

EDITORIAL

The past few decades of microfinance provision have proved that while microcredit is helpful, it is not always effective in tackling poverty. It is apparent that the very poor do not participate in microfinance but rather exclude themselves. Undisputedly, grants alone have rarely yielded transition into sustainable livelihoods. This is because money alone cannot address the social and personal challenges that the poor struggle with such as a lack of self-drive and low esteem.

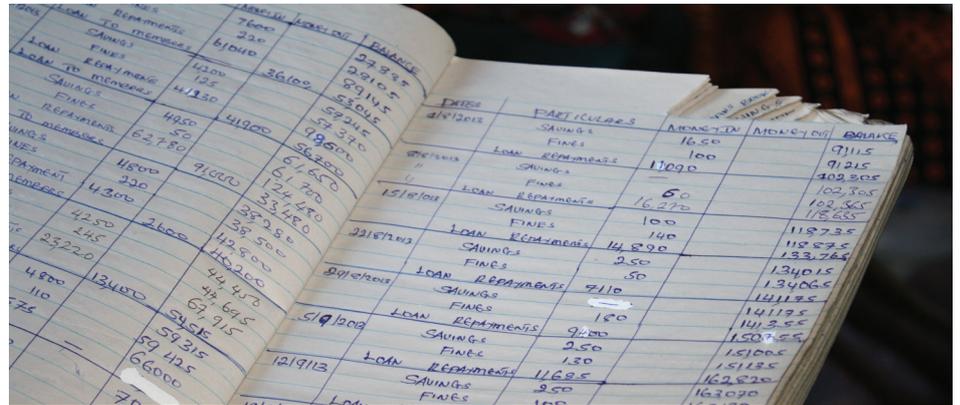
BRAC, an NGO in Bangladesh, pioneered an effective graduation model for the extreme poor comprised of five sequenced components: consumption stipend, savings, technical skills, mentoring and coaching, and asset transfer. The Consultative Group to Assist the Poor (CGAP) and the Ford Foundation supported ten global graduation pilots using the BRAC model. A 2015 randomised control trial (RCT) report of six of the pilots showed positive results in all selected parameters. These results present hope to governments and their development partners who perennially bear the burden of sustaining the very poor through social transfers and food aid. Although, this conventional direct NGO delivery approach is effective, it is costly, and thus poses a significant challenge to scalability.

There are two key costs in the BRAC model. First are the transfer of productive assets and second, weekly training, mentoring, and coaching visits to participant households. FSD will explore a market-based approach to the acquisition of productive assets and work with the community to deliver training and coaching to the participants. The project will employ an action research approach to allow for experimentation and iterations during implementation. Applying this market-based approach to the BRAC model may have significant policy implications for governments and development partners as they seek to adopt sustainable solutions to social transfers for the poor.

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STUDY EXPLORES VALUE OF INFORMAL SAVING GROUPS



A record book of member contributions. Savings groups continue to be an important tool for financial inclusion in Kenya.

New research suggests that savings groups (SGs) are effective in reducing levels of financial exclusion and are valued by communities as a means of saving money. Savings group initiatives undertaken with FSD support had reached over 15,200 groups serving more than 400,000 members as of June 2015. FSD is also partnering with CARE and CRS to reach people in marginalised and poorer segments of the community. The target for the current phase of the project is to reach 220,000 new members with SGs. CARE is working in western Kenya (Kisumu and Migori) and northern Kenya (Marsabit and Turkana) while CRS is working in Eldoret and Nandi areas, Elgeyo Marakwet and in the more marginalised West Pokot. FSD Kenya commissioned a quality of delivery study (QDS) into savings groups in Kenya. The research had four objectives:

1. Measure both the breadth of outreach of SGs, — how many people are members of SGs, and the depth — to what extent SGs are reaching the principal target population of poor and otherwise excluded people.
2. Determine the usefulness or value added by SGs, and the extent to which the services they offer meet the wants and needs of members.
3. Answer questions about SGs and consumer protection including: are SGs a safe and transparent place to save, or are they putting members at risk of losing their savings or being exploited in other ways?
4. Determine the relative outreach, value-added, and consumer-protection performance of the various delivery channels to help FSD Kenya tailor its investments to produce the best outcomes in terms of efficiency, sustainability and consumer protection.

The QDS was designed to compare the SGs formed by CARE and CRS with each other, and with the many spontaneous or community-formed SGs.

Research methodology

The research involved 1,370 interviews with randomly selected households in three sites where SG projects have operated, and a control site. The household interviews found 463 SG households with at least one SG member, plus an additional 86 former members, 67 of whom were interviewed about their experience with SGs. Interviewers visited a sample of 100 SG meetings, and were able to interview the trainers of 48 of those groups.

Summary of findings

The study found that membership in savings groups increased substantially in sites where SG projects were operating, reducing overall levels of financial exclusion in those areas. About half of all SGs already existed as groups of some kind, most often as rotating savings and credit associations (ROSCAs), before they adopted the SG methodology. While two-thirds of SGs are trained by professional trainers, the other third learn the methodology through imitation of nearby groups or from a community member with prior experience with SG methodology. SG members are generally drawn from the 'middle poor', but are better educated, more entrepreneurial and better connected than the very poor, suggesting that the projects may need to focus more on reaching poorer and more households. Project site SGs were of higher quality than those in the control site, where groups had formed spontaneously. However, quality and cost of delivery varied substantially across different delivery models.

Continued on page 2...

STUDY EXPLORES VALUE OF INFORMAL SAVING GROUPS

... from page 1 Members strongly appreciate SGs and their value for local communities also continues to rise, with membership increasing in all areas. The study found that SGs generally provide a safe and transparent place to save, but 5.2% of members reported that they had lost money in groups, and this is a concern. The study also found that around 15% of members drop out of groups, mostly because of 'inability to save', suggesting that poverty may be a barrier. Overall, the QDS makes a valuable contribution to benchmarking and assessing the development value of investments in financial sector deepening through informal infrastructures.

The detailed report of the study can be accessed through our website using the link:
http://www.fsdkenya.org/images/Publications/15-03-02_SG_1_QDS_report.pdf

KBA to lower switching costs

FSD Kenya's payments platform project supports the wider development of Kenya's payments platform as part of its digital financial inclusion strategy. FSD Kenya is working with the Kenya Bankers Association (KBA) to create a more integrated retail payment system.

The integrated payment platform, provisionally named the Kenya Interbank Transaction Switch (KITS), will enable the banking industry to significantly improve the sharing of payment system infrastructure. KITS has the potential to assist banks and regulators in meeting their shared objectives of promoting efficiency and financial inclusion. Interbank switching costs to banks will be lower and, with appropriate interchange pricing, banks will be able to lower prices to consumers while increasing the accessibility and convenience of services. The vision is to support the

transition to a 'cash-lite' economy by 2020 driven by the ubiquitous adoption of digital money.

Concurrently, a project is underway to establish the Payments Association of Kenya (PAK), a payment management system body. The PAK will manage risks and governance relating to payment clearing houses between payment members and payment systems operators. A mobile money association will also be set up to improve interoperability amongst e-money issuers. There are ongoing efforts to increase card usage in Kenya. A, concluded in 2014, highlighted the reasons why card usage adoption is low and recommended various solutions. FSD Kenya is working closely with card schemes (Visa and MasterCard), KBA, the Kenya Credit & Debit Card Association, and the Retail Trade Association of Kenya to implement the recommended solutions - good news for consumers and providers alike.

Capacity of DFS agents on the rise

Evidence suggests that digital financial service (DFS) agents in Kenya are more efficient and better able to overcome the challenges of doing business. Financial inclusion is reaching new heights with the emergence of DFSs and their role is transforming the lives of low-income households.

However, the extent to which DFSs enhance financial inclusion is contingent on several critical elements, one of which is the robustness of the distribution channel - the DFS agent network. The 2014 Agent Network Accelerator Kenya country report published by the Helix Institute of Digital Finance found that the DFS agent network business conditions are largely unchanged, while some worsened between 2013 and 2014.

The daily number of transactions per agent declined, while impediments to float management either remained the same or increased. Agents also reported that competition with other agents and lack of resources to buy enough e-float remain the greatest limitations to growth. Nonetheless, operating expenses fell, overall profitability increased, agents spent a lower percentage of their time on their DFS business, and the cost of rebalancing float requirements decreased by 49% since 2013. As a result, agents seem to be making more money by investing less. The number of agents who said they would continue with the business increased from 58% in 2013 to 80% in 2014. The evident increasing financial capability of DFS agents is an encouraging sign for digital finance in Kenya.

NEW ADDITIONS TO THE FSD FAMILY

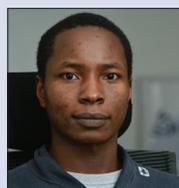


Joyce Omondi joined FSD in July 2015 as its communications manager. Her appointment heralds a new direction for FSD as it seeks to amplify all its work by using good

communications. Her first task is to create a new communications strategy, which will guide FSD's desire to make communications integral to all its work.

Joyce graduated with a Masters in International Development from Georgetown University's School of Foreign Service where she worked on communications with her academic programme's department. Joyce previously worked in Nairobi as a grants specialist for a

USAID-funded food security project, before joining KopoKopo as a business operations associate. Already well-known in Kenya, Joyce is a successful gospel singer and former TV show host.



Joshua Kinuthia is FSD's new technology officer. Joshua will oversee the efficient management of FSD's systems and provide effective support to FSD

staff on ICT related matters. He will support FSD projects by identifying technologies relevant to the development of inclusive financial markets, testing solutions, and advising on their implementation. Joshua previously worked as a front end developer for

various institutions including The Berkeley Group, BBC Worldwide, NBC Universal and World Food Programme Somalia.



Hilda Githaiga joined FSD as a programme assistant in July 2015. Hilda will offer logistical and administrative support to FSD's operations team. She has more than five years

experience in administration, logistics, project management and communications. Hilda previously worked at Amref Health Africa under the directorate of capacity building where she supported projects and training.

FSD Kenya is an independent trust established to support the development of inclusive financial markets in Kenya

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