Does she have to buy medicine or pay the doctor?

Ask participants to group expenses by:

- Regular expenses that happen daily or weekly
- Expenses she borrows money to pay for
- Expenses she uses savings to pay for

Move cards into the three groups and probe:

- Are there any other expenses or events that she borrows for? What expenses do we need to add to this group?
- Are there any expenses we should add to the 'savings' group?
- Does _____ have enough money saved to pay for the expenses in this group?
- What does she do when she is short?
- How many loans does she typically have at the same time?
- Does she ever have problems repaying her loans?

STEP 4: Savings**Purpose: To learn more about how and where participants save**

Explain:

Thank you for introducing us to _____. I feel like she is my sister now. And, we know a lot about what her expenses are and how she pays for them. From her experience, I would like to know more about yours - how and why you save. I have to assume that you save with the VSLA and would like to know a little more about that.

Ask:

How does your VSLA help you save?

Probe for specific examples.

- What is the share price in your VSLA?
- Are you allowed to purchase more than one share at a time?
- How often do you purchase more than one share? When, during the year, are you likely to be able to purchase more than one share?
- Are there times when it is difficult for you to purchase even one share?
- Does this tend to happen at certain times of the year? When?
- Did you save money before you joined a VSLA? Why or why not?
- Has this changed since you joined the VSLA?
- What are you saving for?

Ask

There are many ways to save. Some people hide their savings at home or in a hole in the ground; others buy animals or jewelry; some people have a bank account.

Probe about other savings:

- Do you save in any other places, or ways outside of your VSLA? Which ones?
- Why did you decide to save that way (or in that place?) What do you like about it?
- With these other savings do you have a specific goal? Something you are saving for?
- How long do you generally hold onto your savings before spending it?
- Do you ever set aside money especially for emergencies?

Ask:

How are the members of your VSLA different from those who are not members? Do you save more or less?

Probe about savings of non-members

- Do people who are not part of VSLAs save money?
- Where?
- Do you handle your money differently?
- What have you learned in your VSLA that non-members probably don't know?
- Why do you think people in this community who are not members have decided not to join a VSLA?

Step 5: Borrowing

Purpose: To learn more about participants borrowing decisions

Say:

I really appreciate your participation so far! So far, you seem very much like my new sister _____. Now, I would like to know a little more about your need to borrow money.

Ask:

Have you borrowed from your VSLA?

Probe for specific information about borrowing

- What do you borrow for?
- How much do you borrow?
- Do you borrow more than once during a cycle?
- Have you ever wanted to borrow more money than the group could give you?
- If yes, what did you do in that case?
- Is there a month or period during the year when you normally need to borrow? When? For what?

Ask:

Do you ever borrow from other sources besides the VSLA?

Probe for specific information about external borrowing

- What other sources of loans do you go to?
- Apart from the VSLA, which lender do you prefer? Why?
- When you borrow from other sources, do you know what the interest rate on the loan is? How does it compare to the interest rate you pay in your VSLA?
- What are you borrowing money for?
- Do you ever have more than one loan at a time?
- In your household, do individual family members carry more than one loan at the same time?
- Do you ever feel that it is difficult to repay your loan?
- What do you do when you cannot make loan payment?

<p>Ask:</p> <p>What do you think about when deciding if you will take a loan?</p>	<p>Probe for how people make decisions to borrow</p> <ul style="list-style-type: none"> ▪ Have you ever thought about taking a loan and decided NOT to? Why? ▪ When you have a large expense, how do you decide whether you should use savings or borrow to pay for it?
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Step 6: Budgeting

Say:

I have just a few more questions about managing money.

<p>Ask:</p> <p>What is a budget?</p>	<p>Probe for how people use budgeting</p> <ul style="list-style-type: none"> ▪ Who has made a budget? ▪ Did you use it? How? ▪ What is difficult about making a budget? ▪ What is challenging about using a budget? ▪ If your income for the month is less than you expected, what can you do? ▪ What do you do when something unexpected happens that forces you to spend money outside of your budget?
<p>Ask:</p> <p>Are there any people you know in your family or in another community who deals with their money well?</p>	<ul style="list-style-type: none"> ▪ What does that person do differently from other people – in your opinion?

Step 7: Assess Learning Preferences

Purpose: Understand and rank learning preferences.

Say:

Thank you for your contributions! We are coming to the end of our conversation and I just want to hear what you want to learn about the topics we have been discussing.

<p>Ask:</p> <p>If you had the opportunity to have training in managing your money, what topics would you like to learn more about?</p> <p>What questions do you have about how to manage money?</p>	<p>Probe for what people have learned or want to learn:</p> <ul style="list-style-type: none"> ▪ What do you need to understand about saving money? ▪ What questions do you have about taking loans? ▪ When you have learned something about money, where did you learn it? (Radio, CARE/CRS, local government official, a visitor from a bank or MFI, friend or family member) ▪ What do you want to know about other financial institutions like MFIs or banks? ▪ Tell me about financial advice that you have received recently that helped you make decisions to improve your life.
<p>Ask:</p> <p>Would you prefer to have this training during your VSLA meeting, or at a different time, separate from the VSLA meeting?</p>	<p>Probe for:</p> <ul style="list-style-type: none"> ▪ Budgeting ▪ Savings ▪ Borrowing/managing debt ▪ Formal financial services (SACCOs, banks, MFIs) ▪ Insurance

Step 8. Closing

Closing: Thank you very much for your time. Our discussion today is very helpful for us. It will assist CARE in developing better methods for training VSLA members like you in financial education. Do you have any questions for us? (Let them know they should stay for refreshments if you are serving refreshments. Make sure to fill out the Socio Economic Profile questionnaire during refreshments.)

Annex 2

FOCUS GROUP DISCUSSION GUIDE (CBTs AND PSPs)

Instructions to Facilitator and Recorder:

All instructions to facilitators and recorders are written in italic and underlined.

The participants in these focus groups promote Savings Groups as trainers. They are called CBTs by CARE and PSPs by CRS.

PURPOSE: To identify members' challenges with managing money and behaviors that undermine their financial stability from trainer perspective; to identify how financial education could help SG members become better money managers and consumers of financial services; to identify actual risks SGs face to the security of group funds; to determine the profile of positive deviants;

Step 1. Welcome to the discussion – 10 minutes

Moderator say:

- Thank you for joining this discussion, I know that your time is valuable. I would like to first introduce our team. My name is Candace Nelson and this is my colleague Sharon Mosin.
- We work for Microfinance Opportunities, an NGO based in the U.S. that promotes financial literacy and trains people to manage their money better. We are helping CARE/CRS to think about how it can best provide financial education to VSLAs/SILCs
- We have come here today to learn from you how VSLA/SILC members manage their money. As trainers, you have direct contact with members and knowledge of their decisions and behaviors regarding money. This first hand knowledge is important to us. There are no right or wrong answers to our questions so feel free to tell us your ideas and opinions. Any information that you provide will be considered private and confidential and will be used only for this research. We will ask you your name, but we will not use it any reports we write. Your answers will be grouped with the answers of other participants and only your village may be identified in the report.
- You are encouraged to participate in the discussion as much as possible. Your participation is voluntary. If you are not comfortable with a question, you may choose not to answer it. You may leave the discussion without penalty. You are free to ask questions at any time.
- **Do you agree to participate in the study?**
NO [Ask participant to leave the discussion/end the discussion]
YES [continue]
- During our discussion we would like to use a tape recorder to record our conversation. The tape allows us to remember what you said. No one in this community will hear the tape and it is only used by members of the study team.
- **Do I have permission to tape record our conversation?**
NO [Make sure the Note Taker can take good notes!]
YES [Turn on the tape recorder]
- **Before we start do you have any questions?**
- We have rules for this discussion. Please speak one at a time so that everyone can hear what is being said. Also if anyone has a cell phone, they should turn it off to make sure that we are not interrupted. (THIS MEANS THAT ALL RESEARCHERS AND ANY OBSERVERS SHOULD TURN OFF THEIR CELL PHONES, TOO.)

Step 2. Warm Up – 10 minutes

Purpose: Welcome the participants and warm them up.

Moderator says: Now, it is your turn to introduce yourselves. Please tell us:

What is your name?

What is your age?

What does your household do to earn income?

When did you become a trainer for VSLA/SILC?"

Note Taker instructions: Moderator invites each respondent to shortly introduce him/herself. Ensure you note down:

- person's name,
- age,
- household occupation,
- village
- how long they have been a trainer for VSLA.

Write out a name tag for each person and provide it to them after they introduce themselves.

Step 3. Expenses and how they are paid for- 20 minutes

Purpose: Understand members' expenses, and how they pay for them..

Post a flipchart and prepare to draw an image.

Say:

I ask you to think about a typical member of a savings group. Is it a woman or a man? How old is she? What kind of work does she do? How does she earn money?

Draw a figure of a typical member on the flipchart large enough for everyone to see. Give her hair, other decorations. Ask participants to name her.

Ask:

How does _____ spend her money? What does she have to buy?

Write each item mentioned on a card and place the card on the flipchart next to the drawing.

Probe for all expenditures large and small.

- Does she have to pay school fees?
- Does she ever use transport?
- Does she buy tea at the market?
- Does she give her children money for lunch at school?
- Is she responsible for her family's clothing?
- Does she give her husband money for beer?
- Does she have to purchase inputs for the planting season?

	<ul style="list-style-type: none"> ▪ Does she invest in an income generation activity? ▪ Does she have regular contributions to make to a merry-go-round or VSLA? ▪ Does she pay dues to any other groups?
Ask participants to group expenses by:	<p>Move cards into the three groups and probe:</p> <ul style="list-style-type: none"> ▪ Regular expenses that happen daily or weekly ▪ Expenses she borrows money to pay for ▪ Expenses she uses savings to pay for ▪ Are there any other expenses or events that she borrows for? What expenses do we need to add to this group? ▪ Are there any expenses we should add to the 'savings' group? ▪ Does _____ have enough money saved to pay for the expenses in this group? ▪ What does she do when she is short? ▪ How many loans does she typically have at the same time?

STEP 4: Savings

Purpose: To learn more about how and where participants save; to assess KSAs re: savings

Explain:

Thank you for introducing us to _____. I feel like she is my sister now. And, we know a lot about what her expenses are and how she pays for them. From her experience, I would like to know more about members of the groups you train - how and why they save, and the challenges they face.

<p>Ask:</p> <p>Do members find it easy or challenging to meet the group's saving requirement?</p>	<p>Probe for specific examples.</p> <ul style="list-style-type: none"> ▪ What is the share price in the groups you support? ▪ Are members allowed to purchase more than one share at a time? ▪ How common is it for members to save more than one share? When, during the year, is it most likely to occur? ▪ Are there times when members are challenged to save even one share? When does this happen? ▪ Do members like and appreciate saving with the group? Or, do they do it only to get loans? ▪ How has group saving changed since the group was formed? ▪ Do members know what they are saving for? Do they have a specific goal for their savings?
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<p>Ask</p> <p>There are many ways to save. Some people hide their savings at home or in a hole in the ground; others buy animals or jewelry; some people have a bank account.</p>	<p>Probe about other savings:</p> <ul style="list-style-type: none"> ▪ Do members save in any other places, or ways outside of the VSLA? Which ones? ▪ What do they like about this other way of saving? ▪ Do members want to open bank accounts? For themselves? Or, for the savings group? ▪ What prevents them from opening bank accounts? ▪ Do they ever set aside money for emergencies?
<p>Ask:</p> <p>In your view, what do members still need to understand about saving?</p>	<ul style="list-style-type: none"> ▪ Someone who saves a lot and is financially stable is called a 'positive deviant'. This person is different from the average person in positive ways. Is there a 'positive deviant' among the members you know? What is she like? How does she behave differently from other members?
<p>Ask:</p> <p>How are the members of your VSLA different from those who are not members?</p>	<p>Probe about savings of non-members</p> <ul style="list-style-type: none"> ▪ Do people who are not part of VSLAs save money more or less than VSLA members? Where do they save? ▪ Why do you think people in this community who are not members have decided not to join a VSLA?

Step 5: Borrowing
Purpose: To learn more about participants borrowing decisions

Say:

I really appreciate your participation so far! So far, VSLA members seem very much like my new sister _____. Now, I would like to know a little more about members' need to borrow money.

<p>Ask:</p> <p>Why do members typically borrow from their VSLA?</p>	<p>Probe for specific information about borrowing</p> <ul style="list-style-type: none"> ▪ How much do they borrow? ▪ Do they ever want to borrow more money than the group can lend to them? How common is this? ▪ What do they do when they cannot borrow the full amount they have asked for? Do they borrow the rest from some other source? ▪ Do they often borrow more than once during a cycle? ▪ Is there a month or period during the year when members normally need to borrow? When? For what? ▪ Do members take loans from the VSLA on behalf of other people? Do they ever have problems with repayment?
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<p>Ask:</p> <p>Do members borrow from other sources besides the VSLA?</p>	<p>Probe for specific information about external borrowing</p> <ul style="list-style-type: none"> ▪ What other sources of loans do they use? ▪ Apart from their VSLA, which lender do they prefer? Why? ▪ Do members understand the interest rate they pay on their loans? ▪ When they borrow from other sources, do they ask about the interest rate? Do you know if they ever compare interest rates offered by competing lenders? ▪ Do members have more than one loan at a time? ▪ Do family members of the same household take separate loans at the same time? ▪ When do members have problems repaying their loans? ▪ What do they do when they cannot make loan payment?
<p>Ask:</p> <p>What do you think group members still need to understand about taking loans and managing debt?</p>	<p>Probe for how people make decisions to borrow</p> <ul style="list-style-type: none"> ▪ Do you think most members can figure out if they can afford to take a loan? ▪ Do you know of cases where a member considers taking a loan and decided NOT to? Why did she choose not to? ▪ Do you think members understand the risk of becoming over-indebted? ▪ What financial actions or decisions do members take that cause problems for them and impact negatively on their finances?

Step 6: Group Evolution: Accessing Other Financial Institutions and technology

Say:

The VSLA is a great context for members to gain experience saving and borrowing. I have a few questions about how they might be changing.

<p>Ask:</p> <p>Do you think that members want more than their VSLA can provide</p> <ul style="list-style-type: none"> - Different types of savings accounts or bigger loans for example? 	<p>Probe for member desire/demand for links with formal financial institutions</p> <ul style="list-style-type: none"> ▪ Are members asking you about banks or cooperatives or SACCOs or MFIs? ▪ Do you think there is a need to link VSLAs with outside financial institutions? Why or Why not? ▪ What would members need to learn if they begin using the products and services of a formal bank or MFI? ▪ What do members need or want most from a financial institution like a bank or MFI?
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<p>Ask:</p> <p>Do you personally see how VSLAs could benefit from savings accounts at banks or loans from MFIs?</p>	
<p>Ask:</p> <p>Technology like mobiles may also introduce change to VSLAs/SILCs. Have you observed members using their mobiles to do financial transactions?</p>	<p>Probe for members use of technology</p> <ul style="list-style-type: none"> ▪ Do many members use M-PESA? ▪ Could M-PESA be useful to the VSLA? How? ▪ What would members need to learn in order to use their mobiles to transact within the VSLA safely?

Step 7: Assessing Threats to VSLA security; What do members need to learn to protect themselves?

Say:

Sometimes we talk about VSLAs/SILCs as isolated community groups that don't have or need much contact or interaction with those outside the community. This is not true, of course. We need to understand better how the groups interact with others and what risks are involved.

<p>Ask:</p> <p>What are the security risks that groups face?</p> <p>How are groups vulnerable to aggressive lenders, MFIs and other financial institutions?</p> <p>What are the risks of outsiders coming to offer services or products to the group?</p>	<p>Probe for</p> <ul style="list-style-type: none"> ▪ Is theft a problem? What problems do you know about? ▪ Is fraud by group leaders a real risk? Have there been problems with fraud? ▪ How often do politicians approach the groups with offers? ▪ What do members need to learn in order to make good decisions about interacting with outsiders, or external institutions?
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Step 8: Assess Learning Preferences**Purpose: Understand and rank learning preferences.**

Say:

Thank you for your contributions! We are coming to the end of our conversation and I just want to hear what you want to learn about the topics we have been discussing.

<p>Ask:</p> <p>What do you think are the most important things that members need to learn about how to manage money?</p>	<p>Probe for what people have learned or want to learn:</p> <ul style="list-style-type: none"> ▪ What do you think their main problems or weaknesses are around financial management and decisions? ▪ Are they strong savers and borrowers now? Is there more they need to understand about saving and borrowing? ▪ What do they need to learn about formal financial services like banks and MFIs?
<p>Ask:</p> <p>When do you think basic financial education should be introduced to members?</p>	<ul style="list-style-type: none"> ▪ Is there experience to argue for financial education at the very beginning before members even start saving?
<p>Ask:</p> <p>Do you think you could be trained to provide basic financial education to members? Can you see yourself as a financial education trainer?</p>	<ul style="list-style-type: none"> ▪ What do you think you need to learn to be a good financial education trainer? ▪ How do you think members will best learn about money management? Radio, CARE/CRS, local government official, a visitor from a bank or MFI, friend or family member)
<p>Ask:</p> <p>Would you prefer to have financial education training during the VSLA meeting, or at a different time, separate from the VSLA meeting?</p>	

Step 9. Closing

Closing: Thank you very much for your time. Our discussion today is very helpful for us. It will assist CARE in developing better methods for training VSLAs financial education. Do you have any questions for us? (Let them know they should stay for refreshments if you are serving refreshments. Make sure to fill out the Socio Economic Profile questionnaire during refreshments.)

Annex 3

FINANCIAL SKILLS LIST

- Knows the difference between wants and needs.
- Pays for needs before wants.
- Avoids wasteful spending.
- Has at least one savings goal.
- Saves money in a safe place.
- Saves money regularly.
- Knows what interest is.
- Knows the difference between common savings products offered by financial institutions (e.g. passbook account, time deposit, contractual savings account).
- Knows which of these products are appropriate for various goals.
- Has enough saved to cover one month of household expenses.
- Has savings for emergencies .
- Has enough savings to invest in a business opportunity.
- Keeps track of income and expenses.
- Knows how to make a budget.
- Follows a budget.
- Has confidence to enter a bank to seek product information.
- Can calculate what she can afford to borrow.
- Avoids borrowing from moneylenders.
- Repays loans on time.
- Avoids borrowing for daily consumption.
- Understands the difference between interest calculated using flat and declining balance methods.
- Knows what questions to ask the lender about the costs and contractual terms of a loan.
- Can compare costs of two loan products.
- Knows her rights as a financial services consumer (e.g. right to privacy, respectful treatment, clear information, to be heard, to choose the product without pressure).
- Is not afraid to make a complaint to her financial institution about a violation of rights.
- Can distinguish between a justified and unjustified consumer complaint.
- Knows when to use savings or borrow to pay for an unexpected emergency (large expense).
- Plans ahead for financial negotiations (with suppliers, vendors, family members).
- Has a desired outcome in mind for her financial negotiations.
- Knows the difference between a community savings and credit association and a formal financial institution (e.g. bank, SACCO, MFI).
- Knows the advantages and disadvantages of formal and informal financial institutions.

