



Odwolla Group Savings and Loans (GSLs) clustered meetings in Rachuonyo, Nyanza Province.

Savings Groups

Project briefing note

ABOUT FSD KENYA

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



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Savings Groups

BACKGROUND

Savings Groups (SGs) are a simple financial intermediation model where members of a group contribute an agreed minimum amount of savings during regular meetings. In some groups, members save more than the agreed minimum. The funds are then lent out to members based on demand. This goes on for a period of 9-12 months when lending stops and outstanding loans are repaid in readiness for share out when all the savings are paid back and interest earned distributed to members. Groups that do this are commonly known as terminating Accumulating Savings and Credit Associations (ASCAs). The groups then restart afresh in a new cycle. Groups that do not share out after each cycle are referred to as Accumulating Savings and Credit Associations (ASCAs). These groups however share out the income generated over the cycle but retain the savings. In broad terms, the primary target markets for savings groups (SGs) in Kenya are the financially excluded (approximately a third of the adult population based on FinAccess 2009 data) and those who only use the very basic Rotating Savings and Credit Associations (ROSCA) methodology – popularly known as merry go rounds – (roughly a quarter of the adult population). There is also evidence to suggest that among those using formal services, some will only do so rarely due to high overall transaction costs, and may regard the SG as a useful complementary service.



A COSALO franchisee Judy Angaya (standing) meeting the “Umbrella” group in Western Kenya. The Umbrella group is so named because the umbrella is symbolic of the protection that the group gives them. They keep an umbrella opened in front of the group at every meeting. Photo credit: Paul Rippey.

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FSD Kenya has been supporting savings groups since 2008 through the Community Savings & Loans (COSALO) project in partnership with CARE. The Savings Groups initiatives undertaken between 2008 –2011 were quite successful. The initiatives had reached over 5,660 groups comprising of over 150,000 members as at December 2011. The two main lessons drawn from this project were:

1. **It is possible to bring down the cost of starting groups.** While the cost of the initial pilot was \$75 per member and the rates reported globally are \$25–40 per member, the average cost in 2010/2011 was \$9 per member.
2. **Replication of the groups is the norm.** A study of 54 groups selected from 2,500 groups showed that three quarters of the groups had replicated (created new groups). On average each group had created an additional two groups.

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SGs clearly present strong potential for financial inclusion particularly for lower-income quintiles. Furthermore, the success of the project in rolling out groups at a cost of less than \$10 per member now enables stakeholders to think seriously about how to achieve scale.

SAVINGS GROUPS PROJECT COMPONENTS

In April 2011, FSD launched a follow-on project to continue the support to savings groups. The primary focus of this project which will run until June 2013 is to **develop savings group models to a stage at which a scale-up programme impacting significantly on financial exclusion at a national level becomes viable.**

The project’s main components are: i) refining delivery channels (ii) improving savings groups’ methodologies, (iii) developing a national scale-up framework, and (iv) poverty impact assessment.

1. Refining delivery channels

The project is supporting CARE to reduce the amount of direct investment from the project in group formation and to introduce a fee for training and support services to be paid by groups to the trainers based on financial results. The primary benefit will be to increase the level of accountability of community based trainers (CBTs) for the quality of the training they deliver to their clients.

The project is also testing additional interventions and particular design features needed to reach highly marginalized groups. CARE Kenya is implementing a pilot in a geographically remote setting, Marsabit, in Northern Kenya. The Marsabit project is utilising a range of delivery channels to train groups while monitoring impacts on costs, sustainability, outreach and livelihoods. The project is also testing whether linkages can be made with the social transfers Hunger and Safety Nets Programme (HSNP) to provide a platform through which to deliver SGs effectively and efficiently. Additionally, the project is supporting Catholic Relief Services (CRS) in refining the implementation of the Private Service Providers (PSP) model to make it fully functional and ready for scale up.

2. Improving savings groups’ methodologies

The project is supporting the development and testing of technology driven innovations and business models to improve the products and management of groups and address issues of liquidity management, consumer protection and financial capabilities. The key innovations are:

- a. The e-Recording solution – this will be an online system to simplify record keeping, increase accuracy and improve data security;
- b. A linkage solution – for linking savings groups to formal financial service providers to enhance the security of the group funds and expand products;
- c. A financial literacy module for SGs to address identified gaps in existing SG training methodologies. Financial diaries research will be conducted with repeat qualitative interviews on a control and treatment sample among SG users to test the impact of new financial literacy tools; and,
- d. Dissemination of training manuals for groups to improve governance, management and transparency.

3. Developing a national scale-up framework

Implementation of SG models is currently driven through the non-profit sector, and led by a handful of organisations. The project is working to support collaboration so that key players pool their intellectual capital and experience to share best practice conduct and work towards creating an optimal design framework for SGs. The project is working with the SG working group (SGWG) and SaveNet (a representative network of organizations implementing SGs at small scale) to jointly develop a national-level scale up strategy for Kenya by June 2013.

4. Poverty impact assessment

The project is involved in a substantial research agenda to analyse poverty impacts of SGs on users before the envisaged scale up. The project is using the “progress out of poverty index” (PPI) to understand the impacts of SGs on member households (asset growth, vulnerability to shocks, equality of decision-making, health, education and financial capabilities).

The project will carry out a comparative study of delivery channels to draw lessons on sustainability, outreach and consumer protection across different delivery channels to inform the design of the national scale up strategy. Another piece of research will be an in-depth study of institutionalisation processes which will be conducted on established groups to understand the sustainability of new training methodologies (‘stickiness’ of rules and norms) and the impacts of decentralised financial institutions on community-level poverty and inequality.

The study will analyse the effectiveness of external methodologies in changing the rules and norms within which people undertake transactions, and the extent to which these create sustainable institutional change. The research will also analyse the impacts of institutional change on local relations of poverty and power, including dynamics of exclusion.

The project will review other research findings and work closely with others engaged in a broad research agenda around the analysis of poverty impacts and the efficacy of SG models and methodologies. The project will participate in global and regional SG exchange forums to learn and share experiences.



Mama Pesila, a member of the Mapambano self-help group displays eggs for sale from her chicken rearing business.

Mama Pesila’s story

Mapambano self-help group is in Migen location in Nandi south district. The group was enrolled in COSALO I project in January 2010 with 24 members who bought shares of KShs 200 each. They’ve increased to 30 members who also deal in local poultry keeping, tree nursery, tree planting and onion cultivation.

Mama Pesila, 58 and a mother of four, joined the group in 2010 after a friend told her about COSALO. She used to struggle paying her children’s school fees and there were times they would stay home after being sent away from school for non-payment. Since joining Mapambano, Pesila has managed to buy two local dairy cows and 15 local chickens. From the sale of her milk and eggs, she now earns an income of about KShs 600 per day which helps meet her family obligations. She has managed to plaster her house using credit from the group and pay her children’s school fees regularly. One is in high school while the other three are still in primary school.

The Mapambano self-help group used to have a problem with a meeting venue but they now meet regularly in her house. “I’ve found inspiration and encouragement associating myself with the group and I wish similar groups would be extended to all women in the country,” she says.