

DEVELOPING DECENTRALISED FINANCIAL SERVICES PROJECT REVIEW

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A report on whether the training of groups to be self-managed maximises rural outreach.

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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

AMA	ASCA Management Agency
ASCA	Accumulating Savings and Credit Association
CBFO	Community Based Financial Organization
CIDR	Centre de Developpement et de Recherche
DFS	Decentralised Financial Services Project
FSA	Financial Service Association
FSD	Financial Sector Deepening Trust (Donor)
GSL	Group Savings and Loans Associations
KFS	K-Rep Fedha Services Ltd
MFI	Microfinance Institution
ROSCA	Rotating Savings and Credit Association (also called Merry-Go-Round in Kenya)
SACCO	Savings and Credit Cooperative
VSLA	Village Savings and Loans Associations

EXECUTIVE SUMMARY

INTRODUCTION

The Decentralised Financial Services (DFS) project began in 2003 as an action research project to improve outreach of financial services in remote and rural areas. The first phase focused on developing and testing the tools to strengthen the management and governance of community-based financial organisations. The second phase which started in 2005, sought to demonstrate the impact of the tools in broadening and deepening outreach of financial services in rural areas.

THIS REVIEW

Financial Sector Deepening Trust (FSD) contracted independent reviewers to i) assess the performance of the second phase of DFS, ii) identify key achievements and lessons learned, and iii) make recommendations for future contributions to financial sector development for the poor in Kenya. Reviewers were asked to recommend whether or not DFS should continue to a third phase.

OVERVIEW OF DFS II

DFS II had the broad goal 'to develop and test simple and effective tools and delivery techniques to strengthen operations, management and governance in community based financial organisations (CBFOs) as a building block for developing sustainable and robust decentralised financial systems in Kenya.' To achieve this goal there were four key outputs:

- **Finalisation of tools and manuals for groups:** To finalise and disseminate the tools developed in phase I for helping groups to improve their self-management and self-governance capacities.
- **Integrating of tools in managed accumulating savings and credit associations (ASCAs):** To develop the capacity of ASCA management agencies (AMA) and individual service providers to build group capacity in order to lower costs and improve outreach.
- **Integrating of tools and savings-led methodology into semi-formal financial institutions:** To develop the capacity of these institutions to build group capacity in order to lower costs and improve outreach.
- **Research on terminating ASCAs:** To understand the demand for terminating ASCAs in Kenya.

ACHIEVEMENTS

The project achieved its purpose and largely achieved its outputs. High quality tools and manuals were developed and used to train 225 groups, approximately 5,000 members. DFS used a unique approach to group capacity building focused on governance and member responsibilities and rights. DFS was able to demonstrate that enhanced capacity in groups to self-manage and self-govern improves the performance of both groups and the institutions that support them.

Test groups showed stronger performance than control groups though performance and reliability monitoring data varied by model. The managed ASCA model proved to be the strongest demonstration of lowered costs that resulted in both broadened and deepened outreach. Financial Services Associations (FSA) were largely successful at integrating tools and savings-led methodology. Improved group capacity allowed the FSA staff to reduce contact time thereby reaching more groups as well as creating groups in areas that would otherwise be too costly to reach. While the methodology shows promise, potential for scale is limited by institutional weaknesses and product rigidities. The savings and credit cooperative (SACCO) was the least successful due largely to a limited ability or mandate to work on the group methodology and other institutional constraints. Though there were improved efficiencies with the SACCO as a result of improved group capacity, the link to broadened and deepened outreach was not clear.

Aside from the ability to effectively meet project purpose and outputs, DFS made some significant achievements in financial services provision for the poor. These include:

- Strengthened commercial approach to managed ASCAs helping to make the informal and semi-formal end of the financial services spectrum more competitive.
- Quality tools and approach to group training.
- Demonstration that group capacity building affects institutional performance.
- Demonstration that group capacity building affects group performance and credit worthiness (bankability).
- Improved safety and services for groups.
- Locally and internally relevant research that fills a gap in the microfinance community.

SUCCESS FACTORS

There were several contributing success factors to these achievements:

- DFS' professional approach to training.
- Iterative, tailored approach to partnerships.
- Trust and management will from Action Research Partners (ARPs).
- Learning organisation demonstrated within DFS.

CHALLENGES

In spite of considerable achievements, DFS was not without its challenges:

- Institutional development issues with Action Research Partners.
- Making the business case (quantitative or financial case not as clear as qualitative).

- Monitoring for results.
- Reliable control data.
- Savings-led methodology with credit-led institutions.

KEY LESSONS LEARNED

Helpful lessons can be taken from the DFS experience for donors, technical service providers and microfinance institutions interested in deepening financial services. These include:

- The importance of building the capacity of groups as an investment in improving financial performance for both groups and the institutions that support them.
- The type of group affected the value-added of interventions.
- Strong partner selection is critical.
- Effective demonstration requires time, willing partners and iteration.
- Intensive and iterative approach of development agency builds buy-in and hence better results.
- The importance of clear and long-term monitoring to link to sustainability and scale.
- The important role of up-front technical support agencies at the semi-formal end of the services spectrum as well.

Does training groups to be self-managed maximise rural outreach? Yes, though the extent to which this is true varies by model. DFS has shown an impact on pro-poor financial development by strengthening, as intended, the “bottom spike” of the financial services spectrum in Kenya. In its focus on capacity building, DFS has helped to foster a competitive environment where groups have both greater options as well as greater capacity to choose. For this reason, it is recommended that DFS continue for a third phase with a focus on large-scale capacity building of managed ASCAs agents (institutions and individual service providers).

Chapter 1

BACKGROUND OF DECENTRALISED FINANCIAL SERVICES PROJECT, PHASE II

1.1 INTRODUCTION

The Decentralised Financial Services (DFS) Project began in 2003 as an action research initiative under MicroSave Africa funded by Financial Sector Deepening Trust (FSD) to address the problem of outreach of financial services in remote and rural areas. In this phase, DFS developed tools to facilitate self-governance and self-management of groups. Following a successful pilot, a second phase (DFS II) was recommended and launched in June 2005. DFS II aimed to demonstrate and strengthen “the bottom-up spike” of the financial services spectrum. The core objective was to help the more decentralised financial service models lower transaction costs and consequently improve both the depth and breadth of rural outreach.

The project had four main outputs:

1. **Finalisation of tools and manuals:** In phase II, the project was to finalise these tools and manuals for dissemination across the different decentralised financial services models.
2. **Integration of the tools in managed ASCAs:** Under this component, the tools were to be integrated into managed accumulating savings and credit associations (ASCAs). DFS worked with pre-existing ASCA Management Agencies (AMAs) that provide management services to the ASCAs for a fee on a commercial basis. The project also sought to develop the capacity of individual service providers to train ASCAs (directly) and the AMA field officers (to on-train ASCAs) using the tools;
3. **Integration of tools and savings-led methodology into semi-formal financial institutions:** Initially the project sought to work with a savings and credit cooperative (SACCO) and microfinance institution (MFI). The MFI was later substituted with rural financial service associations (FSAs) which are seen to be more decentralised.
4. **Research on terminating ASCAs:** Initially the project aimed to conduct a research to understand the extent of usage and value of terminating ASCAs in Kenya. The proposed study was later replaced with a study on the experience of village savings and loans associations (VSLA – a time-bound ASCA) in Zanzibar where it has had success.

Two AMAs, one SACCO and two FSAs were involved in the project as action research partners (ARPs). The selection criteria for the ARPs entailed: evidence of the financial and institutional sustainability of the financial institutions, clear and coherent strategic vision from the organisation of the role DFS tools can play in developing their business model and evidence that the intervention is likely to result in reaching poorer people and/or remoter areas. DFS II aimed to work both with existing and newly formed groups in this phase.

DFS trained selected staff of the ARPs with a toolkit (capacity building sessions) to support self-management of the groups and supported in development of a savings-led group methodology for the semi-formal institutions. In exchange,

the ARPs provided DFS with monitoring data on a quarterly basis as well as continual feedback on the tools and the methodology.

1.2 OBJECTIVES OF THE REVIEW

Towards the end of the DFS II project in December 2008, FSD Kenya commissioned an independent end of project review. The review was conducted over 24 days in October 2008 by Nanci Lee, independent consultant and Angela Wambugu, MicroSave Consulting toward the following objectives:

- (i) A formal project review report assessing the performance of the second phase of the project against the defined project objectives and outputs with particular focus on effectiveness, efficiency and relevance of the programme.
- (ii) A review of the overall experience of the Decentralised Financial Services (DFS) project, identifying the achievements and key lessons learned.
- (iii) Critical analysis of the on-going activities for the future development of DFS, examining the prospects for sustaining and enhancing its future contribution to financial market development.
- (iv) Recommendation to FSD Kenya on the case for a third phase of DFS.

1.3 METHODOLOGY OF THE REVIEW

The review team visited the various action research partners and three non-action research partners who had been trained by and received support from DFS:

- Three independent, individual ASCA service providers.
- Seven ASCA service providers representing non-government organisations.
- Three commercial ASCA management agencies.
- Three member-owned financial institutions lending through groups (two Financial Service Associations and one savings and credit co-operative).

Key informant interviews and workshops at the institutional levels related to the relevance of the tools, the value-added of DFS, the sustainability of the training, rating of individual tools and progress markers used by DFS. Program and additional financial data was collected. In addition, ten test groups were observed that had received DFS training and seven control groups that had not received any DFS training or support. Groups were rated by the review team based on their awareness of rights and roles, financials, use of sanctions, transparency of bookkeeping and self-management. DFS and Action Research Partner program reports and financials were also reviewed. On October 27, 2008 at the end of the field review, the team held a workshop in Nairobi with Action Research Partners and other key stakeholders to discuss preliminary findings. For review of organisations and time-line see Annex 1. For an outline of main questions used for the review see Annex 2.

1.4 STRUCTURE OF THE REPORT

This report is structured in four sections. The first section provides background and introduction to both the project and the review. The second section is a summary of the review findings. It outlines what DFS has demonstrated in Phase II beginning with the overall project performance. Then, each individual project output is discussed in some detail. The third section is the overall assessment of DFS II Project in light of the review findings. This section outlines key achievements, success factors, challenges, lessons learned. The last sections

outlines DFS' impact on pro-poor financial sector development and provides recommendations for expanding scale if the project were to continue. Annexes provide additional information: review schedule and questions used; output template for the project; specific rating and recommendations on tools and progress markers; group indicators used in other programs to measure self-management; suggested indicators and potential scenarios for a next phase.

Chapter 2

DEMONSTRATION OF THE DFS PROJECT II

2.1 OVERALL PROJECT PERFORMANCE

The second phase of DFS aimed 'to develop and test simple and effective tools and delivery techniques to strengthen operations, management and governance in rural community based financial organisations (CBFOs) as a building block for developing sustainable and robust decentralised financial systems in Kenya.'

Having determined in the first phase that decentralised models such as FSAs, SACCOs and managed ASCAs, reach further along the geographical frontier and deeper into the poverty frontier, these models were selected for demonstration. DFS II worked with various decentralised service models to build the capacity of their user-owned and managed groups. The underlying assumptions behind the conceptual framework were:

- Training groups can improve their self-governance and management ability.
- Improved group self-governance and management reduces transaction costs for ASCA managers, FSAs and SACCOs leading to broader and deeper outreach.

DFS II has demonstrated that effective training can, in fact, improve the self-management ability of groups in all models especially the Managed ASCA model. DFS developed and tested simple, effective and relevant tools and delivery techniques. As a result, there is a marked difference between test and control groups in terms of qualitative indicators and the changes observed in the way they conduct transactions, keep books and supervise themselves. The difference in quantitative measures such as financial performance between test and control groups is less clear. However there are indications that training also improves the bottom line of the groups.

Across all models there were clear efficiency gains. Stronger, more self-managed groups meant that groups could take on more front-end office tasks such as screening, allocation of loans, mobilisation of compulsory and in some cases voluntary savings. This, in turn, has helped the community/rural based financial organisations to lower contact time with groups which improved efficiency across the various models/Action Research Partners and allowed them to meet with more groups. While all three models demonstrated that increased self-managed ability lowers costs and improves efficiency the connection to broadened and deepened outreach was most apparent in the Managed ASCA model and perhaps the Service Providers. With the FSA model greater self-management in the groups led to improved efficiency and transparency, breadth and potentially depth. However, the connection between the efficiency gains and broadened and deepened outreach is less clear for the FSA and the SACCO.

In all three models the business case or model linking the efficiency gains with broadened and deepened outreach was less clearly demonstrated. This is partly due to limitations in the collection of monitoring data, the indicators used and the short implementation time frame for testing the FSA and SACCO models.

The other limitation of the SACCO and FSA model relates to a mismatch between the intention of DFS II in building capacity of user-owned, savings-led groups and the reality of the groups within the SACCO and FSAs that were largely liability groups formed and characterized primarily by joint liability to access loans and other services. There was, perhaps, an underestimation of the incentives for financial institutions like SACCOs and FSAs that do not, immediately or easily, see the benefits of groups' savings and lending to themselves internally. In fact, these activities are largely seen as competition.

Table 1: Planned activities against achieved results

Outputs	Planned activities over project period	Actual activities undertaken
(i) Finalisation and dissemination of tools and manuals	<ul style="list-style-type: none"> ▪ Further testing, finalisation and dissemination of group level tools 	<ul style="list-style-type: none"> ▪ Group levels tools finalized and disseminated
(ii) Integration of tools in managed ASCAs	<ul style="list-style-type: none"> ▪ Integrating tools to managed ASCA methodology ▪ Developing oversight tools to facilitate structural change and MIS ▪ Business model and outreach analysis ▪ Value added services ▪ Service providers 	<ul style="list-style-type: none"> ▪ Integration of tools into managed ASCA methodology achieved ▪ Oversight tool provided and change in MIS achieved ▪ Business case made more qualitatively than quantitatively ▪ Value added services provided ▪ Service providers trained and fee assignments achieved
(iii) Integration of tools and savings-led group methodology into semi-formal financial institutions	<ul style="list-style-type: none"> ▪ Developing a SACCO+ASCA and MFI+ASCA product and integrating DFS tools ▪ Business model and outreach analysis 	<ul style="list-style-type: none"> ▪ Integration of tools and savings-led group methodology somewhat achieved with semi-formal financial institutions. It was achieved more with the FSAs than the SACCO. ▪ Outreach targets achieved but business model less clear
(iv) Research on terminating ASCAs	<ul style="list-style-type: none"> ▪ Study on terminating ASCAs 	<ul style="list-style-type: none"> ▪ Research on VSLA in Zanzibar achieved

2.2 SUMMARY OF PROJECT RESULTS

DFS II had four key outputs which formed the basis of this review. The outputs, planned activities and achieved results for each are outlined below.

For a more detailed review of achieved outputs to targeted outputs, see Table 1.

Training groups with DFS tools and supports did improve their self-management ability.

2.3 PERFORMANCE OF INDIVIDUAL PROJECT OUTPUTS

Let us now review each key project outputs in greater detail against the project assumptions.

2.3.1 Group level tools developed

The objective of this output was to develop, test and disseminate group level tools that would have an impact on group self-management. DFS II did demonstrate that training groups can improve their self-management ability. Based on an initial review of materials and methodologies with groups and ASCAs, DFS developed a set of tools that could be used to support the creation of self-managed and self-governed groups. By the end of DFS II 225 groups were trained on the following tools: forming a strong group; responsibilities and qualities of leaders and members of a community group; giving and collecting unpaid loans; recording group financial activities; making a group constitution; and with older groups, the group well-being tool.

DFS used 14 progress markers to assess the self-management ability or governance of groups. The results are not surprising. In the more mechanical aspects of group behaviour such as attendance and savings contributions, groups scored well (+80.5% on average). On the higher-order functions such as group ability to interpret or evaluate performance, the scores were much lower (+39%). In terms of knowledge of roles and responsibilities and financials the score was 65% on average at the end of the project. Unfortunately, it is difficult to draw conclusions from this data as it was only available for the managed ASCA groups and only for test groups because it was discovered that using progress markers with control groups altered their behaviour. See Annex 3 for an analysis of the progress markers.

For the purposes of the review, the review team carried out a simple rating system on self-management of the groups. Through a series of questions posed to group members (not leaders) and review of books, both test and control groups were rated on: member awareness of rules, rights and responsibilities; member monitoring of finances; instances of members sanctions; transparency and effectiveness of bookkeeping and group self-management. The results are shown in Table 2 below:

The number of groups seen during the review were too few to draw conclusive results but the differences between the test and control groups were surprisingly visible. In the third and fifth indicators there was less variance. Regarding sanctions, a possible explanation is that groups must carry out some form of sanctions to ensure discipline of payment otherwise they would fold. What DFS seems to have instituted is more transparency and consistency

Table 2: Governance rating of test and control groups (out of 10)

	Test (10 groups)	Control (7 groups)	Key difference between test and control groups
Rules, rights, roles and responsibilities	7	4.8	Test group members had good knowledge of their responsibility to check officials due to the constitution. Control groups left responsibilities for transacting largely to officials.
Knowledge of financials	7.2	4.8	Members of test groups were much more accurate when asked about savings, total revolving fund and loan balances.
Evidence of sanctions	7.8	6	Use of a Loan Appraisal Committee comprised of members with agreed upon rules for sanctions for late payment. FSA groups used KCM for loan Committee. SACCO groups did not achieve to the same extent. Test groups played much larger role in sanctions compared to control groups where field staff did.
Transparency in bookkeeping	7.4	4.2	Oral reading of balances and, in some cases, individual transactions to the group. Improved group accounting and passbooks also helped with clarity, efficiency and costs.
Group self-management	6.4	5.2	Extent to which group could keep their own books with minimal support from field staff. Managed. ASCAs were strongest but all groups still required and sought support in checking accuracy books and arbitrating group problems.

Note: While there was some differences between the groups, rating by model would not have yielded reliable results given the limited number of test and control groups visited by the review team.

to the process of using sanctions. In terms of group self-management, the figures are partially skewed by two of the SACCO control groups visited that were also existing ASCAs. Their level of self-management was relatively higher than other control groups which is not surprising given that they intermediate their own funds.

The nature of improved self-management differed across models

What does it mean for a group to be self-managed or self-governed? The answer to this question seems to be: it depends on the type of group. DFS worked with groups that intermediated their own funds (ASCAs) and joint liability groups that managed the funds of the FSAs and SACCOs. For the different models groups showed slightly different characteristics before being trained. This affected both the value-added by DFS and the nature of the self-management or self-governance ability. Below is a chart contrasting the various effects of DFS supports and tools. There is a link with the extent to which the money is theirs or not. Theory explains that people are more apt to safeguard “hot money” that is their own. “Cold money” is someone else’s money such as an institution which people are less apt to safeguard. It is interesting to compare the models in this light: (see Table 3 below)

Self-management and governance is clear for managed ASCAs where the money is their own. They play an active financial intermediation role. An important value-added by DFS was clearly security of funds.

For the other two models, the definition of self-management and governance is less clear. If the group is helping to manage the financial institutions’ funds, is that considered self-management ability? Or is it simply a more efficient liability group process?

In the case of the FSA model, for example, the groups are sharing management of transactions with the FSA. However, this form of group screening has always been a part of strong liability group methodologies. Perhaps the only thing that could be argued to be closer to self-management is the fact that voluntary savings of the group has been decentralised/mobilised at this level. Loan repayment and follow up at the group level is a regular part of strong liability

group methodology. Considering this is the groups’ own funds, it adds another level of governance and concerns about safety and transparency.

The SACCO model is equally interesting in terms of self-management and self-governance. The SACCO group methodology is a classic group liability methodology limited to one loan product and compulsory savings. It would be impossible to talk about self-management of groups in terms of this methodology were it not for the fact that it has been grafted onto existing ASCAs and ROSCAs who have their own financial activities. More importantly, these groups actually use their member performance in these ASCAs and ROSCAs to screen and determine who will access loans from the SACCO. Group members and field staff felt that the DFS tools were more relevant and used to strengthen the ASCA or ROSCA.

The other concern is whether increased self-management ability would eventually lead to group independence. The FSAs and SACCO have no interest or incentive in groups graduating from them. In the case of the ASCAs some management ASCA agencies felt that they could graduate the groups to enable them to focus on other groups. Others felt that there would always be a role for them. Group members (test) generally agreed that they appreciated the tools and ability to improve self-management and governance but they still saw a continued role for field staff or external managers either in arbitration of problems or checking the accuracy of books. As one group member put it while laughing, “it is important to have someone you fear; I don’t fear these ladies.”

The “DFS Methodology” was as critical as the tools

The methodological work that DFS did with ARPs was as critical as the training and tools development. Action Research Partners noted that DFS support and tools definitely added value in the rural financial sector for the poor. In fact, when asked if DFS added value to the rural financial sector in Kenya the collective response to this question was 9.3/10. They noted that the DFS approach was different from other trainings in the sector due to its focus on group rights and empowerment, rather than the marketing of services particularly loans.

Table 3: Comparison of DFS value-added across models

	Managed ASCAs	FSA groups	SACCO groups
Nature of money	Hot: Own savings and loans	Warm: FSA products but voluntary savings	Cold backed by hot: SACCO products backed by own
Effect of supports	Helping ASCAs manage their own funds better	Helping manage group credit and voluntary savings	Helping manage own funds to screen for SACCO loans
Value-added	Safety and flexibility of products	Decentralised services, flexibility, safety	Eligibility and rules for loans
Impact on outreach	Breadth, depth, inclusion	Diversified products, some breadth	Potential to reach more groups

Table 4: What is different from what the groups used to do?

Values	Old methodologies	DFS “methodology”	Tools introduced
Equity and participation	Training on some modules only given to lenders; only borrowers attend training in some cases. Training only at beginning.	All members trained regardless if they are officials or not or borrowing or not. Continual training.	
Group and common member responsibility, rules and roles	Oral or unwritten, in some cases, written rules, responsibilities and roles. Prone to domination by leaders. Rules usually given by institutions.	Participatory constitution and common rule-making by all group members; documented criteria for loan allocation, profit distribution, eligibility, group interest rates.	Training tools on responsibilities of members and leaders; making a constitution; rules for giving and following up loans.
Transparency	Various books and forms for bookkeeping kept by leaders; passbooks not always kept by members	Group books and individual passbooks kept by group and members; oral reading of balances and transactions.	Group accounting book; member passbooks – both colour-coded for clarity
Security	Collections taken by field officer or group official to FSA; receipts issued of FSA.	Receipts for any money taken from group. Money purses with serial numbers. Cash is taken to the FSA as well.	
Rights	Leaders have greater awareness of rules and rights	All are trained on their rights, awareness of products and terms, relation with organisation	Introduction. Opinion leaders tools and group application guide improved upon.
Group well being	Progress based on savings and loans; usually done by field staff	Progress based on savings, loans, governance and transparency; group meets in absence of field staff	Group well being tool and progress markers; oversight tool.

It is worth mentioning that part of the tools and “DFS methodology” was the introduction or structuring of rules that include implicit values of corporate governance and new ways of operating. Table 4 above illustrates the key differences introduced by the methodology and tools.

One respondent commented that “with the responsibilities tool, members have discovered they have more roles.” Another said, “Their eyes have been opened. They know their rights.” In control groups, “group officials have clear undue power and in many cases use this to suppress other members.” There were many instances mentioned of mismanagement of group funds leading to groups collapsing after a while.

Test groups were also able to more effectively manage their group activities. Training helped members to conduct their own operations and keep the books while officers provided more of an oversight role. They were able to more effectively allocate funds (savings and loans) and there has actually been an increase in contributions and in group incomes as a result. The participatory methods were useful to help groups to identify their problems and develop solutions. This helped create a strong sense of ownership.

Effectiveness of tools due to iterative professional approach to training

The effectiveness of the tools is due in large part to their timeliness, relevance and the time and iteration that the DFS program spent in ensuring their relevance and applicability. The tools and techniques were developed through an iterative process with regular review and updates using feedback from the users resulting in fewer tools (7 sessions) compared to the original 18.

Key stakeholders and ARPs found the tools very relevant. Specific positive feedback on the tools related to: the participatory nature of the training; the adult education component; the use of stories, exercises; the way that the toolkit has been simplified; iterative nature of the DFS team with field staff; the value and interest of the tools by the groups. On average the tools scored 9.2/10 for relevance. Groups unanimously found each of the tools to be very useful when asked to rate each tool according to very useful, not useful, in between.

While overall relevance was unanimous, there were suggestions to refine or improve the tools particularly to build in more flexibility and simplicity. Each tool was rated by trainers and managers involved according to: relevance, group

interest, ease of use and appropriateness of time allocation. Full details can be found in Annex 4 including specific suggestions that came out of discussions raised following the rating exercise with Action Research Partners.

The element of supervision of training by DFS and support in the training process was critical. Some of the field staff and service providers lacked proficiency to train on the tools. Not all field staff or loan officers may be well-suited to be trainers. These are institutional-level issues, of course, that affect the effectiveness of the tools.

2.3.2 Integration of tools in managed ASCA model

Strongest demonstration of reduced costs and outreach with managed ASCA model

The Accumulating Savings and Credit Association (ASCA) is a form of group financial intermediation where members make regular contributions to a fund and then members (and in some cases non-members) borrow from the fund and repay with interest. There are two types of ASCAs in Kenya – the independent and the managed ASCAs. The difference is that while the independent ASCA is self-governing and usually cashing out, in the managed ASCA the groups are assisted by an external agency or agent in managing their activities mainly bookkeeping and loan management at a fee. According to the FinAccess Study 2006, out of the 8.9 million informal group users, 4.9% and 1.1% use independent and managed ASCAs respectively. The key features of the managed ASCAs include: Regular (monthly) savings/shares; education, insurance and other funds; average cumulative member contributions of Ksh. 6,151 (US\$ 82); loans as a multiple of savings (x 2/3); short term loans of 1–3 months with an average of Ksh. 4,478 (US\$ 60); longer term loans of 6–24 months with an average of Ksh. 10,273 (US\$ 137); and interest rate 10% per month for short term loans and 15–24% for long term loans. The ASCAs are largely made of women and are characterized by high returns for their members.

Two action research partners used the managed ASCA model – SOMWO (Songa Mbele Womens' Organisation registered as a non-governmental organisation) and AMA (ASCA Management Agency registered as a business name). The main objective here was to integrate the DFS tools into the savings and lending methodologies of the groups managed by these institutions and to examine their effect on the sustainability and outreach of the model.

This model has shown the strongest demonstration under DFS II both in terms of integrating the DFS methodology and the business case. Looking first at the changes in methodology, DFS helped the ASCAs to enhance the most important critical aspects of self-management and governance: transparency, accountability and more efficient book-keeping. These improvements helped to reduce incidences of mismanagement or misappropriation of funds, an identified issue within ASCAs in Kenya.

ASCA manager Action Research Partners confirmed that DFS has played a significant role in improving their operations. The most important aspect was the help in establishing a monitoring information system which allowed them to monitor groups more effectively and assess their business performance. Value-added services such as the introduction of the loan appraisal committee, the formal constitution and the money purse and simplified accounting systems were key. The following Table shows all the changes introduced to the existing methodology and services.

Table 5: Changes in managed ASCA methodology for improved self-management and governance

Adopted	Partially adopted
<ul style="list-style-type: none"> ▪ Use of a constitution ▪ Use of the loan appraisal committee ▪ Consolidation of loan and savings records ▪ Color coded passbooks 	<ul style="list-style-type: none"> ▪ Money purse with seals in place of treasurer ▪ Group members keeping own records and making decisions ▪ Group following up on defaulters instead of the organisation
Keep two mirrored books (one for field staff; one for the groups)	

The managed ASCA business case links self-management ability of groups to reduced transaction costs and improved outreach. Data was collected from the two ARPs (SOMWO and AMA) to assess the impact of the training on groups showed some significant differences between the test and control groups as shown in the table below.

Table 6: Performance of test vs control groups for managed ASCAs

Sep-05 to apr-08	Test 08(18)	Change	Control 08(11)	Change
Outstanding loans	3,502,105	216%	2,001,770	130%
Par >90 days % pt.	3%	-2%	10%	5%
Savings and contributions	2,220,495	172%	1,015,900	102%
Operational expense ratio	12%	-18%	14%	-18%
Cost per member	1,197	58%	1,347	32%
Return on assets	34%	9%	31%	-8%
Net income per member	3,481	445%	2,893	136%
Membership	361	-16%	196	-24%

The data suggests that trained groups save more, and have larger loans, lower default rates and higher incomes compared to groups that were not trained on DFS tools. The business case is supported by a participatory rating during the review: 'do self-governing and managing groups help to reduce costs for ASCA

managers thereby improving outreach?’ The result was positive at 8.6 out of 10. Specific reasons for this high rating by ASCA managers (Action Research Partners and non-partners) were:

- Before I was not allowing members to give their views. But after training I allow them to do things themselves. Members are happy and go out to recruit others.
- Before the groups used to have quarrels, members would come to office to complain. Now they can resolve issues at group level.
- Communities around them have started learning from them. We are getting new groups based on word-of-mouth. But sometimes have difficulties getting there due to transport costs. E.g. 25kms in the interior of Subukia. There is no organisation there. Normally they form and collapse. But the two trained in that area are still going on.
- Groups are growing from word-of-mouth shared from those trained.
- Officers are able to serve more groups at once.
- Confidence within groups. People tend to save more.

Lowered costs yes but more safety and health of portfolio

Cost data shows only small differences between test and control groups but efficiencies were described anecdotally. Lower transaction costs are achieved as field staff can see up to four groups in one day where formerly only one group could be reached. Some ASCA management agencies also arrange for groups to meet simultaneously and have groups pay for these venues. The new default management process has also significantly reduced costs for the ASCA managers. Previously, default management fell largely on the hands of the ASCA managers. This has changed with the DFS methodology where now much of the responsibility is with the groups and the process entrenched in the constitutions that groups themselves develop.

In this model, DFS tools have, perhaps, the largest impact on the safety and health of the portfolio. Also, lower portfolio at risk figures mean that costs of default are lowered for the trained groups. Groups with high PAR generally pay lower management fees because they cannot afford more and, in some cases, have been dissatisfied with ASCA agents to follow up on default. PAR, as DFS points out, is also an important indicator of group strength or cohesion. Many ASCAs dissolve due to default issues. Test groups showing stronger repayment are more likely to sustain itself over time. Within the ASCA managers visited, even with the Action Research Partners, PAR > 90 days can reach as high as 25%–30% of the outstanding portfolio, whereas in ASCA test groups the PAR > 90 days was 3%. Even the challenges with default and paralegals used with control groups indicate that default is one of the biggest threats to this system. Therefore, the impact that DFS has made on risk management is critical. See Annex 5 for a more detailed discussion on risk management of ASCAs.

DFS calculated the training costs for managed ASCAs factoring in travel, accommodation for more remote areas and training material costs. Although field staff do not charge a service fee for the first three visits to groups, training can occur during these “unpaid” visits. Given that training on all of the tools takes about four days, the additional cost of training would be the equivalent to approximately one month service fee or Ksh 1,230. (DFS Quarterly Report, September 2008, p.44). As earlier stated, ASCA management agencies are optimistic that they will be able to cover these costs in the long term and are eager to roll out the training to all their groups.

In terms of income, training can lead to higher management fees since it is tied to the size of the total revolving fund and larger savings which means they “can reach their service fee maximum more quickly.” This means faster cost recovery to the ASCA manager. ASCA managers normally charge a fee of 1% of the group’s total revolving fund up to a maximum of Ksh. 2,500 (US\$33) on a monthly basis. The total revolving fund is the amount of capital in circulation for borrowing. The savings and contributions, therefore, are an indication of the earning power for the ASCA management agencies. Both the total amount of contributions and the growth of contributions were significantly higher for the trained groups. DFS found that after the test groups had been trained, the increase in service fees after 12 months for the test groups was 100% higher than for the comparison groups. As the groups moved to 18 and 24 months the differences between test and comparison groups began to level off (DFS Quarterly, September 2008). This may indicate that, when considering sustainability, the most important gains are in the initial group formation and growth. Expansion should focus here rather than long-term accompaniment of existing groups.

The sustainability of the model is dependent upon groups growing their revolving fund and hence the corresponding management fee. The assumption, and risk to ASCA managers, is that groups reach a point of self-management in which the ASCA managers are no longer relevant. This could work against self-governance as they may wish to maintain the groups in order to perpetually earn the management fees. Nonetheless, the managed ASCA groups visited felt they will always need an external person to serve as a ‘third eye’ and an arbitrator of disputes within the group. They spoke of being able to give more respect to an external person and felt that s/he would be more objective in resolving internal disputes.

The risk to groups is that ASCA managers have a strong commercial orientation. Like any microfinance institution, there is a risk to push the growth of loans to the point of indebtedness, inappropriate products and corresponding default. Microfinance best practices have shown that default can be a result of a mismatch between products and demand. This was difficult to detect in this system where there is little evidence of market research behind products, particularly longer term loans such as 18 and 24 months that are less common in independent ASCAs. This is a particular issue because the ASCA

managers do not share the risk of default. Savvy groups have pointed out that the management fee should be based on the net portfolio (i.e. not including arrears) instead of the total revolving fund.

One challenge is the limitation to the products that can be offered at the ASCA level. Managed ASCAs want to be able to on-lend as well. One action research partner had accessed funds for on-lending to groups but it was not managed well and repayment was not strong. Nevertheless, increased competition should be better for groups which would have a broader range of services to choose from.

Demonstration of breadth and depth of outreach

Several ASCA managers commented on the self-marketing or self-replicating effect of the tools to attract new groups. One service provider noted that “word spreads like bushfire” referring to the way in which trained groups market the training themselves within the community. This form of expansion is significant because it is low cost and engages new groups. To have an impact on the 6.6 million excluded from financial services in Kenya it is important to work with new and not just existing groups. For the managed ASCA action research partners, 93% of test/trained groups were new. Nevertheless, post-election violence had an impact on group expansion since some groups disintegrated dismantled and members moved.

ASCA managers also show real advantage over the other models in terms of depth of outreach. As earlier mentioned ASCA members seem to be poorer than counterparts in banks or even SACCOs. The same study showed that about two-thirds of ASCA members sampled derived their household income from agriculture. This is a group that is generally excluded from other financial service providers. They were able to reach an outreach radius of up to 185 Kms from the district headquarter compared to 20–40 Kms for the formal and semi-formal players. This is confirmed by DFS reports that indicate that both ASCA Management Agencies (SOMWO and AMA) were able to expand outreach into new regions, Ngorika and Subukia respectively. According to DFS Quarterly Report for September 2008, Subukia region is not served by any other microfinance organisation, not even by another managed ASCA organisation.

Importantly, as with microfinance institutions, cost-recovery takes longer in more remote rural areas. DFS found that it took about two years for test groups located in such areas with less savings and lower service fees to contribute as much in service fees as the ones located in relative close range and some control groups. This is a consideration in terms of deepening outreach. There may be a limit at which it is no longer cost-effective for ASCA managers to be reaching deeper along the geographical frontier.

A socio-economic study was conducted comparing ASCA members with SACCO members and banked clients (Malkamäki, 2008, draft). ASCA members

had a higher household expenditure on food relative to the average for rural households. On other key poverty indicators, they were more likely to have a traditional mud home with a mud floor and wood walls and a traditional pit toilet when compared to provincial households, SACCO members and bank account holders who were more likely to have a stone house and a flush toilet. Poverty, though, is relative. Anecdotal discussion with action research partners revealed that ROSCAs are generally considered to be used by poorer people than ASCAs. Some service providers noted that avoidance by [some resistance to] new groups becoming ASCAs had to do with a perception that better off people use ASCAs. Of course, there would be regional variations in this information. That type of data would be very helpful in assessing the extent to which Managed ASCAs can really penetrate the poverty frontiers further.

The managed ASCA model best demonstrates that a commercial approach at the informal/semiformal end of the financial services spectrum is possible. Its broad and deep outreach is enhanced through group training. Easy entry to this model is evidenced by the number of splinter organisations, including one of the Action Research Partners, that have been created. There are no legal or other requirements to limit entry. This is an opportunity in terms of outreach. However, it also poses a risk to members and their money.

Sector-wide, the safety of funds is a threat. The lack of standards and regulation in this sector make it easy for players with unprofessional practices to come into the market and take advantage of groups’ funds. ASCA managers noted that “quacks” do exist and would like the formation of an association that will facilitate development of standards and help keep safety and accountability in the system. Otherwise, there is no mechanism to hold unethical institutions in check. ASCA managers, like the semi-formal rural financial institutions have their own governance and institutional challenges. An example is the problem of nepotism where poorly performing staff are retained as observed with one of the ARPs. In another instance, an ASCA manager was known to have taken excess funds from groups and never returned it. In such circumstances, not only outreach but also safety concerns threaten to undermine an otherwise promising model.

2.3.3 Service providers

In addition to the ASCA management agencies, the project sought to develop local service providers as part of market development. DFS trained 18 service providers out of which 13 provided training. There were 97 fee-for-service assignments with groups well beyond the targets and a good indication of potential sustainability. Some of the service providers were individuals representing themselves and some represented non-profit or faith organisations working with groups.

The service providers were to provide training, support and supervision to ASCAs and ASCAs management agencies to supplement DFS activities (beyond the action research partners) and take over once the DFS project

ends. This was a response to broad demand for training in the sector that DFS alone could not meet. However, ASCA management agencies wanted to train their groups themselves. In part they feared losing groups to the independent service providers as has occurred in the past. Also, some service providers became ASCA managers (some already were) in order to meet the demand by groups for more than just training. Groups expected some form of financial service after training, particularly loans. ASCA managers felt that provision of a broad range of management services could warrant a management fee. Unfortunately, because service providers were initially a dissemination strategy and not a service delivery model there is no cost, financial and corresponding group data to compare it to other models.

It is difficult to say anything conclusive about the sustainability of the mode at this stage. Service providers were trained in two rounds and it is too early to judge those trained earlier this year. According to DFS' quarterly report for September 2008, on average the service providers charge about Ksh. 800 per session. They can charge as little as Ksh. 180 and as high as Ksh. 1500 per session. Initially they charged Ksh. 1,000 per session but reduced to Ksh 500 even 300 due to the groups' willingness to pay. Some charge a session rate and others charge by the member. According to their cost and expense (mainly transportation and some accommodation) estimates in the workshop service providers are generally able to cover their costs with a small margin. However, there is a challenge attracting new groups and even convincing some new groups to pay. There also seems to be an issue in terms of the quality of training as only three of the thirteen trained were rated by DFS as proficient in training on the tools.

Individual service providers present potential to increase access at the informal/semi-formal end of the financial services spectrum. Because, again, entry is so easy, training service providers is an expedient way to expand the number of new ASCAs providing financial services for themselves. DFS expressed in a quarterly report that service providers can be supervised and given feedback faster. Even more so than managed ASCA agencies, they are more easily directed and monitored. They do not have the challenges emanating from institutional governance and personality politics that ASCA management agencies present.

Nevertheless, service providers are not without their own set of challenges. These include: difficulties of marketing their services to groups, late submission of training schedules to DFS hampering timely supervision, abrupt cancellation of training by groups, unwillingness of groups to pay for the training when their fund is still small (others have reduced the amount they are willing to pay with time), competition in the market where groups ask that they be given funds after the training as is the case with some non-governmental organisations or MFIs. The other difficulty with independent service providers is that there are other business or employment activities that compete for the time of service providers who cannot live on income from groups alone. Finally, service providers face the same limit of services as Management ASCA agencies.

Of the 83 groups trained by Service Providers, 40% were new. While this is not a particularly high proportion, it is still significant if service providers overall were to achieve some level of scale. The catch with working with largely new groups is the time that it takes for their revolving fund to grow in order to generate income for management fees. Groups were unwilling to pay for training especially when their fund was still small. It was also difficult to get training paid for in advance as people tend not to appreciate training until they have seen its value. As with the managed ASCA agencies, some service providers provided one or more free sessions before beginning to charge groups so that they could appreciate the value of the training and management support. Of course, this up-front investment in time and costs is more significant for an individual than an organisation.

2.3.4 Integration of tools and savings-led group methodology into financial service associations

DFS tools and supports helped groups to share management of transactions with FSA

Financial Service Associations (FSAs) are member-owned institutions based on shares held by members. They are supported by K-Rep Fedha Services Ltd (KFS) to extend outreach in rural, remote areas. There are 75 FSAs in Kenya. 51 are managed and supervised by KFS, a subsidiary of the K-Rep Group. KFS provides management, technical support, internal control and even financial management support to the FSAs at a fee. KFS does not work with all 75 FSAs either because of performance, inability to pay KFS fees, or due to their location, KFS is unable to supervise them effectively. DFS worked with Kathonzweni and Kikima Financial Services Associations as Action Research Partners which are located in Makueni District. KFS provides a manager to the FSA who works with local staff employed directly by the FSA boards.

For relatively small rural financial institutions largely using local staff, they have a broad range of services. They have a variety of loan products (market day, business, agriculture, micro-leasing, development, educational) all based on shareholding. There are three different savings products including one that provides earnings, a fixed deposit with 3% interest per annum. Other services include money transfers, salary processing, paying pensioners, processing cheques and providing school fee cheques.

FSAs have the interesting distinction that all of their clients are shareholders but borrowers only comprise about 40% of their shareholders. Basically, you have to be in a group to borrow (though they are currently reviewing this limiting practice). Dividends are based on shares yet only about 35% of their shareholders are active clients with either a loan or a savings account. Most of the FSA clients are individuals who use their group to access mainly business loans with compulsory savings, voluntary savings (with no interest) that is seasonal. In other words, most of the shareholders do not make use of the majority of their services: They are long term savers through shareholding. While not the intended impact, DFS has had a positive impact on the FSAs and

Table 7: Changes in FSA group methodology for improved self-management

Adopted	Partially adopted
<ul style="list-style-type: none"> ▪ Decentralised loan appraisal committee (KCM) ▪ KCM does all screening, transactions, follow-up. Then consolidate at larger group level. ▪ Consolidation of loan and savings records ▪ Use of group and KCM accounting book money purse for taking cash balances to FSA (with seals) ▪ Receipts for payments made at FSA brought back to group ▪ Fewer group meetings in a month ▪ Transactions and services previously done only at FSA now done at group level 	<ul style="list-style-type: none"> ▪ Meeting several groups at the same time ▪ Group members keeping own records and making decisions ▪ Group following up on defaulters instead of the organisation ▪ Writing of constitution (though needs to be done faster) ▪ Not Adopted ▪ Members keeping own passbooks ▪ Loan appraisal committee books ▪ Discipline in groups such as attendance

their groups. The intention was to integrate a savings-led methodology into the FSAs and improve the groups' ability to self-manage and self-govern. The DFS tools and supports helped to improve the services, efficiency and transparency of the liability groups within the FSAs. They did not help the groups to self-manage or self-govern. Instead, the tools and methodological changes helped the groups to share front-end services management with the FSAs.

The following are some comments from group members about the impact of the tools:

- **Learned that this is not your money** – what you do affects the group.
- **Useful to have constitution.** If you go against what we have said we can take an action. Where there are no rules you cannot prosper. Rules govern people.
- **Need to learn how to record.** If you forget something you can go to the record. Even my phone has records that I can't keep in my head.

Besides the relevance of the training, this management-sharing and decentralisation to the group level has brought improved services to group members. DFS worked with the FSAs on their methodology to help them to decentralize their services to the groups. This was made possible, in part, due to improved confidence by the FSA management in the groups' ability to manage operations at the group level and the cost savings. The following are the types of services that test groups can now access at the group level:

1. Loans up to Ksh 5,000 but on average about Ksh 1,200 (subject to group collections)
2. Repayment of loans and use of vouchers (to show group) where payment made at FSA. The managers acknowledge that this has greatly helped in reducing default in the groups.

3. Compulsory savings mobilisation.
4. Voluntary savings mobilisation – this has been very encouraging and the managers see it as a big source of funds. This has been enhanced by the proposal to have savings officers promoting savings from the groups.
5. Purchase of shares. Kikima members contribute for each other to purchase shares.

Simultaneously, the training has helped the FSAs reduce transaction costs. Where formerly they needed to meet with groups weekly, it is possible to meet trained groups either bi-monthly or even monthly. There are also considerable savings on transaction costs for group members who save, on average Ksh. 200 each per meeting by not having to visit the FSA to conduct their financial transactions. The groups meet within a kilometre or two from where they live. While income/returns per member are not high, cost savings are significant.

The extent to which reduced costs or efficiency gains can translate to broadened outreach is less clear though there is some evidence of deepened outreach. FSA staff, particularly in one test FSA, said that outreach radius has extended from 5km to 30km, a fairly large increase given that FSAs are already quite remotely located.

Table 8: Performance of test vs control groups for FSA model ¹

11-07 To 05-08	Test 08 (18 grps)	Change	Control 08 (13 grps)	Change
Outstanding loans	2,902,327	94%	2,169,589	155%
Par>30	1.1%	0.67%	0.5%	0.5%
Cont. and Shares	3,228,109	100%	2,397,264	97%
Operational expense ratio	1.7%	0.4%	1.6%	-2.5%
Cost/member	178	62%	201	15%
Return on assets – group level	1.6%	-0.3%	1.9%	-2.9%
Net income/member	162	-0.02%	237	14%
Membership	445	-0.02%	275	-13%

Increased efficiencies that lead to some broadened outreach are less clear from demonstration of results. There are also institutional constraints that limit outreach regardless of the gains made by the tools and discourage other groups from becoming members. The effective cost of borrowing is extremely high for groups where there is compulsory savings that is not returned when the loans are repaid. Groups are allowed to access their compulsory savings at the end of each year but, even then, only 25%. There is interest provided but only on fixed deposits. Other limitations include the management information system which is still a manual.

Institutional limitations, rigid products with high costs and little returns make it difficult to imagine that any efficiencies gained in this test sample would translate quickly or easily to scale in the overall system. Even examining the overall FSA system with its 57 FSAs, group members constitute about 40,000 members. It is certainly positive that the KFS management is interested in spreading the use of the tools and the adapted methodology. Little support by DFS is required for this to happen since senior management at KFS level is interested in rolling out the training to other FSAs. However, given institutional challenges and current performance it is doubtful that FSAs will be able to greatly expand or deepen outreach through their group methodology particularly to new groups or ASCAs.

¹ DFS raised difficulties with data reliability here especially for this time frame. One of the FSAs took a long time to begin testing the new methodology and due to institutional changes and challenges, its performance was much weaker than the control FSA. These ratios were calculated by the review team using program data.

The success in use of the DFS tools is limited by the institutional model (FSA groups are formed from its own membership). It has demonstrated that a financial institution can reduce transaction costs while providing more decentralised services for groups including voluntary savings. Training and accompanying tools such as the money purse make this both feasible and safe.

2.3.5 Integration of tools and savings-led group methodology into SACCO

Efficiencies and transparencies demonstrated even on rigid group methodology

DFS worked with one savings and credit cooperative action research partner, Wakenya Pamoja SACCO (WPS) based in Kisii with about 101,000 members at the end of September 2008. The SACCO was formed in 1976 to serve tea and coffee farmers. The products are still very much geared toward agriculture. The microfinance program/product line is an exception. It works with pre-existing groups (ROSCAs, ASCAs or self-help groups) to provide small business loans. Group members are considered non-member, that is, they are not necessarily shareholders in the SACCO. To be a member you need 5 shares each at Ksh.200 which is expensive for rural group members so the majority are not shareholders in the SACCO. As of September 2008 there were 620 groups comprising 10,475 members in the SACCO.

In 2006, the SACCO began a separate microfinance product comprised of its group lending to ASCAs and ROSCAs. This microfinance product line has its own cost/profit centre with separate monitoring and management. This is a healthy sign with group monitoring at a level of detail not found in many organisations working with groups. However, the services provided to the groups do not match the benefits that the groups bring to the SACCO. As of June 2007, roughly 6.2% of the income and 31% of the assets (loans) came from the groups. Yet, groups as non-members do not have voting rights or access to the range of services that other members have. Groups access only one loan product from six to twelve months (Ksh. 5,000- 40,000) to invest in business activities and farming. Repayment is monthly at 2% per month. To borrow, you must provide 15% of the principal in the form of compulsory savings as a loan guarantee. Loans are distributed to the groups who then redistribute individual loans to its members. As with the FSAs, the cost of borrowing is high particularly because compulsory savings is not given back to groups when the loan is repaid. They must ask for it explicitly which, as would be imagined, is not often done.

In this case, DFS provided tools and support in training the microfinance staff within the SACCO. However, they did not work on the group methodology as with the other action research partners because another agency, CIDR provides technical support on the group methodology in other areas. As a result, there was reluctance and time delays to work on the methodology. Nevertheless,

the training had affected the methodology somewhat and both WPS and CIDR felt that the DFS tools have improved the existing methodology. As one respondent commented “there were structural factors that limit outreach.” These structural factors likely relate to the political governance system in the SACCO that restricts non-members from becoming shareholders affecting both access and potential outreach. The eminent regulatory environment restricts SACCOs from mobilizing voluntary savings from non-members so it is a bit of a vicious cycle. To the question: Do self-governing and managing groups help to reduce costs for the SACCO thereby improving outreach? The collective average was 5.9 out of 10. One person noted that the SACCO is conservative in expanding and deepening outreach.

Nevertheless, there was an impact that management and trainers were able to substantiate. Field staff were able to spend less time with trained groups moving from 1.5 hours to under one hour, even forty minutes. As with the other models, efficiencies and improved transparency was demonstrated even grafted on a fairly rigid methodology. They commented that:

- Groups gained confidence in matters concerning loans (how to borrow, how to repay, what to do when one does not repay). Group members previously used to fear loans.
- Gained knowledge on how to keep books. “Groups can no longer easily lose money, training has enhanced transparency.”
- Training has helped groups to access loans from WPS.
- Constitution helps in binding them. Previously had simple rules which people did not fear. Now have to abide by strong rules entrenched in the constitution.

In fact, DFS was limited to really influence the group methodology in this case. The methodology was lending-based and the orientation of the groups simply joint liability. It is questionable whether this situation would really be considered greater self-management. The joint liability methodology expects groups to share in these responsibilities to lower costs for the institution. DFS was trying to add the savings-led element. If voluntary savings is collected at the group level, as with the FSA model, it can be considered self-management to an extent since it involves the groups’ own money. Protecting it or supervising the transactions around it is part of supervision and governance. In this case, it is simply supporting the SACCO in administering the loans. The risk to groups is much lower. (See Table 9 below).

Tools seemed to add value to pre-existing ASCAs and ROSCAs

In this context, the training seems to have added value by improving the performance and strength of existing ROSCAs and ASCAs to become better, more efficient clients. WPS had important insights about the differences between them; they found that ASCAs are better managed than ROSCAs. Loan repayment with the ASCAs is also better. Even the practice of action audits is

something that already exists in the independent ASCAs (every 17 weeks). Existing ASCAs, it seems, are more bankable. This reinforces DFS’ inclination toward ASCAs or savings-led groups.

Table 9: Changes in SACCO group methodology for improved self-management

Adopted	Partially adopted
<ul style="list-style-type: none"> ▪ Use of constitution ▪ Use of loan rules at group level ▪ Groups can meet in absence of field officers ▪ Use of group accounting book ▪ Action audit every 17 weeks or every loan cycle ▪ More regular meeting with groups 	<ul style="list-style-type: none"> ▪ Group officials read out balances after collection ▪ Group following up on defaulters instead of the organisation ▪ Consolidation of loan and savings records
Not anticipated but adopted	Not adopted
<ul style="list-style-type: none"> ▪ Use of ASCA member performance to determine who could access loans at SACCO level 	<ul style="list-style-type: none"> ▪ Use of the loan appraisal committee ▪ Use of money purses and seals ▪ Voluntary savings services

In the field, the review team also observed that existing ASCA groups used member performance (attendance, repayment etc.) to determine who would receive loans from the SACCO. The field officer confirmed that this is a regular practice with the ASCAs and, to some extent, ROSCAs. This raises an important question: If groups are intermediating their own funds does that make them more bankable clients? In other words, is a group’s own lending and saving complementary to external financial services or competitive? It would be helpful to have data supporting this claim as it validates DFS’ approach to the tools and methodology both for ASCAs and for other groups. In India, self-help groups (SHGs) are not merely seen as complementary. Commercial banks, rural banks and microfinance institutions that on-lend to them (over 4 million groups)often require that they have conducted their own financial intermediation for at least six months, sometimes a year before lending to them. They then on-lend to the groups at a ratio of four to seven times their internal revolving fund. Other quality parameters for SHGs can be found in Sa-Dhan, 2003.

Another question is to what extent the training improves greatly upon what an independent ASCA is already doing? This requires further research. However, based on viewing a couple of independent ASCAs and asking the groups about the differences there is value-added in terms of safety of funds,

transparency and accountability through member responsibility. Both groups and field officers said that the training most likely benefited their own ASCA and ROSCA activity rather than the transactions that were carried out related to the SACCO loan. This makes sense since the SACCO loans are only collections of loan payments and compulsory savings. There is very little of members own money to manage in terms of voluntary savings or left over funds.

Regarding the connection between their own group activities and the SACCO, it would be helpful to better understand the nature of the independent ASCAs. From the little seen by the review team, independent ASCAs in this region (Kisii) were a cross between ROSCAs and ASCAs. One independent ASCA visited used different pots of money (savings contributions, interest on loans and the fine kitty) as different types of loans. Larger loans were given from the savings pot (Ksh 5,000 and up) and smaller loans from the other two (approx. Ksh 750 to 1,000). The fine kitty was too small to even provide for small loans so members were encouraged to contribute additional small amounts (almost like a loan fee). Each loan pot had a book that was used to show cash in, cash out and the balance. This interesting system is kept very simple so that the group can manage it. For transparency and accountability, books are balanced every 17 weeks and everything is cashed out and distributed in December in time for the holidays and school fees. For risk management, leverage is very low. You can borrow only slightly more than you have contributed in savings. How it differs from ROSCAs, however, is the interest element, how much one needs to accumulate before borrowing, and that several members can borrow simultaneously. Like ROSCAs, they try to lend out all the money that is contributed. Very little is left over as compared to the accumulating managed ASCAs where there are sometimes quite high levels of excess liquidity.

Business case less clear for SACCO groups

The business case showing lowered costs and the link to outreach was less clear for SACCO groups. The financial performance for the groups is actually poorer for the test groups than the control groups.

Even the participatory rating given by the SACCO staff and DFS was low. When asked "Do self-governing and managing groups help to reduce costs for SACCOs thereby improving outreach?" The collective rating was a mere 5.9 out of ten. Nevertheless, the management and trainers of the WPS SACCO felt that efficiencies were gained and transaction costs lowered. The following are some of their comments:

- **Helped SACCO in terms of marketing.** Members market on behalf of the SACCO.
- **Reduce time in managing groups.** Meetings took: 30-40mins for trained groups and 1.5hrs for untrained groups.
- **Default management has been eased.** Previously the SACCO had to make several follow ups. But with test groups, initial default management is done at group level.

Table 10: Financial performance of SACCO test vs control groups ²

06-07 to 06-08	Test 08	Change	Control 08	Change
Portfolio	824,500	144%	567,500	159%
Average loan outs.	6,814		7,094	
PAR>30	1.9%	1.90%	0.0%	0.0%
Cont. and shares	155,611	146%	107,361	103%
Operating expense ratio	9.0%	-18.5%	8.4%	-18.8%
Cost/member	611	-22%	594	-25%
Return on assets	-0.4%	2.6%	-0.4%	5.1%
Net income/member	-27	144%	-26	149%

- **Costs of training, especially on stationery are high.** But if this can be controlled, then the value will surpass the costs.

Nevertheless, the structural limits mentioned earlier are significant. Given that some of the biggest challenges relate to governance and locally political issues, they are unlikely to be easily resolved. As with the FSA model, the efficiencies gained are not necessarily going to lead to broadened outreach. There is every possibility that they could but outreach is influenced by many of these other issues that may constrain rather than stimulate.

The success in the demonstration of SACCO groups is much more limited since it is really a basic liability group methodology that is being practised. While there were some efficiencies gained, this is not particularly new in Kenya or in microfinance. On the other hand, complementarity seems to exist between existing ASCAs. Members within these ASCAs accessing services from financial institutions is new and potentially very interesting. This relationship has important implications for the bankability of ASCAs and the interests that financial institutions would have in them. The DFS tools and methodology that focus on ASCAs are much more valuable in this light. Again, the value lies in the methodology rather than the institutional model of the SACCO and its groups.

² As with the FSAs even the demonstration with test and control groups took a long time to get started so only a year of data is available. There were also some issues with the reliable controls.

2.3.6 Self-terminating ASCAs research

The aim of this output was to, through research, determine the appropriateness of terminating ASCAs for the Kenyan context. The most widely known terminating ASCA model is the village savings and loans association (VSLA) model promoted and first introduced by CARE International.

Niger was originally chosen for the research but due to difficulties identified in conducting the research there, Zanzibar was chosen as an alternative. This presented an opportunity to view what happens to groups after the external support (in this case CARE) leaves.

DFS Phase II completed research on the VSLA model in Zanzibar in 2001–2002. There were many interesting findings including the fact that VSLA members

tended to be slightly better off and better educated than others in the community which likely helped to create stronger governance. Also, following CARE's departure the number of groups had grown and overall outreach had expanded to some 4,500 members (Anyango, Esipisu, Opoku, Johnson, Malkamaki and Musoke).

This was an important piece of research since it constituted one of the first reviews of the VSLA model not done by CARE itself or other organisations with vested interests. It would be interesting to complement this research on CARE's terminating ASCAs with a study of independent ASCAs in Kenya to determine the demand for terminating ASCAs within Kenya.

Chapter 3

OVERALL ASSESSMENT OF DECENTRALISED FINANCIAL SERVICES PROJECT

3.1 INTRODUCTION

At the end of Phase II, it is clear that DFS has effectively achieved its project purpose and most of its project outputs. The bigger question is the extent to which this demonstration can translate to broader and deeper scale of outreach in the Kenyan financial sector. The consultants' view is that DFS has the potential to achieve significant scale and therefore should be considered for a third phase.

In order to better understand the potential for DFS to "scale-up," this section will outline the key achievements, challenges and lesson learned by the project. These serve as a backdrop for recommendations concerning a future project. This information can be useful to other organisations, donors or technical service providers working with the informal and semi-formal end of The financial services spectrum.

3.2 KEY ACHIEVEMENTS

Besides the ability to effectively meet project purpose and outputs, DFS has made some achievements that are significant to the broader microfinance community:

3.2.1 Strengthened commercial approach to managed ASCAs

The Managed ASCA model demonstrates best that a commercial approach at the informal/semiformal end of the financial services spectrum is possible. Its broad and deep outreach was even further enhanced through group training provided by DFS.

Given the geographical outreach radius possible through this model (185km) the project definitely strengthened the informal end of the financial services spectrum and reached groups that would most likely not be reached by other financial institutions, even semi-formal ones.

DFS has helped to foster competitiveness in this sector by introducing new players (service providers) and strengthening the business practices of existing players. In doing so, DFS has also strengthened the commercial approach to decentralised financial services. This is an important contribution in Kenya and more broadly since it is widely believed that these models need to be subsidized, particularly in rural areas. It also demonstrates the importance of up-front technical support at the semi-formal and informal end of the financial services spectrum as well.

3.2.2 Quality tools and approach to group training

Perhaps the greatest achievement of the project was the design and development of a relevant and effective set of tools for groups that has helped them to improve their self-management capacity. The partners found the tools to be highly relevant and to significantly add value to the financial services sector in Kenya. While many other training materials exist for groups, these tools have been described as unique in the focus on group self-reliance,

transparency and member responsibilities. Many respondents felt that this type of training distinguishes itself by making members aware of their rights which in turn, enables them to demand and ensure the safety of their funds. Other training, it was emphasized, focused more on ensuring that groups and the members are good borrowers and pay back their loans well. This training focused on providing group members with options rather than a fixed methodology.

The relevance of the tools has been demonstrated by the demand for the tools and supports by other organisations including non-action research partners, large established institutions such as Equity Bank and even multi-lateral organisations such as IFAD.

3.2.3 Demonstration that group capacity building affects institutional performance

DFS was also able to demonstrate that building capacity of groups does affect the bottom line of both institutions and the groups. Improved self-management capacity of groups did reduce transaction costs for financial institutions across all of the partner models. In other words, efficiency was improved. As intended, groups that were better able to self-manage could conduct many of the transactions themselves or with minimal support, reducing overall contact time with the officers. While this gain in efficiency is likely to have led to greater productivity (reaching more groups) and deepening (poorer members and areas), this was mainly demonstrated through the ASCA model, and to a lesser extent the FSAs, where new members were gained through the intervention and more remote areas reached. It was the intention of both the SACCO and the FSAs to have test groups in more remote areas but in practice that proved difficult.

3.2.4 Demonstration that group capacity building affects group performance and credit worthiness

At the group level, improved self-management capacity encouraged groups to save more, thereby increasing overall earnings as well, particularly for ASCAs. In the case of managed ASCAs, there was also a marked improvement in portfolio at risk. Credit worthiness and improved performance was particularly evident among managed ASCAs (due to improved portfolio at risk) and to a lesser extent with the FSAs and SACCO (due to improved efficiency). The project helped to demonstrate that improved group capacity can make groups more credit worthy or bankable. Financial institutions (both centralized and decentralised) are more likely to work with groups that have demonstrated their capacity to self-manage, lower risks and share key front-office responsibilities.

Even with the managed ASCAs, where there is little on-lending to groups. Improvement in the groups own transactions create either excess cash or a shortage of liquidity that creates a demand for additional financial services. Whether groups simply required a safe place to deposit excess funds or some

members required a broader range of services, DFS helped to create this link. An even more conscious strategy around these linkages could be possible.

3.2.5 Improved safety and services for groups

The main value-added in the managed ASCA model was the increased transparency and therefore safety of the funds in addition to access to more services including larger and longer-term loans. Decentralized models have the advantage of lowering costs but present higher risk to members savings. These risks can be mitigated if the groups are trained. The efficiencies and increased confidence of the groups has shown an impact on performance, breadth and depth of outreach. ASCAs also had access to a broader range of loan products.

In the case of the FSAs, DFS helped to decentralize the group methodology bringing a broader range of services at the group level including the ability to access loan (up to Ksh. 5,000), make loan payments and mobilize voluntary savings. ASCAs also had access to a broader range of loan products.

The apparent complementarity between the independent ASCA performance and the bankability with the SACCO is another service or methodological opportunity that DFS has seemed to strengthen. This would be of great interest to a range of financial institutions beyond the action research partners.

3.2.6 Locally and internationally relevant research

With its rigorous and quality research, DFS has filled an important gap in both Kenya and the broader microfinance community for semi-formal and informal financial services. Governance and security of savings are two of the critical challenges to service delivery at this end of the spectrum yet these issues remain highly under-researched.

The action research approach gained credibility for DFS not only in Kenya but also in the broader microfinance community interested in group models, informal ASCAs and ROSCAs and decentralised rural finance. These studies conducted on managed ASCAs (Johnson, Mule, Hickson and Mwangi, 2002); governance institutionalising suspicion (Johnson and Namrata, 2004); decentralised financial services (Johnson, Malkamani and Wanjau, 2006); and safety of savings (Esipisu and Wakwabubi, 2007) were some of the most comprehensive studies on these topics produced anywhere.

The study on the VSLA model in Zanzibar was the first objective analysis of the VSLA model in the world as well. This analysis provided a much-needed peer-review and study of these models and issues. In spite of the pervasiveness of the VLSA, group and SHG models used by CARE, Oxfam, Catholic Relief Services and others, there is a surprising lack of studies that would be considered objective or peer reviewed.

The action research approach that DFS used combines rigorous academic analysis with practical action research and adaptation on the ground. It

can be difficult to achieve a balance with these dual objectives but DFS has managed to and strengthened both research and practice in the process. There is little question that the detailed analysis done on managed ASCAs helped to improve both the tools and the methodological supports to them.

3.3 KEY SUCCESS FACTORS

It is helpful to review the critical success factors that may have led to the above achievements:

3.3.1 Professional approach to training

The approach to training of trainers, the iterative tools development and the development of the methodology was highly thorough and professional by all accounts. There are several examples of this professionalism. The team held continuous feedback sessions with Action research partners. The process was highly iterative resulting in several changes to the toolkit to make it more relevant, more usable-including simplification of terms and collapsing of modules. Partners were impressed that their concerns were heard and acted upon. They also appreciated the inclusion of adult learning principles and methods and the support and feedback provided to each trainee who was observed during the training. It is rare to see training manuals so heavily edited and updated. It is even more rare to find the hands-on approach, detailed monitoring of training and follow-up that the DFS team used.

3.3.2 Iterative, tailored approach to action research partners

Action research partners noted that the way DFS worked with them on their group methodology was as important as the tools themselves. Like the training materials, DFS used a highly tailored and iterative approach to deal with the unique circumstances of each agency or microfinance institution. In fact, the differences in methodologies required quite a bit of tailoring by DFS. This earned them a great deal of credibility with the action research partners some of whom were initially reluctant to alter aspects of the methodology. Even though DFS is not due to institutional limitations, able to influence each model as intended, it managed to make each model more responsive in some way. All the agencies and institutions were convinced of the value and relevance of the tools and supports.

3.3.3 Trust and buy-in from perception change in action research partners

Even though the business case is not strong, action research partners and other institutions trained on the tools were quite convinced of the business case. In other words, the quantitative case is less clear but the qualitative or perception change has been achieved. Proving the quantitative case is perhaps the more difficult task. If management believes that the group training improves their bottom line that is more important as they will work to cover the costs. When action research partners were asked to what extent they felt that the increased cost of training would pay for itself over time they responded positively. The rating

for the question across staff interviewed was 8.2 out of 10. They substantiated their perspectives with examples of reduced contact time with groups, improved repayment rates and for ASCA management agencies, the ability to reach the maximum management fee more quickly. They were able to make clear and convincing arguments about the savings in costs, the improvement in repayment, quality and cohesion of trained groups; and how these reduced costs enable them to expand their work with groups even into more remote areas.

Most of them felt that once all groups were trained and field staff more experienced in training they would be able to get costs back through scale. Only a few expressed some doubts about how long it would take to recoup costs. All action research partners confirmed that they would be rolling out the training to all of their groups. This indicates that the management is convinced about the impact of the training on their bottom line and the sustainability of the training in the long-run.

3.3.4 Learning organisation

It is not easy anywhere to find a learning organisation but DFS shows many characteristics of one. It began as a small project within MicroSave, Kenya but has progressed to a stand-alone program with its own funding and management team. The iterative nature of the team and management and the ability to learn and change course, has been a significant factor in the overall success and credibility of the project.

3.4 CHALLENGES

In spite of considerable achievements the project, like all projects, was not without its challenges. The key challenges faced by the project were:

3.4.1 Institutional development issues

As the DFS team expressed it is challenging to work through other institutions particularly if your “hands are tied” with respect to broader institutional issues. It is understandable that DFS chose not to be involved in institutional development given the limited resources and personnel. Nevertheless, there was perhaps an underestimation of the importance of the institutional context in which the groups are embedded. The demonstration phase showed that institutional development issues do matter. Issues such as governance and the institution’s own strength have the ability to undermine the groups and outreach. These issues also affected DFS’ ability to get reliable financial and other monitoring data.

3.4.2 Making the business case

The analysis around the business model or case was perhaps the key weakness. The combination of the process maps (“as is” and “could be”), the oversight tool with its checklist and the financial data analysis did not come together strongly to illustrate the business case that was being made. The relevance of the tools is clear. The cost and efficiency gains were also demonstrated. However, the corresponding links to breadth and depth of outreach were less clear. To

understand the business case one needs to understand the financial strength of each model and its incentives and risks to expand. The process maps assessed costs, risks and incentives. The oversight tool was to provide supervisory oversight guide to help the institutions assess, grade and help groups to deal with risk. The financial analysis was to assess the strength of the institutions. This analysis was done with the process maps but the links between the process maps, the oversight tools and the financial analysis did not tie-up clearly. A basic description of each models’ business case including the risks, costs and incentives would have helped. In absence of this description the case had to be determined based on comparing several documents.

3.4.3 Monitoring for results

Monitoring data does not allow a clear business model or case to be illustrated. In the original business plan the business model was to include cost and revenue data, client profile data (poverty etc.) and geographical outreach indicators for groups and clients such as population density. Unfortunately, these were not collected in a way that allowed for trend or comparative analysis. Not enough cost/efficiency and outreach (breadth and depth) data was collected for each model partly due to weak accounting and auditing systems, producing unreliable data. Although outside of DFS’ mandate, this clearly had an impact on results. Breadth and depth indicators were perhaps better represented with the managed ASCAs but even there the emphasis was on savings growth, outstanding loans and growth in outreach in the test areas (without comparable data on outreach in control areas). It would have helped to have productivity of field staff monitored, particularly since there were dedicated field staff for the test groups as well as detailed cost and depth of outreach data for each model. For example, the cost model done for ASCAs could have been done for each model before and after the project. Alternatively, efficiency indicators (cost per member) could have been done before and after. Some depth indicators could have been used for continual monitoring such as distribution of clients in various population densities as was done in the earlier study.

In terms of qualitative analysis, it is noteworthy that DFS has made an attempt to measure and monitor governance at the group level. This is still a largely undeveloped area, not only with ASCAs and ROSCAs/VSLAs but with member-owned institutions in general. The indicators were even prioritised to help to distinguish them both in importance and how easier they are to achieve. It is critical to assess governance and self-management and be able to monitor changes in these areas over time. DFS definitely has a contribution to make in this area, not just in Kenya, but in the broader field of savings-led models whose main stumbling block is governance.

While the use of progress markers is an important first step, they could be improved for greater usability and ease of interpretation. The progress markers were not sufficiently tested with the FSAs and SACCOs because of delays in starting the implementation. While this alone is not enough to call them into

question, even the review team found it difficult to interpret the results. The attention to detail here is perhaps a simultaneous strength and weakness. Partly, as one staff of an action research partner observed, “they are too many that you lose what is important.” Another partner said that they would not be able to continue this type of monitoring after the Action Research Program was finished. Some loan officers found it to be an extra workload. Some staff, due to their capacity levels, found them difficult to understand.

The other challenge the consultants had in understanding the monitoring data was the way that it was done in rounds in the quarterly reports. The various rounds and charts made it extremely difficult to get a clear picture of performance. The way that it was organized made it difficult to interpret. It is not clear why rounds were necessary, why the data could not be presented as it usually is with microfinance institutions. Indicators are provided either at the end of the period or during the period regardless of when clients or groups joined the institution. Sub-groups can be taken out to contrast the test from the control groups as they are with MFIs doing pilots.

3.4.4 Reliable control data

There were limitations to the effectiveness in the controls used in both the FSA and the SACCO data. In some cases, loan officers were training control groups with ideas borrowed from the test groups. Also, some control groups were learning about what was happening in test groups and were adopting some of the methods. While this speaks well to the effectiveness and relevance of the tools and methodology, it does little for action research.

Data results were uneven because the ASCA action research partners began collaboration much earlier and provided much more consistent and reliable data than the other partners. The managed ASCA model had data over three years. The FSA provided 7 months of data and the SACCO one year of data. In the case of the FSA, due to management and other governance issues the control FSA happened to be a stronger-performing FSA than the test FSA. This was compounded by the lack of proper control as explained above. Therefore, DFS emphasized that the ASCA performance is more reliable and the other two models are a “work in progress.”

3.4.5 Savings-led methodology with credit-led institutions

The DFS team and some ARPs identified a mismatch between the DFS savings-led tools and methodology and the credit-led nature of both the FSAs and the SACCOs as a challenge. The FSAs were convinced of the value of incorporating voluntary savings at the group level after some discussions and work on the methodology. Unfortunately, because CIDR, another technical agency was responsible for the SACCO methodology this was not possible in this case and outside of DFS’ mandate.

In some ways, it is positive and encouraging that DFS was able to move credit-led institutions toward being more group responsive by including savings.

Some ARPs, however, felt that some aspects of the tools were not relevant because the assumption was that the groups were managing their own funds, which was not always the case for the SACCOs and the FSAs. The groups were mainly liability groups.

3.5 LESSONS LEARNED

DFS II provides interesting insights on financial deepening and the conditions necessary. The following are some of the key lessons learned:

3.5.1 Importance of capacity building as an investment

Usually training of any kind, staff or clients, is considered more an expense than an investment. It is often treated in ad hoc manner with very little commitment to follow-through. That DFS has demonstrated to financial institutions and ASCA management agencies that there is a connection between capacity building and their bottom line. Capacity building is an investment toward improved financial performance both at the group and the institutional level.

3.5.2 The type of group affected the value-added of interventions

There was a difference in value-added and tools “fit” between ASCAs that were intermediating their own funds and groups that acted more as liability groups. Whether the money is hot or cold influences both the methodology and the effectiveness of the training. DFS basically created two types of tools and supports: one for ASCAs and another for liability groups. There is different value-added for different models. Value-added for ASCAs that intermediate their own funds is increased transparency /safety and more flexibility in services offered. There is also some indication that ASCAs are more bankable than groups that do not intermediate their own funds.

For the groups within financial institutions the gains related more to reduced transaction costs and greater flexibility in the services offered. It is important to understand the difference between these groups as this is critical market research. Like any clients, groups want choice. Any orientation to scale must acknowledge the range of choices available to groups and seek to better understand what they value in each choice. In other words, balance work on methodology with market research understanding of group types and member perspectives on group value.

3.5.3 Strong partner selection is critical

The DFS experience showed that institutional context does not only matter; but has the power to undermine outreach significantly. The original selection criteria were sound emphasizing institutional and financial strength of institutions. However, the last criteria focusing on models that reached deeper into poorer areas seemed to prove difficult. The challenge, of course, is that in rural financial institutions these two criteria are often at odds. The very cost structure and focus that allows rural financial institutions to reach out so far are the very limitations to strong governance, management and systems that might allow scale. This situation was no different.

The choice of semi-formal institutions that reach deeper in rural areas seemed to have overridden the first criteria. While these institutions are the most rural and reach deepest, they are institutionally weak in terms of governance and ability to expand outreach. Just because they currently have wide outreach in rural areas does not necessarily mean that they will be able to expand broader or deeper or that they are willing to do what is in the best interest of groups.

Arguably groups may, in fact, be better or equally served by a well-performing formal, savings-led and relatively institution that has strong capacity for scale and outreach, which while not currently in rural areas, has strong institutional resources and capacity to decentralize. For this reason, it is unfortunate that the project did not pursue the use of a strong MFI in its range of models. At the very least strong institutional capacity and management will to broaden and deepen seem to be important preconditions for financial deepening.

3.5.4 Effective demonstration requires time, willing partners and iteration

Further to the previous point, selection of strong institutional partners is key. Even then, effective demonstration requires time, iteration and support with sound monitoring. The hands-on and intensive methodological support and partner willingness to change was crucial. Where this was constrained, as with the SACCO, the success was not nearly as great. A standardized set of tools usually requires tailoring and hands-on adaptation to the institutional context. The DFS experience showed this to be true. Time was required not only for this iteration to occur but also for testing to be completed and for the links between efficiencies and outreach to be demonstrated. In fact, the sound monitoring that was possible with the Managed ASCAs was the result of time and investment in both the systems and the relationships even prior to this phase. Where this was not present in other models the demonstration was not nearly realised. In all models, but in particular with the Managed ASCA model, the intensive iterative approach used by DFS built buy-in and hence better results. Where performance was strongest (managed ASCAs) the following were key success factors:

- Receptiveness of trainees/agencies to feedback (attitude toward groups)
- Longer history of mutual development and monitoring
- Most studied and considered model (more in-depth research)
- Fewer governance and institutional challenges

There was, however, variation within the ASCA management agencies particularly across trainers signifying that the quality of the training matters. Therefore, the certification and rating process that DFS used with service providers would be important to maintain and even expand.

3.5.5 Importance of clear and long-term monitoring to link to sustainability and scale

It has already been stressed how important clear and comparable monitoring is particularly on costs, revenues and incentives. This business model needs to be part of continual monitoring over a period of time if a case for sustainability is to be effectively made. The monitoring needs to move beyond test and control data (which comprise a sample) to institutional analysis of scale and sustainability potential. This data needs to be collected over a significant period (at least a few years) and in a comparable manner. Even during a demonstration phase, there is a trade-off between being comprehensive and ensuring that the indicators or progress markers are usable enough to be implemented.

Chapter 4

POTENTIAL FOR SCALE AND RECOMMENDATIONS

Table 13: Spectrum of financial services offered in Kenya³

	Formal		Semi-formal			Informal	
Regulation	Regulated		Non-regulated	Self-regulated		Not regulated	
Type of institutions	MF Banks	Deposit taking MFIs (in process)	MFI	FSA	SACCO	Managed ASCA	ASCA and RoSCA
Service point outreach	51 Avr. outlets 1,695 e- channels	141 outlets 12,745 groups	3 outlets 2,000 groups	75 FSAs 2,500 groups	3,990 SACCOs	8,297 groups	441,000 groups
Service point radius	Upto 20 Km	Upto 40 Km	Upto 20 Km	Upto 40 Km	Upto 20 Km	Upto 185Km	1 – 3 Km

4.1 CONTEXT OF KENYAN FINANCIAL SERVICES AND SUPPORTS

The financial services sector in Kenya is dynamic and characterised by a wide range of players from the formal to the informal.

The table below provides the scale and outreach information of the different players along the financial services spectrum focusing on microfinance. This is helpful to understand potential for financial inclusion.

Interestingly, the strongest leverage points are at either end of the spectrum. The microfinance banks and soon-to-be deposit taking MFIs, have a large number of physical service points and groups through which clients can access a wide range of services. These institutions have the resources and capability to extend their services even further.

The greatest breadth and depth of outreach, however, is found in the informal services through ROSCAs, ASCAs and Managed ASCAs. There is potential to financially deepen the market by moving existing ASCAs and ROSCAs to become managed or even linked. There is also strong potential, to reach significant numbers through the formation of new groups to reach the roughly 9 million excluded. See figures for inclusion and exclusion below: (See Table x)

The challenge is to find the best approach to bring the excluded into the financial system while facilitating the more formal institutions in extending their services to the informal sector.

Clearly, not all supports to the financial services sector are monetary. Apart from DFS, there are four major players working at the informal level to promote and build the capacity of groups. These are: CARE International, the Catholic Relief Service (CRS), Swiss Contact and the Swedish Co-operative Centre (SCC). The organisations mostly promote and disseminate the CARE VSLA modules through officers whom they train and pay to train groups. The training is offered for free to the groups and in some cases the groups are also

paid to attend trainings. This is different from DFS which disseminates its tools to service providers at no cost and no pay. The service providers then provide the training too groups on a commercial basis.

Table 14: Kenyan population according to financial access strands

N=17.4 Million (18+ years old)		Weighted data	
Access strands	n (millions)	%	
Formally included (Bank and Post office)	3.08	17.7	
Semi-formally included (SACCO and MFI)	1.3	7.9	
Informally included (ASCA and ROSCA)	3.8	22.2	
Excluded	9.07	52.2	
Total	17.4	100	

(Johnson and Nino-Zarazua, 2007, p.8)

There is no evidence of external training outside of that of DFS that is focussed on strengthening groups at the semi-formal level. The players at this level (MFIs, FSAs and SACCOs) do train their clients and/or members directly but the training is mainly focussed on educating the clients/members on their operating policies, methodologies and products. The DFS training is thus unique in that it focuses on building the capacity of groups and presents an opportunity on both ends of the financial services spectrum.

4.2 DFS IMPACT ON PRO-POOR FINANCIAL DEVELOPMENT

DFS has shown an impact on pro-poor financial development by strengthening, as intended, the “bottom spike” of the financial services spectrum in Kenya. In its focus on capacity building of both groups and institutions supporting groups, DFS has helped to foster a competitive environment with new entrants where groups have both greater options as well as greater capacity to choose.

There is certainly evidence both at the groups and management agencies that groups are free to choose the best service, and frequently and fluidly move

³ The data in the table was drawn (and adapted) from a number of sources: MF Banks, SACCO – websites accessed Oct. 28, 2008; DTMFIs – The Mix Dec. 2007 data, website accessed Oct.28,2008; FSA – discussions with key management staff; MFI, informal, excluded data – FinAccess, Oct. 2007.

to do so. There are dozens of management agencies and, especially with DFS' introduction of the individual service providers, the number seems to be growing. While the ease of entry to become a management agency raises other problems, this level of competition is healthy for groups. DFS had originally included signed contracts between group members and the agencies but discontinued this realizing that it would be unhealthy to tie groups to agencies that might not provide the best service or worse, use unethical or fraudulent practices.

DFS has demonstrated an innovative approach to sustainability where it is commonly assumed that the first and easiest approach to sustainability is through scale, centralization and transformed microfinance institutions. This project proves that the contrary is also possible. That is, managed ASCAs or small-scale decentralised groups can be commercially viable financial institutions with very little external supports. At only the cost of training materials and training, the donor support to managed ASCAs is a fraction of the technical support that commercially sustainable microfinance institutions receive from donors.

DFS explored two paths to wide and dramatic outreach: ASCAs and MFI groups. Of the models, ASCAs have demonstrated the strongest capacity for scale and depth and given its focus on new groups, the ability to reach the excluded. At the informal and semi-formal end of the spectrum, scale will be attained through group/ASCA replication and proliferation. This side of the spectrum is characterized by ease of entry and informality which also raises issues of safety of group funds. Anyone or any organisation can become a management ASCA agency. While this is positive for the potential breadth of outreach, the lack of any form of oversight presents a threat to the system. Safety of funds is a critical issue. DFS has explored the possibility of helping to create a registered association of ASCA management agencies. Several ARPs and others expressed interest in this idea including service providers but the association is not in place yet.

On the other hand, dramatic scale through MFI groups is dependent on strong, well-run institutions be they decentralised associations like FSAs and SACCOs or centralized MFIs. DFS' experience with decentralised associations demonstrates that scale is unlikely through these models unless there are significant improvements in their institutional capacities.

The question not easily answered by this review is how far the existing ASCA management model can reach given some challenges with groups' willingness to pay for training. Is the commercial approach to managed ASCAs both through the agencies and the service providers a Central Kenyan phenomenon? What is the possibility to extend this model in other provinces? In other words, is there a cultural frontier that may limit this models' potential in other regions? Only time and demand-driven exploration will answer this question. However, some ASCA management agencies have expressed a desire to expand geographically beyond Central Kenya. At least, DFS has helped to create a competitive environment where such expansion may be necessary.

4.3 KEY RECOMMENDATIONS FOR FUTURE

4.3.1 Four scenarios

It is recommended that DFS continues to a third phase given its demonstrated potential to impact rural outreach. Given the objective of achieving dramatic scale in a next phase, the review team developed four scenarios summarized in table 14 below:

The details of each scenario can be found in Annex 6. However, the review team recommends the first scenario for a third phase of the Decentralised Financial Services project. Scenario 1 focuses on strengthening ASCAs and ASCA managers which has become DFS' comparative advantage. Scenario 1 also presents the strongest potential for breadth and depth, particularly for those excluded from the financial sector.

Table 15: Four scenarios for Decentralised Financial Services, Phase III

Scenario	Key strength	Key weakness or risk
1. Focus on capacity building of ASCAs and ASCA managers	Strongest demonstration of depth and breadth of outreach. Easiest model for rapid expansion. Focus on new groups/excluded.	Risk that model demonstrated does not have wider geographical potential
2. Focus on supporting MFIs to expand their outreach through groups	Financial institutions with capacity, resources and to scale can expand outreach. Technological innovations also possible.	Institutional challenges and adaptations. Will be a mix of diversified services with breadth. Less likely to reach as deep as Scenario 1.
3. Focus on both ASCAs and MFI groups	Not methodology- or model driven. Works across a range of models and draws on DFS experience.	Can be too spread across different organisations to have impact particularly on scale.
4. Focus on dissemination of existing tools	Lower investment and leverages work, resources and network established from earlier phases	Passive; DFS experience found methodology to be critical as well

The managed ASCA model currently reaches about 165,934 people through approximately 8,297 groups. This is slightly larger than the current membership of a non-regulated MFI or the combined group members of the FSA system. Based on the distance of the furthest access point and demographic studies of the managed ASCAs they also demonstrated greater ability to reach poorer and more remote members. Finally, the managed ASCA model reached more new groups than any of the models. 93% of the groups trained in the managed ASCA model were new. Given the potential that this model presents for reaching the excluded, the potential demand is quite large (identified as 6.6 million according to FinAccess, 2006).

4.3.2 Recommendations on the way forward

A third phase could focus on rapid expansion or breadth through capacity building. As was argued during the final review workshop, once breadth is achieved, further depth may be possible. The same could be true for the diversity of services. Creating an even more competitive sector would lead to greater diversity of services.

This phase could focus on up to 2,000 field staff (ASCA management agents or service providers) being trained. A combination of the Managed ASCA model (using agencies and Service Providers) with the Community-Based Trainers model in partnership with CARE has significant potential for scale. Managed ASCA agencies and service providers could reach rural areas that are commercially viable. Community-based trainers from even more remote locations would be trained to extend the commercial Managed ASCA outreach.

Based on an interview with CARE's microfinance coordinator, a community-based trainer can reach between 780 and 975 people depending on experience and size of group. Based on productivity levels of existing ASCA management agencies (since experience is longer) one field staff can reach between 400 and 600 members. Even at conservative estimates, if 1000 ASCA management field staff and 1000 community-based trainers were trained there is potential to reach close to a million individuals, the majority of whom would be formerly excluded. Training could be done in various regions simultaneously stimulating rural employment for both commercial service providers and subsidized community-based trainers in more remote areas.

Individual service providers and ASCA management agencies present potential to increase competitiveness at the informal/semi-formal end of the financial services spectrum. Because entry is so easy, training service providers is an expedient way to expand the number of new ASCAs providing financial services for themselves. DFS indicated in a quarterly report that service providers can be supervised and given feedback faster. Even more so than managed ASCA agencies, they are more easily directed and monitored. They do not have the same level of challenges of institutional governance and personality politics as more formal institutions.

4.3.3 Making groups more bankable

One limitation is that service providers and ASCA management agencies do not provide financial services. There are occasions where the groups have excess funds which will normally need to be banked. In addition, as the businesses of the group members grow, members tend to demand larger loans which may not be easily accessed through the ASCA.

This is a limitation on one side but an opportunity on another. ASCA managers feel they are unable to compete with the formal and semi-formal financial institutions which apparently have a keen interest in serving the groups. On the other hand, it is an opportunity for ASCA managers to include these types of linkages with financial institutions in their services. It is a form of financial literacy to help the groups decide where and how to bank. It would help the decentralised models to link up. They could help the groups sort through the myriad of choices and products where that exist. This could be charged, in part, to the groups but a "finding fee" or commission could also be considered from the financial institutions able to access or make links with large numbers of trained or strong groups. In Ghana, microfinance institutions pay individual susu (savings) collectors to mobilize savings in rural areas for them.

4.3.4 Demand-driven

While working with ASCAs would be DFS' main emphasis, it would still be justifiable to provide capacity supports to MFIs or microfinance associations on a demand-driven basis. DFS has an opportunity to create the right conditions for various players in the financial services sector to take the tools and "run with them". This would further improve the competitiveness of the sector and the choice available to groups. FSAs and SACCOs have already expressed interest in roll-out at the aggregate level.

Through the FSA methodology, DFS was able to help groups to access a broader, more flexible range of services. This already proven methodology will be highly attractive (indeed, already is) to microfinance and financial institutions that want to go down market but, according to a key MFI technical service provider in the sector, do not currently know how. This demand has already been expressed by a few institutions including Equity Bank. With several large institutions seeking deposit-taking licenses and new sources for deposits, there is potential for scale using the DFS tools and methodology.

4.3.5 Sectoral vs institutional

This would mean that DFS shifts focus from individual institutions or institutional models to sectoral level analysis, monitoring and leverage points. Selective monitoring would be crucial. DFS could focus on sector-wide data to capture the volume of new ASCAs formed, existing ASCAs and ROSCAs linked to the financial sector and the number of households accessing financial services. At the group level, DFS would play a crucial role in developing standards for Kenya including the difference or similarity of indicators between ASCAs and

VSLAs. This would need to be dialogue-based consensus which plays to a strength what DFS has already demonstrated in the sector.

At the institution level, DFS could play less of a direct monitoring role but help to work on industry or sectoral standards for institutions to monitor group finance separately as a cost/profit centre. For specific suggestions on these three types of monitoring indicators see Annex 7.

In mainstreaming, the key is to have few indicators that are widely used. For demonstration, depth is required. For scale, usability is more important. If the aim is too high very little reliable data is likely to be generated. It is possible to have a simultaneous roll-out while continuing to work on the indicators. This is how the microfinance sector has developed financial indicators is currently working on social performance indicators and how other groups models have worked.

Other sectoral level activities would include working with regulators and other stakeholders to ensure the safety of funds. Building on research and what has been learned from working with groups, DFS could help to form the association of ASCA management agencies and service providers. This would complement the standards work.

4.3.6 Simplify monitoring group self-management

It would be helpful to be clearer about the phases or processes toward self-management for each model. For example, in the progress markers there is an indicator "field staff spend less than one hour with groups". This could be a trigger point for the last stage of self-management for MFIs. What are the observable characteristics at each stage? It seems to vary by model. For managed ASCAs, it may be that they have been able to reach the management fee maximum. VSLAs use the complete withdrawal of the field staff as an indication. SHGs use scoring systems out of 100% or with letter grading to indicate what they refer to as the self-reliance of the group. They include the aspect of the group being able to form its own linkages with financial and other institutions. Moving to scale, it is important that indicators are highly usable by newly trained agencies and providers. See Annex 8 for a detailed list of phases and indicators used in these and similar programs.

4.3.7 Learn from others

The ASCAs and the Self Help Groups (SHGs) in India are similar informal financial institutions. Therefore, it is helpful to understand what set of conditions were behind the SHG movement to dramatic scale. It is widely acknowledged that the National Bank for Agricultural and Rural Development (NABARD) was the institution that provided both the policy and capacity conditions for the movement. Like DFS, NABARD focused primarily on capacity building of self-help groups and of financial institutions to work with self-help groups. The result is that in 2006 under NABARD's capacity building programmes for its partners, 283,825 participants were trained and field visits for 7,221 bank officials were arranged during the year. NABARD also

extended extensive support for arranging and conducting awareness creation and capacity building programmes for the SHG members in association with identified resource NGOs.

As of March 31, 2007 over 4.1 million SHGs had savings accounts with financial institutions and 1.1 million SHGs were borrowing. In 2006, about 44,362 bank branches were providing services to SHGs including 158 regional rural banks, 342 co-operatives and 47 commercial banks. 16% of SHGs link directly themselves and about 75% are linked through other agencies and about 9% link to NGOs that both finance and facilitate their self-management. All of this has occurred because of the enormous amount of investment in training the self-help groups to be self-managed. (www.nabard.org)

Interestingly, NABARD is no longer the only organisation providing capacity building. NGOs, service providers, even commercial banks are now all involved in training the groups directly because they have a vested interest in strong, self-managed groups. Quality is, of course, mixed. There are regional variations as to the strength and the numbers of SHGs. The Indian sector is still agreeing on benchmarks both for governance (qualitative) and financial performance (quantitative). What is important about this situation is that capacity building resulted in both new groups being formed and existing ones accessing financial services. Monitoring in India has focused on the bankability of groups. Now the level of competition has created a wider range of services for groups and genuine ability to choose. Financial institutions provide training as a value-added service to compete for groups.

It is also possible to learn from the VSLA model first introduced by CARE. There was an original VSLA methodology introduced in Niger. Since then, however, the VSLA model has been widely adapted to various contexts particularly in Africa. While CARE has focused on updating their core manual, it is more difficult to get a summarized account of the various adaptations. Arguably, the most interesting learnings come from these adaptations. This is the type of analysis that DFS would be well-suited to do at a sectoral level promoting wider-scale use. This is perhaps a more productive means of encouraging scale than trying to get the standard manual right.

4.3.8 Reconcile subsidy

If broad-based sustainable scale is sought it will be crucial to determine the threshold or distinction between the commercial approach to ASCAs and the subsidized approach to ASCAs or VSLAs in the partnership with CARE. Perhaps fully-subsidized community-based workers can be used only to reach out to more remote areas than the commercial ASCAs can reach. Or in different geographical areas where the commercial approach is unlikely to take hold. It can be assumed that community-based trainers would be more locally based and cheaper than even individual service providers. Finding clarity around these assumptions will be important to ensure that the subsidy does not cause distortion in what DFS has already worked to build.

4.3.9 Focused action research

It is also recommended that DFS continue with its iterative action research so valuable for Kenya and the world. There was particular value in the focus on governance and internal control, security of savings since these are areas that are quite under researched in member-based microfinance. It was also helpful to have more in-depth analysis on the managed-ASCA model since it is a new variation on the savings-led models and presents opportunities for application elsewhere as a cost-effective solution for remote outreach. For these reasons, the body of research is strong and valuable and should be shared with the broader microfinance community.

However, in terms of remote business models the research is more limited. To understand the potential of the managed ASCA model there is more than enough information. However, the wider applicability of this model is limited without a clearer and more current demonstration of where the ASCA model fits in relation to other business models. (The earlier comparative analysis between models was helpful but much has changed in the sector and agencies since then). In addition, it would be important to understand how the model is or is not idiosyncratic to the region of Central Kenya.

While not exhaustive the following are some research areas that may be relevant for a next phase:

1. Complete the comparative analysis across business models.

While more thorough research has been conducted on the ASCA model, for reasons already mentioned, there is not enough comparative research to effectively compare it with other business models including the unmanaged ASCAs. Given the amount of existing data, the DFS project is encouraged to complete this analysis so that more conclusive decisions can be made about trade-offs. Even if DFS were to pursue Scenario 1 with a focus on ASCAs it would be important to position this choice against cost and outreach data in the other models.

2. Expand the analysis to include ROSCAs and terminating ASCAs.

Very few contexts present an opportunity to analyse such a wide spectrum of options at the informal end of the financial services spectrum. Since members choose between these options, critical market research exists in this analysis, particularly to strengthen managed ASCAs. What is the difference between ROSCAs, terminating ASCAs, accumulating ASCAs and liability groups? DFS has begun to answer this question based on group performance. This should be extended to compare ROSCAs and indigenous terminating ASCAs that have no external supports. These are the choices that exist at the community level. In order to genuinely understand exclusion and financial deepening the demand-side needs to be further explored. Are there people who are not even included in a ROSCA? When do members choose to move to a more complex ASCA from a ROSCA? How and why the poor move along this spectrum from

informal to formal is crucial market research information to both improve and expand outreach.

3. Understand the relationship between self-management and bankability.

Related to the above, are the independent ASCAs complementary or competitive with other financial service providers? In other words, does a group intermediating its own funds make it more bankable to financial institutions and more interested to be banked? Or, as financial institutions fear, do the internal savings within ASCAs compete with savings that could be mobilized for the financial institution? The answers to these questions may stimulate demand for financial institutions working with groups. Knowing also helps to determine where the most important points of leverage are in the sector- linking existing ASCAs or forming new ones?

4. Expand the ASCA analysis geographically and with different socio-cultural groups.

Bounded empowerment was a term that the DFS Research Director coined which is also culturally related. Group members can be empowered but this empowerment is bound by socio-cultural norms in leadership, power, and gender. What are the cultural limits of the improved governance introduced by DFS? In more concrete terms, is the managed ASCA model socio-culturally idiosyncratic? There would need to be study beyond the Central Province to answer these questions. This would be possible as part of the third phase if the managed ASCA supports were expanded. Key monitoring indicators would provide a means for comparative analysis across regions and groups.

DFS has produced a body of research that is useful within Kenya and of interest in the international context as well. These research problems have been selected because they are sectoral focused and can be researched using existing monitoring data. Aspects of the research may be appropriate for links with university students or collaborations with research institutions. All help to better understand the broader questions related to group self-management and financial deepening. DFS has demonstrated a link between the two but there is a great deal more to learn from these decentralised models.

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Annex 1

REVIEW SCHEDULE

Institutions/visit details	Dates
1. Service providers (three independent, seven with NGOs)	October 4
2. SOMWO - visit to a control group, meeting with board of directors and training staff	October 6
3. DFS team, FSD Kenya	October 7
4. AMA – visit to two test groups	October 8
5. AMA – visit to a control group, meeting with partners and training staff.	October 9
6. WEDI – meeting with proprietor and training staff	October 10
7. SOMWO - visit to two test groups	October 11
8. Kathonzwi FSA – visit to one control group and four test groups	October 13
9. Kathonzwi FSA – meeting with manager and training staff.	October 14
10. Kikima FSA – meeting with manager and training staff, visit to two test groups	October 15
11. Mbumbuni FSA – visit to two control groups	October 16
12. WPS – meeting with SACCO management and training staff and CIDR staff	October 21
13. WPS – meeting with four test groups and one control group	October 22
14. SAGA (non-ARP) - Meeting with manager and training staff	October 23
15. Kijito (non-ARP) - Meeting with manager and training staff	
16. CARE (non-ARP) – Meeting with GSL project manager	
17. De-Briefing workshop on preliminary results of review	October 27

Annex 2

REVIEW QUESTIONS AND AREAS

Semi-structured interviews with action research partners and service providers

- i. Mission overall (and for groups).
- ii. Groups get from institution; how institution benefits from groups.
- iii. Governance structure and group rights, management, time-line.
- iv. Impact of DFS interventions and value-added in rural market for poor in Kenya.
- v. Check financials (aggregate institutional level; group monitoring).
- vi. Perspectives on overall program.
- vii. How group capacity has helped to reduce costs, broaden and deepen outreach.
- viii. Individual rating of tools.
- ix. Rating and discussion of progress markers and self-management of groups.
- x. What worked well; challenges.
- xi. Fee structure and ability of training to cover costs in long run.
- xii. Recommendations.

Semi-structured interview with groups**Ice-breaking questions**

1. What is the name of your group? Why?
2. How long has your group been together?

Governance (Ask of members who are not leaders or secretaries before financial transactions begin)

3. Member awareness of rules, rights and responsibilities /5
 - a. How do you decide who gets a loan each time there are loans available?
 - b. What do you do with profit? / How are your earnings determined?
 - c. What are the responsibilities of members?
4. Member monitoring of loans, savings, net worth, use and allocation /5

- a. How much money is in the purse/left over from last meeting? / What is the interest rate on xx loan?
 - b. What is the revolving loan fund of the group?/ What is the total amount of loans disbursed at the last meeting?
 - c. How much savings/shares does the groups have?
4. Instances of member sanctions and accountability- i.e. removal of non-performers /5
 - a. Tell us what happened the last time someone did not pay back a loan. What did the group do?
 - b. What happens if people do not pay back their loans?
3. Transparency and effectiveness of book-keeping /5
 - a. How do other members of the group check that books are correct?
 - b. Does your group have an audit done?
 - c. What do you do with leftover money from the group?
 4. Group self-management (vs. external) ASK FIELD OFFICER TO LEAVE /5
 - a. Observations of the group and its ability to keep books and manage meeting.
 - b. Does your group receive training or support to help it?
 - c. What would it take for the group to be completely self-managed?

Future plans for the group?

Member preferences for models and products

- Was this group a Merry-Go-Round (MGR)?
- What is the difference between a MGR and an ASCA? Which is better?
- Does the group keep money in a bank or institution? Why? Why not? Who keeps the money?
- Does the group borrow money from a bank or institution like a FSA or SACCO? Why? Why not?

Annex 3

COMMENTS ON PROGRESS MARKERS USED FOR MEASURING SELF-MANAGEMENT OF GROUPS

Using DFS governance monitoring indicators, fourteen progress markers were used to assess the self-management and self-governance of the groups. They were grouped into three categories: Expect to see; love to see; like to see. The results were as follows: (See table below)

The results are not surprising. In the more mechanical aspects of group behaviour such as attendance and savings contributions, groups scored well. On the higher-order functions such as group ability to interpret or evaluate performance, the scores were much lower.

Table 16: Summary of progress marker monitoring on test groups for managed ASCAs

		Average end of period	Change from initial	Rated less relevant
	Expect to see (Responsibilities, contributions)	80.5%		
1	All group members attend meetings consistently (over 90% -High, 60%-89%- Medium, below 59% - Low)	56.4%	1.2%	X
2	Group leaders and members practicing their responsibilities as agreed during the training	89.7%	24%	
3	Group's Loan Appraisal Committee (LAC) appraises short and long-term loans and follows-up defaulters	79.5%	52%	
4	All members contribute agreed amount of savings regularly	92.3%	34%	
5	Group fills all records and members' passbooks	84.6%	40%	
	Like to See (Group follows rules and knows financials)	65%		
6	Group follows its rules/constitution consistently	84.6%	26%	
7	Group members know their total savings, loans and net worth in their group and monitor how they are being used or allocated	25.6%	26%	
8	Group takes action against leaders and members who do not perform as required (by holding them accountable, disciplining or removing them from the group or leadership positions)	76.9%	67%	
9	Group does not have loan amounts that are late more than 90 days - 3 months (compare loan amounts late more than 90 days to the total loan outstanding)	74.4%	50%	
	Group self-management and evaluation	39%		
10	Group members are able to interpret group performance indicators (number of defaulters and amount defaulted, growth in loans, savings, bonuses and net worth)	30.8%	31%	X
11	Increased bonuses/interest/dividends to the group members	61.5%	41%	X
12	Group together with the field/ loan officer performs an action audit annually. Defaulters are kicked out from the group.	20.5%	17%	X
13	Group manages its own business to an extent that the ASCA manager does not need to spend more than 1hour in the monthly group meetings	38.5%	38%	
14	Group evaluates its progress by comparing the previous performance indicated by the progress markers and acts on each recommendation for improvement	43.6%	19%	X

When asked to rate the relevance of each progress marker those marked with an X in the previous chart had lower relevance ratings. Interestingly, at least four of the five marked less relevant also received low scores from the groups. Attendance was felt to be a tricky indicator in some areas where it is difficult to have regular attendance due to seasonality of farming activities and crises. In the case of the other four indicators, they were not felt to be good indicators of the strength of a group. In other words, groups could still be strong and cohesive without being able to interpret their finances, evaluate their performance, perform action audits or have increased returns.

It is a fair claim that the indicators should include those that are more difficult to achieve to show progress and graduation over time. Simply because an indicator is difficult and has been rated less relevant (perhaps due to its difficulty) does not mean that it should not be used.

However, there is a limitation with a set of indicators that have such a range from very easy to achieve to very difficult that when you look at the results it is difficult to make any assessment. What then, does the average of 39% for the “love to see” category mean? It is easy to say that these groups are progressing and that as long as they are showing improvement, it is good.

Lines can, perhaps, be drawn more easily than that. What is most crucial in that section is that groups can manage their own books and business to limit field staff/external involvement to oversight at no more than one hour. This is the critical indicator. Almost all other indicators, mechanical or easy to achieve, lead or would like to lead to this one. Why not make this indicator the goal? If they achieve this goal how important is it that the group can interpret or evaluate its own performance?

Annex 4

RATING OF INDIVIDUAL TOOLS BY ACTION RESEARCH PARTNERS, GROUPS AND REVIEWERS

From the original sixteen (16) tools developed in 2006, the revised toolkit now contains six (6) distinct tools:

Table 17: Rating of tools

Out of 5	Relevance	Group interest	Clarity/ ease of use	Time allocated
Forming a strong group (1 hour 40 minutes)	5	4.8	4.6	4.7
Responsibilities and qualities of leaders and members of a community group (1 hour 30 minutes)	4.9	4.7	4.6	4.6
Giving and collecting unpaid loans (2 hours)	4.8	4.6	4.5	4.6
Recording groups financial activities (2 hours 30 minutes)	4.8	4.5	3.8	4.2
Making a group constitution (3 hours 55 minutes)	4.8	4.7	4.0	4.4
Group well being tool (old groups only) (1 hour 40 minutes)	5	4.9	4.9	4.8
Adult Learning and Facilitation	5	NR	NR	4.7

Recommendations by action research partners and service providers

- Provide more flexibility in the use of the tools so that they can be done one per week for consecutive weeks, all together in a few days, two tools at one time done monthly. Examples of options provided by one partner:
 - a. **Option 1:** If resources were available (travel, materials), it would be best to train groups upfront.
 - b. **Option 2:** Could train multiple (2-3) groups. For existing groups. For new groups, allocate same day as serving old group: i.e. serve old group and train new group afterwards. However this may affect quality of training because you may want to train quickly in order to travel back.
 - c. **Option 3:** For older groups - Choose specific tool that would help that group and begin with it. Train during service times. For new groups – can easily train during service times since they do not have many transactions. Could do two tools per visit.

- Revisit the time allocation for group financials and constitution or simplify. Perhaps the constitution tool could be divided into two.
- Training up-front all at once is better but it is costly. Training in combination with service is more cost-effective but can take up to six months. By then, people have forgotten the first sessions.
- Difference between the well-being and forming strong groups. Make it one two hour tool and include ability to assess for older or for new groups.
- Ensure tools have flexibility to be used with new or older groups.
- Failure to attend trainings. Perhaps in the locality there could be a natural factor e.g. death, emergencies around the area. Other natural factors include: planting, harvesting seasons. This has to be understood and considered in rural areas.
- Group financial activities can take up to 4 hours which is too long. It is difficult to explain to members. Due to illiteracy, it also takes time to grasp. Sometimes some groups prefer that it is only taught to the leaders. One needs to repeat time after time. The training should be broken into two parts with each 2hrs maximum.
- Have to train people 3 days consecutively. Sometimes people are not available they are available only once a week or once a month. 2 sessions per day is sometimes not practical. We should consider doing 2 hrs per day during group meeting especially for old groups. New groups are more eager to learn and hence the 3 consecutive day is okay.
- Too focused on savings. Not all tools were well adapted to our way of working with groups.
- Groups constitution. It is too long 3-4hrs. Groups get bored.
- Translation from English to local languages. Words like quality, well-being, are difficult to translate when dealing with groups. DFS has translated materials but not all are aware. Translation was mentioned by several Action Research Partners.

Recommendations by groups

- All groups rated each tool as very useful to them to improve their group. However, when asked specifically if anything was difficult or “made them sweat” there was fairly consistent responses related to “Recording Group Financial Activities” and “Making a Group Constitution.” For some groups, it was a bit difficult. Others said that even though it was difficult because some had not been in school for many years they found it very useful once they got it.

- Other recommendations for training made by group members: how to manage longer term loans, how to calculate the bonus.
- Other recommendations: Help groups make links to donors and NGOs e.g. water, agricultural support programs

Recommendations by review team

- There were several suggestions about flexibility. The reality is that different institutional settings will have different availability of time. It would help to have the tools and the training designed in a way that it could be done in different ways without jeopardizing the integrity of the training.
- Again, for simplicity could the sessions/tools be revised or refined to be 2 hours each? Predictability helps usability. That would not include time for follow up activities or additional time if group required it. However, two hours for the basic skills/knowledge.
- The forming a strong group could be combined with the group well being tool to be one tool. What is a strong group? Whether it is new or old. Make the assessment part of progress indicators and not a separate or additional tool.
- I would recommend breaking the group constitution into two parts. It might help too, to break the group constitution into various sections with two parts:
 - a. Rules for formation and eligibility.
 - b. Rules for group behaviour (attendance, fines etc.).
 - c. Rules for savings and contributions.
 - d. Rules for loans and dealing with late payment (this could be split in two to make more even if need be).
 - e. Rules dealing with profit and accumulation/cash out.
 - f. Mechanisms to ensure money is safe (oral readings- what to read, where to bank etc. Ensure receipts etc.).
 - g. Rules for exiting.
- Another more radical idea for dealing with the constitution is to introduce group rule-making in the strong group tool. Then have them make the rules for each of the aspects at the time of that tool. For example, loan rules would be done at the same time they are learning about giving and collecting unpaid loans. Of course, this would require a great deal of reworking but could perhaps be considered an option for more advanced groups?
- For the oversight tool, it is strong and very comprehensive and a very good idea. From a practical perspective, however, it is not easily usable in terms of photocopying etc. It is unlikely to be taken up by field staff and management in this form. We would recommend that you turn the checklist into a page of the questions listed. Let them make their own notes in the space that they see fit. It would be easier to read and use.
- A practice that has proven useful in training is to make the adult learning cycle apparent in the sessions. This gives some flexibility to the trainers who are instructed to ensure that all four aspects of the cycle are covered with particular emphasis on application. If time is running out they can cut back accordingly without losing what is absolutely key. Sometimes, when a minute by minute schedule is used by new trainers they will simply keep going until time has run out. Often that means that they miss out on application activities the most important element for learning.

Annex 5

A CAUTIONARY NOTE ON RISK MANAGEMENT

Table 18: Four scenarios for Decentralised Financial Services, Phase III

	Independent ASCA	Managed ASCA
Loan leverage	Very little leverage but flexibility in terms of access to savings.	Leverage of 3 to 4 times the savings/shares.
Loan terms	Only short term loans: 3-6 months, maximum one year.	Short term loans: 3-6 months Long term loans: Up to 24 months
Risk management	Keep leverage low. Audit of members' books every 17 weeks. Cash out at the end of the year.	Loan assessment committee. Oral reading of balances and, in some cases, transactions. Use savings. Confiscate asset used as guarantee. Strict on repayment. Less flexibility.

The oversight tool was to provide supervisory oversight and help the institutions to assess, grade and help the groups to deal with risk. This is an important piece of the initial architecture. However, there are some questions or cautions related to the risk management approach found in the oversight tool. Even though current repayment performance is stronger for test than control groups, high levels of arrears were found in the ASCA system (sometimes as high as 30%). These, of course, have the potential to unravel the capital and equity of the group. However, due to the terms of the loans (sometimes up to 2 years) it is too early to tell whether this is a real problem.

The review team felt that the oversight tool and ASCA methodology could incorporate a broader approach to risk management. When groups change from being independent ASCAs to accumulating ASCAs they move to a more sophisticated system that simply has more risks. (See table below).

Because of the varied products and longer loan terms in the managed ASCAs, there is a need by either the groups or the ASCA managers to manage assets and liabilities. Simply put, if people demand their savings they cannot be tied up in 18 month or 24 month loans. The strength of the independent ASCA is flexibility and risk that is low and easy to manage. The managed ASCA at its best offers a wider range of products to more people at the same time. This is complex. At its worst, it (and incentives of ASCA managers) can pull group members into a system that is more sophisticated (i.e. risky) than it should be given their loan demand.

These issues are raised as flags for further thought and exploration. The concerns relate to instances of high default and cases of actually confiscating member assets such as animals. The oversight tool and the toolkit focus on strict abiding of the rules- attendance, repayment and joint liability. It is more of a checklist to ensure that groups are following rules. It is very important to enforce the rules provided they are the right rules in the first place.

The caution raised by the review team is that the risk management strategies match the corresponding sophistication of the products and liquidity that the new system has introduced. As the system demands varied terms for assets

and liabilities and accumulation, generally there are more sophisticated risk management strategies. Liquidity management comes into play and other risk management strategies such as reserve funds. In India, self-help groups keep about 5% to 10% of their loan funds aside in reserves for this purpose. In the review workshop there was a lively debate about the relevance of this practice from India to Kenya and the importance of building a culture of repayment. This is absolutely agreed.

It is also agreed that DFS did not create the ASCA management methodology. It appears to have been first incubated under WEDI and copied, slightly adapted by other ASCA managers. When the review team explored the justification for such long loan terms and explored how the groups or ASCA managers deal with liquidity and default issues, there was no sign of market research particularly for introducing much longer term loans. There was also no apparent recognition of liquidity or asset-liability management. The risk of a system that is more sophisticated than its risk management system is over-indebtedness, increased default and member loss of assets. Here, market research and further risk analysis would be helpful.

Annex 6

SOME SUGGESTIONS FOR MONITORING INDICATORS PHASE III

Sector wide monitoring

- Number of individuals trained (by types below).
- Number of institutions (by types below).
- Number of new ASCAs and groups formed during the year.
- Number of new ASCAs managed by fee-based agencies or community groups during the year.
- Number of new ASCAs managed by individual service providers during the year.
- Number of new ASCAs formed by subsidized NGOs.
- Number of new ASCAs and groups financed by financial institutions during the year.
- Number of existing ASCAs provided repeat finance by banks during the year.
- Number of individuals who have moved from excluded to included during the year.
- Number of households accessing financial institutions including repeat finance during the year.
- Cumulative number of ASCAs that have become bankable up to end of year.

Group level monitoring

A couple of key easily identifiable indicators for governance:

- a. **Self-management ability.** Extent to which group can self-manage with less than an hour external assistance? OR Is group able to begin its own transactions without the presence of field staff?
- b. **Security of funds:** Is there a clear policy and practice to ensure the security of money that leaves the group?
- c. **Or a simplifying system** using several of your indicators that is easy to use and interpret.

- Total contributions including savings, shares and other funds end of period.
- Average savings balance per saver end of period.
- Total loans disbursed during the period.
- Average loan disbursed during the period.
- Arrears or total portfolio at risk (without aging).
- Cost per member.
- Net annual income per member.
- Return on Assets.
- Population density where group meets (or other relatively simple indicator of depth).

Institutional-level monitoring (not tracked by DFS)

- % of total assets and income groups contribute (what group provides).
- Group access to services (including effective costs and decision-making if applicable) (what group receives particularly at group level).
- # group clients as % of overall clients.
- Case-load by field staff.

Annex 7

INDICATORS OF SELF-GOVERNANCE OF GROUPS

	Timing And Phases	Group indicators	Member indicators	Capacity building topics
CARE	<p>[18-24 months]</p> <p>I. 6 weeks training + weekly follow-up</p> <p>II. 3 months development</p> <p>III. Handling own books, policies, links</p>	<p>Group Leadership</p> <p>Decision-making, both financial and non Problem-Solving and conflict resolution</p> <p>External linkages</p> <p>Accounts maintenance</p> <p>Sustainable</p> <p>Growth of fund</p>	<p>Increase income</p> <p>More influential in family matters</p> <p>Gain self respect in community and families</p> <p>Confidence</p>	<p>Women's group formation</p> <p>Group records</p> <p>Financial management of loan fund</p> <p>Common issues and opinions</p> <p>Learning and Training plans</p>
Myrada	<p>[>1 year]</p> <p>I. SHG – savings 6 months.</p> <p>II. SHG self-assessed, plan for self-reliance, bank loan</p> <p>III. Group that is independent with own links, policies and leadership</p>	<p>SHG has realised its vision</p> <p>Improved grades on:</p> <p>Vision</p> <p>Organizational management (policies, participation)</p> <p>Financial management</p> <p>Organizational accountability</p> <p>Linkages</p> <p>Learning and Evaluation</p>		<p>Structural analysis of society</p> <p>Analysis of local credit sources</p> <p>SHG formation and management</p> <p>Leadership</p> <p>Conflict resolution</p> <p>Collective decision-making</p> <p>Fund management</p> <p>SHG self-assessment</p> <p>SHG graduation</p> <p>Building linkages</p> <p>Credit-plus</p> <p>Analysing gender relations in family and community</p>
SEWA Bank	<p>[>1 year]</p> <p>6 months savings</p> <p>> 6 months only financial</p>	<p>Rating system 100%</p> <p>Growth</p> <p>Financial management</p> <p>Risk management</p> <p>Governance and community linkages</p>	<p>Improved financial literacy according to each member financial plan</p>	<p>Group bookkeeping</p> <p>Growth</p> <p>Financial management</p> <p>Risk Management</p> <p>Governance and decision-making</p>
Other Self-Help Groups India, Ashrai Bangladesh	<p>[1-3 years]</p> <p>(some groups –tribal, lower-caste longer)</p> <p>I. Savings/thrift; bank account</p> <p>II. Inter-lending; basic book-keeping</p> <p>III. Bank linkage</p> <p>IV. No subsidization; internal management</p>	<p>Some groups consider the ability for each group to hire/outsourcing its own bookkeeper</p>		<p>Group formation</p> <p>Group management</p> <p>Group decision-making</p> <p>Book-keeping</p> <p>Bank linkages</p>
Mexico	<p>I. Informal group</p> <p>II. Incorporated and systems in place, savings</p> <p>III. Credit and savings</p> <p>IV. Broadened outreach</p>			<p>Administrative Toolkit (record-keeping tools)</p>

Annex 8

FOUR POSSIBLE SCENARIOS

SCENARIO I: BROAD**Overview**

- Broadening outreach through large scale roll out using service providers who may be either individuals or ASCA management agencies.
- Service providers may be pure trainers or they may provide management and other value added services as desired by the groups.
- Greater focus should be in regions with high levels of exclusion. We suggest a ratio of 65% excluded population against 35% pre-existing groups.
- This approach will be inevitably promoting the basic ASCA methodology especially in targeting the excluded (forming new groups). The core DFS toolkit has the methodology embedded in it.
- The approach should not be limited to managed ASCAs only but should explore opportunities of forming new groups, which may or may not be managed. In this regard, there will be need to study the existing independent ASCAs in order to identify the most appropriate approach.
- On demand basis, work with well governed large scale forward looking financial institutions to extend financial services to groups. The linkage could be done through the service providers.

Strengths

- Ability to have both breadth and depth
- Reduced potential institutional challenges that limit implementation and demonstration of impact
- Relatively easy to implement as builds on DFS comparative advantage (the tools and area of highest impact in DFS II) and builds on existing networks of individuals and organisations working with groups.
- Creates employment in rural areas for individual service providers trained.

Weaknesses

- Service providers have limited financial services compared to financial institutions though there is the opportunity to provide linkage services.

- Lack of implementation by some service providers in selected regions.
- Potential risk of groups in some areas unwilling to pay for services making it difficult to sustain service providers.

Opportunities

- Demand from groups to be linked with financial institutions
- Great interest in the 'down-market' and desire to expand outreach by some formal financial institutions – Barclays, KCB, Equity, KWFT, Faulu.
- Large population excluded from the financial system.
- Large number of informal groups that may need strengthening
- Knowledge contribution to global debate on building inclusive financial systems

Threats

- Competition from financial service providers. A threat to service providers but positive at project level.
- Potential market distortion through subsidised training e.g. with the CARE GSL project.
- Lack of standards and regulation – potential for unprofessionalism and risk of loss of group funds

Key considerations

- Minor refinement of tools as per recommendations.
- Additional service providers to be trained.
- Address the problem of potential market distortion. May have the subsidised trainers reaching out to deeper areas or operating in areas distant from the commercial service providers.
- DFS to facilitate the establishment of association and development of sector standards to address the problem of unprofessionalism/ risk of loss.
- Incentives for service providers to be tied to indicators.
- Partnerships on delivery channels (e.g. technology) for increasing rural outreach could be explored.
- Service providers could include in service links to other non financial (development and BDS) initiatives of interest to groups

SCENARIO II: DIVERSIFIED SERVICES

Overview

- Broader range of financial services extended to the rural/excluded.
- This would involve working with 1 – 2 high performing well governed large scale financial institutions to integrate the tools (not intensive work methodology as in Phase II) and to help bring financial services to groups.
- DFS to train the staff of the financial institutions.
- DFS to link the financial institutions with groups.

Strengths

- Financial institutions with resources and technology to extend financial services to the currently excluded population.
- Capacity for strong demonstration and potential for generating interest among other financial institutions.

Weaknesses

- Institutional challenges (as experienced with FSAs and SACCO in DFS II) may impede implementation.
- May take time to realise the breadth of outreach.

Opportunities

- Great interest/demand in down market (informal/excluded sector) by formal financial institutions.
- Inadequate understanding of informal sector by the financial institutions.
- Knowledge contribution to global debate on building inclusive financial systems – decentralising the centralised.

Threats

- Potential institutional cultural differences between partners
- Potential battles of ownership.
- Potential risk of selecting the wrong partner hence not achieving objective.

SCENARIO III: BROAD AND DIVERSE

Overview

Strengths

- Experience through ARP program.
- Not seen to be promoting one model.

Weaknesses

- Too similar to DFS II.
- Too incremental and spread out so impact is diffused.
- Not as broad and immediate impact in numbers/outreach.

- Institutional challenges likely slow down implementation.

Opportunities

- Roll out across different models.
- Potential demand from ARPs and others who have seen the potential.
- Ability to show systems development impact nationally and potentially internationally

Threats

- May do a little with each model but not achieve much success in terms of scale.

SCENARIO IV: DIVERSIFIED SERVICES

Overview

- Rollout tools nationally and internationally and study those who implement.

Strengths

- Potential for breadth indirectly by tools roll out.
- Build on strength and ability to draw on networks.

Weaknesses

- More passive.
- Rollout may be weakened or hampered without some support in implementation

Opportunities

- Be a strong voice in the international debates on community/rural based financial services



