GROUP SAVINGS AND LOANS ASSOCIATIONS
IMPACT STUDY

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FSD Kenya
Financial Sector Deepening

The study was carried out by DAI - Advancing Human Prosperity

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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
CBKL	Co-operative Bank of Kenya Ltd.
CBT	Community Based Trainer
CDF	Constituency Development Fund
COSALO	Community Savings and Loans
COSAMO	Community Savings Mobilization (the predecessor project)
FBO	Faith-based organisation
GSL	Group Savings & Loan
KCB	Kenya Commercial Bank Ltd
KWFT	Kenya Women's Finance Trust
ROSCA	rotating savings and credit association
SILC	savings and internal lending community
TCE	transaction cost economics

$1 US = 84 KSh (Kenyan Shilling)

1 acre = 0.4 hectares

EXECUTIVE SUMMARY

The goals of this study are to determine the impact of group savings and loans associations (GSLs) on their users' livelihoods, and to assess the potential market for GSLs to inform a possible scale-up.[1]

The analysis and conclusions of this study adopt a framework to GSLs that is informed by transaction cost economics (TCE). The reader may not be accustomed to the use of some terms and concepts. Institutions are defined simply as 'the humanly devised constraints that shape interaction'.[2] They exist not only in the formal sector but in the informal sector as well. For example, the family is an institution, and a GSL is a financial institution. Perhaps the most important goal of any 'savings-led' financial institution - such as a GSL - is to enable safer accumulation of savings, and more active use of voluntary savings over time, by effective governance of the concerned transactions.[3]

Another way to put this is to say that the primary goal of GSLs and their governance systems is to earn and maintain trust over time. Trust is not understood here as an either/or proposition - either group members trust each other or they don't. It is understood as a continuum, and also as a proxy for the amount of capital people will contribute. Villagers may not trust the GSL enough to join it even though they have many opportunities. Or they may trust it enough to join and contribute a minimum savings amount - but no more. Or they may trust it enough to save a little extra, but not enough to really believe they can withdraw money whenever they need it. They may doubt that their right to access money under the rules will be respected when that right conflicts with the interest of the leaders. When members feel they can get their funds out of the GSL predictably, according to rules that are reliably followed - then savings deposits, the loans funded by them, and the household impact that results from access to safe, flexible savings, will be maximized. This is a tall order and most GSLs are not there.

GSLs are distributed widely along the trust continuum, and good management and good governance matter to the quality of financial services they deliver. The incubation process matters, and post-incubation there is a 'market' among GSLs for support services created by effective demand for better governance.

LIVELIHOODS

First, the DAI study found that the innovations in incubation channels being tested by CARE are having their intended results. GSLs in all channels are having positive impacts on members' livelihoods through several effects.

On the product side, the evidence found that GSL members enormously value having access to multiple loans throughout the agricultural seasons and changing cash flow cycles. Ninety-three percent of the member sample borrowed from their GSLs within the past two cycles, and the average borrower took 4.4 loans. These loans help members plug critical vulnerability gaps and capitalize on valuable business and purchasing opportunities that, in many cases, would be otherwise unavailable.

Members greatly value the cycle-end distributions that they receive, and demonstrated a clear awareness of their household and personal savings priorities. The alignment between the uses to which they put their cycle-end distributions and their savings priorities was stronger than almost any to be observed in more formal institution driven microfinance. This section of the study was designed with great care to ensure that members identified and ranked their household savings needs first, before they were asked any questions about their GSLs. They were then asked to identify the uses to which they had put their last cycle-end distribution.

In terms of product differentiation, members value the fact that GSL loans are 'instant', involve no collateral and utilize very simple processes. They also view borrowing costs as 'low' because the funds stay in the group and they receive a portion of them back during the cycle-end distribution. For these reasons among others, the GSLs seem to have established a high potential position in their marketplace. Many non-members also indicated an interest in joining. Like members, they viewed GSL loans as 'cheap'. While there was some evidence of concern among non-members about the risk of losing money, it was muted.

A common complaint among members was that loans are not always fairly allocated. In the more commercialized areas (like parts of Nyamira), members complained that funds would be immediately lent out, leaving many members without access. This complaint was so common that it is likely that it also applies to circumstances in which liquidity is adequate. There is no established procedure in the CARE manual; groups are expected to decide this sensitive matter without guidance. There is also a wide divergence in the performance of groups by growth versus loss of membership, with a small number in each channel accounting for the overall growth of membership and a larger fraction weakening as members lose confidence and leave. Over time, this process may lead to a smaller number of larger, better-managed groups.

THE MARKET SEGMENT

The DAI study concludes that both franchise and faith-based incubation channels are proving their worth as innovations in achieving low cost GSL start-up in Kenya. GSL members as a market segment are clearly differentiated

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1 This study faced two important constraints that may limit the certainty of the conclusions. First, the project has only been operating for two years. Livelihood impacts, as well as the attitudes and habits that shape market segmentation, may be difficult to discern over this short time frame. Second, some of the key variables could only be fully understood using more resource-intensive study methods, such as randomised control trials. In both study design and implementation, the DAI team sought ways to create the most reliable estimates of the most actionable variables that were feasible within the constraints of the study. Results should be understood however, to be more of a 'sketch' than a 'photograph'.

2 Douglass C. North. Institutions, *Institutional Change and Economic Performance*. Cambridge University Press, 1990, p. 3.

3 *"A governance structure is usefully thought of ... as an institutional framework in which the integrity of a transaction, or related set of transactions, is decided."* Oliver E. Williamson. *The Mechanisms of Governance*. Oxford University Press, New York, 1996, p. 11.

from the wider market composed of the general population of the study area.[4] Compared to non-members, GSL members are more likely to be female, have larger households and be poorer. They are more likely to be concerned about school fees and microenterprise development. They are more likely to plan to save regularly, and appreciate the benefit of the disciplined savings regime afforded by their groups.

GSL members are also far more likely than non-members to expect to receive advice - especially about how to manage money - from their financial service provider (in the case of members, leaders and other members of their groups). This advice is highly valued by members, and integral to their perception of the benefits of GSL membership. For many, this advice may be a critical component of the 'package' of services that permits them to engage directly with financial markets.

It is especially striking that many of these segmentation characteristics are more clearly articulated in the indirect channels than they are in CARE's direct channel, even though GSLs in the latter have been operating longer.

The act of participation in GSLs is continuing to shape this GSL 'segment'. Compared to non-members, a larger minority of members reports that they see some of their savings in terms of open-ended goals - invested simply to 'earn interest'. The accumulation of such funds, which function as a general household reserve that can be used to cope with adverse circumstances or to capitalize on emerging opportunities, is perhaps the most significant indicator of GSL impact, especially over the longer term.

The DAI study also shows how the two incubation channels are evolving along different, yet complementary paths. Compared to those in the faith based organisations (FBO) channel, members in the franchise channel view themselves as more profit-oriented and are more inclined to look to their managers to solve the group's problems. In the absence of a well-known community 'brand' (like a church, or CARE itself) to lend them credibility, they appear to be working very hard to manage their public reputation by maximizing returns on savings. Members in the FBO channel appear to have access to more technically competent leaders, and appear to be saving slightly more, while expecting slightly lower returns on savings. They also appear more inclined to solve group problems collectively.

The results of this study suggest that CARE's channel innovations have not impaired the ability to develop a viable GSL model. The new channels are proving not just to be more efficient GSL incubators, but also to be more effective at targeting a distinctive 'unbanked' segment that is likely to remain loyal over time.

[4] It would be possible to object to this observation by arguing that the non-member sample was not fully randomised and may not be truly representative of the whole population. However, the goal of the study was to establish an actionable estimate of the segmentation position only. Greater depth of segmentation analysis is outside the scope of this exercise.

Microfinance practitioners have been working for many years to deliver to poor people a safe, flexible place to save. While GSLs cannot achieve this goal in any absolute sense that reduces the risk of loss to near-zero, their positioning - as an intermediate institution that offers a somewhat safe, somewhat flexible place to save - will provide value to their market for many years to come.

SUSTAINABILITY AND GOVERNANCE

In the DAI study, 23% of non-members report knowing someone who has lost money in a GSL. While this percent is considerably lower than the fraction of ASCA and ROSCA members who have experienced losses, GSLs have been in operation for a much shorter period of time. It is a large enough fraction to warrant concerns about GSLs' ability to earn and maintain the trust needed to build a national market.

Several recent studies (including Odell & Rippey, Malkamäki, Johnson & Nino-Zarazua) have raised questions about a basic CARE premise: the ability of incubated savings group to resist 'entropy' or loss of compliance to the methodology derived from external training. The DAI study found clear evidence of enormous diversity within the GSL universe in the study area. Members ranked 'respect for the rules' *ninth* in order of governance priorities for their groups - a placement that may help to explain the process of 'entropy'.

For example, returns on savings (ROS) found for different groups of members could not be systematically explained by CARE's cycle-end distribution model (which involves a distribution of interest proportional to the amount saved). In some groups, borrowers received interest rebates and thus, savers generated a lower return on savings than those who borrowed. In other words, ROS differed from group to group in part because groups differed in how they conducted cycle-end distribution. Also, savings withdrawals during the cycle do not appear to follow a regular pattern either, and may not be allowed in many groups.

In at least one channel, some CBTs are controlling the timing of group cash-outs -- another restriction which greatly reduces member value. In the FBO channel CBT control of cash-out is reported to be greater in the second cycle than it is for groups still in the first, which may help to explain why this channel is the only one in which group size has been dropping.

Based on this study among others, there is already evidence in the project area that groups are not adhering to the methodology, and this may erode product quality especially over the medium term. The following is a list of ways in which the methodology is changing:

- Restrictions on member withdrawals during the cycle;
- Record-keeping that cannot be understood by most members;
- Pay-outs that are shared equally among group members, or are dominated by interest rebates for borrowers;
- Fixed savings contributions;

- Lengthening periods of loan delinquency;
- Top-down decisions by CBTs on cash-out dates; and,
- Nominal action audits, with membership, leadership and cash reconstituting the same day.

Many of the items on this list, if widespread, could have a serious negative impact on the capacity of members to gain the benefits of even somewhat useful financial products.

The study also found that many GSL leaders are currently members of ROSCAs, ASCAs or welfare/clan societies. Extensive membership overlap, combined with the wide diversity of actual practices observed, suggests that the process underway may not be so much 'entropy' as 'fusion' between GSL practices and values, and those of more informal groups. From the perspective of impact, this presents the risk of 'reverse take-over' of a innovating model by a traditional one. It also presents the opportunity to meet traditional values on their own ground, and transform them in positive and modernizing ways. For example, if CBTs understand that an important part of their task is to engage with leaders who have developed habits of record-keeping, cash management and governance based on traditional practices, and to address both the strengths and weaknesses of those habits and practices methodically and directly, this should significantly improve the longer-term impact of training. Any scale-up should be designed with a careful eye to this risk/opportunity dynamic.

The DAI study also found, however, that experience can be a very good teacher. Experienced members (those who have experienced one or more GSL distributions, including those in more than one group) are more concerned about quality of governance issues than those in their first cycle. Greater appetite is visible among active users for a shift towards more rules-based governance and less personality and patronage-based governance. Increasing hunger for greater transparency is also evident among the less active, less trusting members. Members may still doubt the value of paying for follow-up training, but they may be willing to pay for services that increase the consistency of rules, or the transparency of information; this willingness is likely to increase over time.

Finally, the diffusion of mobile banking in Kenya is changing the competitive landscape, and it raises further questions about the future of GSLs. Most moderately numerate GSL members use M-PESA - even if only to receive cash - and some also use the savings component. Nevertheless, even under the most favourable scenario for mobile banking, members see GSLs playing a different role - providing loans without collateral or lengthy application processes, serving as a social fund to help in emergencies, and offering low interest rates. Because GSL members see their groups as a source of help for money management, their attitude towards mobile banking, and willingness to help each other adapt to it, could play an important role in diffusion of use. It is likely that the two types of financial service delivery will continue to complement one another at least for the foreseeable future, just as banked Kenyans continue to use both ROSCAs and ASCAs.

NEXT STEPS

The decision for CARE and FSD is now to determine what scale-up really means. If diffusion results in a nation covered with groups that are in most respects no different from other ASCAs, this will result in increased financial inclusion. However, how this diffusion takes place matters immensely. If the result is a 'reverse take-over' by traditional ASCAs and their leadership, the impact of traditional governance and management practices may be to weaken product quality. In practice this means that members will have more reasons to doubt the safety and accessibility of their personal savings.

Based on the results of this study it is recommended that some attention is paid to the problem of sustaining methodological compliance (insofar as it pertains to institutional quality) during scale-up by:

- Testing a certification/training programme to that recognises a small group of very good GSLs/GSL leaders in various markets, and builds their capacity further;
- Testing a similar certification/training programme for CBTs and GSLs leaders who demonstrate their value as informal auditors of other groups;
- Establishing clear, minimum standards of quality for GSLs and similar groups, including quality of products, management and governance;
- Addressing member concern about allocation of loans and withdrawal of savings under varying liquidity constraints by promulgating clear, rules-based procedures;
- Assessing levels and trends in quality of this institutional universe through periodic random sampling;
- Testing local 'action learning' associations of GSL practitioners in the project area to determine if they can establish and maintain minimum standards of quality and practice based on GSL fees;
- Conducting a study of informal savings groups to identify their governance practices, and to design GSL training to learn from these practices while overcoming objections to better ones designed for GSLs;
- Field testing and integrating the passbook-only system into practice as soon as possible, and terminating the ledger option in training and in manuals; and,
- Integrating effective oral tools (pictures, stories, mnemonic box design, etc.) into the GSL information system to maximize trust and savings, as well as depth of outreach.

In addition, different models should be tested to link mobile banking to GSL practices (at every level, including information management as well as both individual and group cash management) and to integrate working approaches into training and incubation visits.

Chapter 1

INTRODUCTION

In May 2010, Financial Sector Deepening (FSD) Kenya contracted DAI to undertake a study to determine the impact of a Group Savings and Loan (GSL) programme implemented by CARE International in Kenya (CARE). FSD had supported this programme, and wanted to determine the impact of the project on users' livelihoods and to assess the potential market for GSLs so as to inform a scale up. GSLs, also known as village savings and loans associations (VSLAs) are a simple community-based financial intermediation model pioneered by CARE in Niger. With support from FSD Kenya, CARE was to refine its basic model and test innovative delivery channels for training groups that might improve overall cost effectiveness.

In its March 2008 project proposal to FSD Kenya, CARE introduced four innovations designed to create a sustainable and sound GSL institutional base in the project area.

- Fee-for a service compensation (100% commission) for community-based trainers (CBTs) to form and train groups, based on the number of members who begin saving in a 'well trained, properly functioning' group.
- Two distinctly different 'indirect' group incubation channels through a franchise training programme and operational system, whereby franchisees are paid based on the number of members in their groups. 'The commission for the entrepreneurs will be higher than that paid to CBTs, allowing a successful entrepreneur to make a good living through his or her franchise'. This system is used by both franchise and FBO channels.
- Movement towards a more efficient operational template for community based trainers (CBTs), by suggesting that they 'limit their visits to any group to ten'.
- Movement to an optional ledger system, 'saving substantially on training time'. Eliminating the ledger system as contemplated in the next phase would reduce training requirements even more.

For the study, DAI undertook the following activities:

- A literature review of GSL/VSLA related publications and project reports.
- Consultations with key stakeholders including CARE staff, franchisees, FBOs, CBTs and other individuals.
- The development of the research methodology (see Appendix 2).
- A field-based assessment of GSL clients.
- Synthesis of findings and recommendations for FSD Kenya.

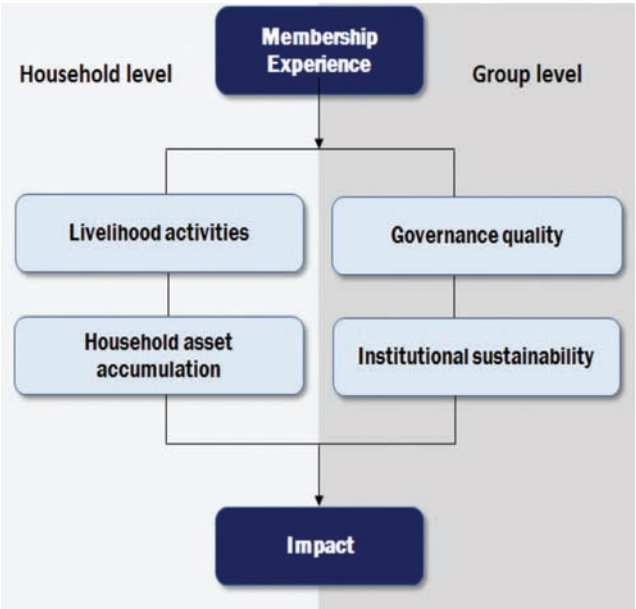
This study analysed GSLs in the three districts - Nyamira and Rachuonyo in Nyanza province, and Vihiga in Western Province - of the Community Savings and Loans Project (COSALO). By March 2010 the COSALO project had trained 101,794 people, and had formed 3,668 groups over an 18 month period. CARE continues to be connected to all groups, but has noted that institutional evolution since March remains uncertain.[5] Thus, one of the key goals of this study is to test the different incubation channels, with an eye to field-proving one important piece of the post-project institutional framework.

1.1 LITERATURE REVIEW

As a starting point for this assignment, DAI conducted a literature review of key publications that examine impact and innovations in the group savings and loan model. Specifically, it examines the impact of GSLs on livelihoods, especially in terms of the methods that households use to manage their resource flows to achieve livelihood outcomes, and the potential of GSLs to serve a distinct market segment throughout greater Kenya with the intent of improving financial inclusion.

In the review of multiple impact studies of GSLs, DAI articulated two distinctive and parallel strands related to the impact of GSLs (see figure 1, below) at the household and group level.

Figure 1: Parallel strands articulate the impact of GSLs



At the household level analyses examine the kinds of livelihood activities that savings group members undertake, and their results in terms of asset accumulation. In general, the literature tends to focus on assets rather than income, because savings and credit together should result in asset accumulation. (Credit supports increases in income, and savings supports the protection of income and better household management of income and assets across time.)

[5] CARE International in Kenya, 2008, p. 10.

At the group level impact studies look at issues of institutional (group) governance and sustainability. Good governance can be expected to result in greater sustainability (e.g., groups will continue to function indefinitely), which in turn can be expected to lead to repeated replication of the group, or some similar group, after the annual cash-out. Good governance might also lead to the spontaneous replication of new groups that emerge in different villages without any training or outside support. Together, success at the household and group levels can be expected to result in high impact, as large numbers of individuals gain access to a wide range of quality microfinance services, and are therefore able to take greater control of their future circumstances, perhaps emerging from poverty in the process.

With respect to markets, GSLs operate in many distinctive market environments unlike centralised or urban based financial institutions. As William Grant and Gerhard Coetzee (2005)[6] argue, the distinct market characteristics that make financial service provision unfavourable for centralised or urban-headquartered financial institutions offer an opportunity for GSLs and similar savings-led financial groups. These market characteristics are presented in Table 1, (where markets are categorized in order of remoteness from the main economic markets (with category 1 as most remote).

Categories 1-3 represent an access challenge for banks, MFIs and similar institutions. However, the lower cost structures, local knowledge of each others' financial behaviour and reliability, and norms of solidarity found in savings groups can help to deliver services in these markets, especially the more remote ones.

1.2 SUMMARY OF SELECTED SAVINGS GROUP STUDIES

Some studies have sought to establish direct household-level impact.[8] Dawn Hartley and Hamza Rijali (2003) in the evaluation of a CARE project in Zanzibar found that GSLs had significantly supported the development of income generating activities (IGAs) by households.[9] These IGAs helped to improve income and added assets, and increased community awareness and understanding of how to work more effectively with financial capital. The study concluded that GSLs were a good tool for poor communities unaccustomed to working with financial assets.

Mutesasira and Nthenya[10] (2003), in their study of savings groups in West Nile, Uganda concluded that most savings groups were comprised of very low-income people, and that the savings group model was overcoming a market access problem that 'no other known model of outreach is likely to match'. In this study, the loans ranged from US$ 2.50–US$ 25, while savings ranged from US$ 0.10–US$ 0.50 weekly per member. Both the small size of the required savings contributions, and the flexibility in size, were important factors in supporting depth of outreach. The study also revealed considerable product variety including basic savings and loans, but also emergency and welfare funds in response to high demand for this service from their members. Structurally, the groups were very diverse; for example many groups did not cash-out annually. The authors recommended developing 'a standardized and branded model for ease of replication and quality control'.

Table 1:Typology of microfinance markets (Grant and Coetzee)[7]

Market category	Type of market	Productive capacity	Seasonal nature of activities	Monetisation	Social and organisational strength	Economic potential
1	Rural: Isolated, semi-arid	Low	High	Low	Strong solidarity	Weak
2	Rural: Landlocked with food-producing potential	Medium	High	Medium	Strong solidarity	Weak/medium
3	Rural: Accessible with cash crop production activities	Medium/high	Medium	Medium/ High	Strong solidarity	Medium/high
4	Peri-urban	High	Low	High	Impersonal	Medium/high
5	Urban	High	Low	High	Very impersonal	High

6 Grant, William and Dr. Gerhard Coetzee. *The Role for Membership Based Financial Services in Reaching the Underbanked, Primarily in Rural Areas*. ECIAfrica, 2005.

7 Ibid.

8 (i) Impact Evaluation of Kupfuma Ishungu Zimbabwe, (Hugh Allen and Pauline Hobane February 2004); (ii) Final project review Jozani-Chwaka Bay Conservation Project, phase III in Zanzibar Tanzania (Dawn Hartley and Hamza Rijali (May 2003); (iii) CARE Malawi Central Region Livelihood Security Project Impact Assessment Report on Village Savings & Loans Component (Ezra Anyango, June 2005)

9 Ibid.

10 Mutesasira, Leonard and Nthenya R. Mule. Understanding the West Nile SLAs and Charting a Path for the Future. Financial Sector Deepening Fund, Uganda. Oct. 2003.

In their 2004 study of GSLs in Zimbabwe, Hugh Allen and Pauline Hobane[11] concluded that the GSLs in Zimbabwe had contributed to increased levels of business and consumer assets amongst the great majority of members' households, and some improvement in the quality of housing. The number of income generating activities per household increased and household labour allocated to income generating activities (IGAs) increased. However, the diversity of these activities did not increase, in spite of a costly training programme which was designed by CARE toward diversification. Also, while loans from the groups were directed mainly towards productive activities, payouts focused overwhelmingly on paying school fees or acquiring small livestock and similar 'savings substitutes' that might be seen by the members as a hedge against inflation - a particularly serious concern in Zimbabwe.

Ezra Anyango's study of savings groups in Malawi (2005) arrived at similar conclusions. The findings showed that the savings group programme had helped to improve the livelihoods of its members through increased household incomes particularly among women who comprised a majority of the members. Members diversified into additional economic activities, and expanded some of their activities. However, they also divested away from certain activities that required larger capital. The study also revealed that savings group members increased their assets versus the baseline, as compared to control groups who were not members of these savings groups.

Finally, Hugh Allen's study of West Nile Savings Groups (2005)[12] used changes in a mix of indicators to measure impact. These indicators included: changes in productive and non-productive assets, nutrition, consumption of services and social capital. The study concluded that members had accumulated useful sums at cash-out and that they used them to invest in agriculture including livestock, business stock and housing improvement.

There are numerous barriers to using formal financial institutions. In economic terms these can be viewed as transaction costs of potential users. For example if an individual is innumerate, she may face enormous costs - both financial and non-financial - in understanding the records made by others of her transactional activities.[13] Even when members cannot read or recognise large numbers, savings groups can introduce poor people to the discipline of timely repayment and the binding link between time and money that drives all modern economies. However, savings groups that remain entirely informal tend to adopt processes that are more consistent with village culture, in which the link between time and money is scarcely imagined, much less institutionalized. Most value is not monetized, and time is linked to agricultural cycles, seasons and festivals rather than a linear calendar.[14]

Perhaps the most important transaction costs are the norms and habits that give structure to institutions.[15] Where norms and habits do not support financial inclusion, poor users of financial services face very high transaction costs due to the frequent failure of institutions, and traditional attitudes that constrain safe pooling of funds. Do GSLs support development of the 'norms and habits' that lead to financial inclusion? Do they extend the frontiers of this development beyond the frontiers achieved by other informal local organisations?

The existing literature clearly shows that GSLs and other 'incubated' savings groups can have an important impact on their members' livelihoods across a range of activities: agriculture, off-farm trade and service businesses, housing and emergency management. This has tended to mean enhancements in working capital for existing enterprises rather than diversification into new and off-farm enterprises. An important dimension has been vulnerability management. Particularly in settings where informal credit is not usually available, the availability of emergency loans permits households to avoid debilitating disruptions in their livelihood projects.

1.3 INSTITUTIONAL LEVEL

A decade after the soft technologies required to operate two savings groups have been transferred into a village, how many savings groups will be operating - 0, 1, 2, 5 or 10? And will they bear any resemblance to the seeded ones - in scale and scope of financial and non-financial services, in quality of governance, in safety, or in their role and positioning in the local financial marketplace? While the answers to these questions will certainly vary with the context, the extent to which higher numbers of good quality institutions can be found is the test of this model's success.

Some studies have focused on the institutional mechanisms that may support sustainability of GSLs in the future. However, there has been relatively little analysis of the internal mechanisms that generate member trust, maintain it and build it (or lose it) long after the facilitating organisation (CARE, or others) ends its incubation work.

According to a study in Kenya conducted by Research International in 2000 for MicroSave, 40% of the users of informal accumulating savings and credit associations (ASCAs) lost 21% of their money within the 12 months prior to the study.[16] This finding raises questions about how adequately other findings

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11 Ibid.

12 Allen, Hugh. West Nile VSLA Pilot Project Review, 2005.

13 While some of the microfinance literature appears to view transaction costs solely in 'hard' terms (money and time to reach a retail venue, meeting times etc.), transaction cost literature defines the concept more widely; including all costs of *"information, negotiation and enforcement"* between the contracting parties (Furubotn & Richter, p. 48.) For example, this would include costs incurred by illiterate women to secure information about the transaction records kept in their GSL, or costs to the larger economy incurred because these women choose *not* to join the GSL, or choose *not* to use products it offers that they don't understand.

14 See for example *'The African Concept of Time,'* in Zaslavsky, Claudia. *Africa Counts: Number and Pattern in African Cultures.* Chicago Review Press, 3rd edition, 1999, pp. 62-66.

15 Johnson emphasizes the role of developing norms to support financial inclusion. For example, Johnson and Nino-Zarazua, 2009.

16 Mutesasira, Leonard and Nthenya R. Mule. *Understanding the West Nile SLAs and Charting a Path for the future*. Financial Sector Deepening Fund, Uganda. October 2003.

on impact have been addressed in later literature. Impact is not confined to improvements: rather, it could involve negative impact such as loss of personal savings, opportunities, confidence in plans, and trust in institutions.

Several studies[17] have focused on the on-going performance and sustainability of the savings group model after the phase-out of donor subsidy. CRS has been certifying 'private service providers', whose job is to start savings and internal lending community (SILC) groups according to a standardized level of quality, and to protect the SILC brand.[18] Although these local entrepreneurs are paid by the groups, the certification programme is administered through CRS. The programme controls the quality of training and oversight over skill levels and agent performance, and CRS incubates 'agent networks' to take up this responsibility on a permanent basis.[19] The authors note however that the approach is not fully tested.

The market for agent services has not yet been tested, especially in remote areas and under conditions in which uncertified but experienced locals are competing at a lower cost. Clearly this approach cannot stop wider dispersion of the methodology under less-controlled conditions; however it may support the emergence of a critical mass of higher quality institutions. While both of these approaches involve initial subsidies, the goal is to trigger the emergence of self-employed service providers dedicated to supporting new and ongoing savings groups on a fee-for-service basis.

Another noteworthy example of institutional success was noted in the Anyango study. It found that the number of GSLs in the study area had grown from 61 to 158, and the number of members had grown at 35% annually since CARE had left four years earlier.[20]

In Zanzibar, CARE had executed a managed phase-out, creating a small NGO (JOCDO) that provides start-up training, lockable boxes and stationery for new groups on a fee-for-service basis. However, the authors noted that this training had been of 'poor quality' (it is often not completed, and never followed-up) and could not explain the speed of growth or the strong financial performance of the groups, which generated average returns of 53% annually.

The service most appreciated by the groups was the dividend payout, which was a major reason for joining the group. The members felt that the way the dividend payout was determined enabled them to decide in advance what project they wanted to invest in, and - as they knew the date for the next action audit - they could project how much money they would have saved. In their own words, 'they looked at this whole process as targeted savings, which they greatly appreciated'.[21]

The Zanzibar study attributes the success of the model partly to the 'rigidity' of the model's implementation, crediting it with reducing slippage in good practices. In addition, the member segment surveyed was 'relatively well-off' compared to groups in other parts of Africa. That is, outreach did not penetrate as deeply into the population as had been anticipated. More than half the members had completed secondary school. The result was the formation of a membership base with the capacity to support strong governance and 'question poorly performing leaders'. However, this unique situation also limits the replicability of the model in other settings.

Malkamäki's study of ASCA groups in Kenya notes the presence of "ASCA management agencies" (AMAs) to engage in incubation of new savings groups and provide services to improve the quality of existing ones.[22] These AMAs, generally structured as private companies, face tight resource constraints because their primary source of income is fees charged to the ASCAs for their services - usually 1% of the total value of the ASCA's monthly fund. This fee structure ties the incentives of the AMA to the performance of the group; however Mule et al note that there is much tension over collection of delinquent accounts.[23] The AMA is not in a legal position to collect on behalf of the ASCA, and is not always successful at collecting. ASCAs often believe that the AMA has little incentive to ensure repayment since it will collect its fee in any case.

What seems clear from the literature is that there are currently several promising approaches that will have long-term impact, most based in some way or another on developing a private market for group incubation, training, auditing and/or other ancillary services like sales of boxes or passbooks. However, none of these approaches have been proven in a wide-enough range of settings to provide a reliable template for replication.

What remains unresolved, however, is the debate about what impact actually means. While most agree on the household-level impact of GSLs on livelihoods and vulnerability management, they do not agree on what this means in the context of financial inclusion and financial market development. Most external stakeholders also view GSLs in non-financial terms: for example as a 'business incubator' or a forum for members to learn microenterprise management skills and practices.

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17 (i) Leonard K. Mutesasira and Nthenya R. Mule (October 2003); (ii) Diarra Doka, Martha and Anne Mossige. CARE International: Niger Project Proposal for NORAD. January 2001; (iii) Allen, Hugh. CARE International: *VSLA Programme in Africa: Microfinance for the Rural Poor that Works*, Monograph, August 2002.

18 Bavois, Marc, et. al. *Powering Connections: Low Cost Expansion of Savings Groups through Local Agents*. SEEP Network, powerpoint presentation, 2009.

19 Zollmann, Julie and Guy Vanmeenen. *Market-Led Expansion through Fee-for-Service Agents.* In Wilson et al, 2010, pp. 119-27.

20 Anyango, Erza, et. al., *Village Savings and Loan Associations: Experience from Zanzibar.* Small Enterprise Development 18 (1), March, 2007.

21 Ibid., p. 19

22 Malkamäki, Markku, *Geographic and Socio-Economic Characteristics of Managed ASCA groups.* Mimeo, 2009.

23 Mule, Nthenya et. al. *The Managed ASCA Model: Innovation in Kenya's Microfinance Industry*. MicroSave Africa, Nairobi, 2002.

A slightly different view sees GSLs as a vehicle that can transport members from the mental models and capacities of informal financial markets into the models and capacities required in the formal financial sector.[24] For example, DFS has developed seven tools and 14 'progress markers' to help AMAs build ASCA capacities. Embedded within the progress markers are priorities like ensuring timely follow-up on delinquent loans, maintaining separation of duties among ASCA officers, keeping accurate and timely records, following the rules as agreed by the group, etc.[25] All of these address features of informality (such as a relaxed attitude towards time and rules) that present barriers to effective participation by members in the formal financial sector, and for that matter, the wider formal economy.

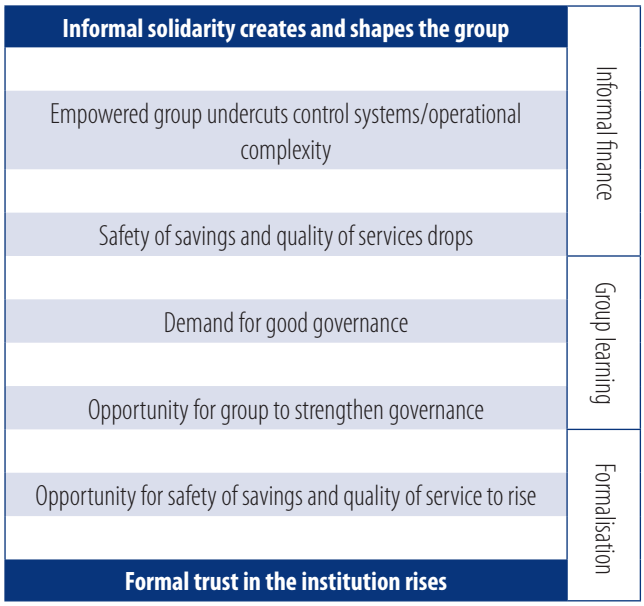
A key aspect of this transition relates to the informal concept of group 'solidarity' and its complex relationship with the formal concept of 'trust' that leads bank consumers to deposit large sums in institutions whose leaders they have never met. Solidarity is clearly a form of trust, and within limits it supports mutual pooling of capital among those who share it. However, those limits are significant, or there would be no need for GSLs to break.

Figure 2 depicts the relationship between solidarity, governance, mutual learning and the emergence of modern trust as it is understood in this study. In this view, solidarity creates and sustains groups, but perhaps paradoxically, it undercuts the types of control systems that might protect savings. This is precisely because in one sense at least, trust is too great. If group members all trust each other, why do they need to follow detailed rules? Why do they need to separate the role of box-keeper from the role of key-holder and the role of record-keeper? Why do they need to engage in the time consuming process of action audit?

However, neglect of these rules and controls can lead to awkward problems – errors in the records missed for lengthy periods, promises made based on erroneous views of the financial position; the discovery that not everyone can be trusted after all. In healthy groups where solidarity is strong this triggers a learning process and an increased demand for better governance. The safety of savings, the amounts of savings accumulated and the flexibility of withdrawals and other services then rises again, until people become tired of the burden of rules and complacency sets in again. This cycle of learning and slow formalization may repeat itself several times, leading to a gradual increase in trust driven by sustained solidarity over time.

In short, the future of GSLs will be decided through processes of institutional trial and innovation based on very close attention to the art of the possible. In the field area of the COSALO project '... the low cost structure of user-owned and -managed community-based financial organisations constitutes a significant advantage over the more formalised, centralised MFI or commercial bank. Crucially, organisational forms continue to evolve with considerable crossover and cross-learning'.[26]

Figure 2: The path from informal 'solidarity' to formal trust



1.4 LITERATURE ON CARE'S GSL PROJECT IN NYANZA AND WESTERN PROVINCES

In the project proposal, CARE describes its goals: to achieve very cost effective incubation of GSLs; and to 'look beyond financial sustainability to create savings and loan groups that are also institutionally sustainable, through an intensified emphasis on good training of group members'.[27] A report by a project consultant in February 2010 found that the project's cost per member - a central indicator of efficiency - was 'a strikingly low KSh604 (USD9.01)'.[28]

At the project design stage FSD Kenya opined that the strategy is innovative but risky, and suggested that 'a result as dramatic as reducing financial exclusion by a third (from 38% to 25%) could potentially be achieved at a cost of around $22 million - a large amount to raise but not infeasible given the scale of the developmental impact'.

The COSALO project under review began in 2008, but was preceded by a smaller pilot (COSAMO) that ran between 2004 and 2008 in six districts i.e. Homabay, Suba, Migori, Rachuonyo, Nyando and Kisumu East. Approximately 8,800 people were trained in 388 groups under COSAMO. By March 2010 the COSALO project had trained 101,794 people, and had formed 3,668 groups.

24 See for example Johnson and Nino-Zarazua. *Financial access and exclusion in Kenya and Uganda*. Bath Studies in International Development, University of Bath, Bath, February 2009.

25 Malkamäki, Markku, *Geographical and socio-economic characteristics of Managed ASCA groups*. Mimeo, 2009.

26 Financial Sector Deepening Trust. Strategy Paper, 2008-10. Nairobi, 2008, p. 5.

27 Malkamäki, Markku, *Geographical and socio-economic characteristics of Managed ASCA groups*. Mimeo, 2009.

28 Rippey, Paul. FSD Update, February, 2010.

A recent study by Odell and Rippey found that 43 of 44 groups formed during the COSAMO period and sampled by their study were still operating, and many new ones had since been formed.[29] However, they added an important qualification: that only 8 of the groups were actually formed by CARE: the rest had been formed earlier as informal local groups. "It is conceivable, though pure speculation, that the prior existence of the Rachuonyo COSAMO groups may be a factor in their higher rate of survival, relative to the COSAMO groups in the other districts." They credited some of this evolution to active social entrepreneurs trained by CARE at the end of the project. They found a 'huge diversity' of financial systems, numerous multiple memberships and evidence of some members borrowing from one group to repay another.[30]

The key point to note here is that the market is not confined to a single membership per person. Even at this early stage in market development, of the members surveyed here 52 belonged to more than one GSL, and 10 belonged to more than 3. These numbers do not account for other savings groups they may belong to at the same time.

In addition, the authors observed that a great deal of institutional innovation is taking place. 'As groups get larger, they split into smaller groups, often retaining close ties with parent groups'. Groups have also introduced ROSCAs into their operations, since their basic structure (a mutually selected group with regular meetings and financial contributions) lends itself easily to this sort of fusion. Paul Rippey has also seen this process working in reverse: innovative local ROSCAs have introduced GSLs into their operations: a novel local approach to the 'spontaneous replication' sought by practitioners.[31]

Malkamäki recently conducted another study, drawn from the same universe of former COSAMO groups. He found more groups than CARE had incubated, and wide variations in practices. 'The results indicate that a high proportion of groups were no longer using the methodology. What is still unclear is what were the main reasons why so many groups had died or had decided to discontinue with the GS&L methodology'.[32] Very large variations in practices (and deviations from the methodology as trained) were observed between groups, often in critical areas such default management and the use of the box and ledgers.

While this is problematic if the key measure of success is adherence to the GSL methodology, by other measures some groups are doing very well. Successful groups are reaching a poorer population segment than the local ASCAs, and 'for the great majority of respondents, GSL was the first financial organisation from which they had received loans'. Furthermore, there was evidence that groups were generating higher returns on savings with experience. The average group with a year of experience returned 15% in the previous cycle, while the average group with 5 years of experience returned 47%.[33]

The project consultant, Paul Rippey attributes the rapid drop in operational costs to the success of the indirect channel innovations adopted by CARE. 'The use of entrepreneurs to form groups has changed the velocity of group formation, and is unequivocally the primary reason for COSALO's efficiency'.[34] 'The franchisee/FBOs have confidently and successfully broken some of the rules that have been assumed to constitute best practices in savings group formation, including high caseloads, subcontracting, training multiple groups at once, and clustering. These practices present both opportunities for other implementers, and potential risks for COSALO'.[35]

1.5 DO GSLs SERVE A DISTINCT MARKET SEGMENT (OR SEGMENTS)?

Segmentation is based on market demand - what services are people willing to pay for, and how much are they willing to pay? The four benefits discussed above are all part of the service proposition of many GSLs, but the degree of loyalty to each benefit can be expected to vary by member and by group. More-affluent members may see little benefit in emergency services, for example, and others may be quite comfortable managing their money without records, therefore having little interest in learning about passbooks, ledger accounts, etc. There is significant segmentation within the GSL movement already; this study encountered numerous women's groups and youth groups, for example.

The FinAccess 2009 survey results for Kenya classified the population of Kenya into four 'access segments' (see Table 2, below). Formal and semi-formal institutions such as banks, MFIs and SACCOs are slightly less common in the two provinces in which the study was done than in rural Kenya as a whole, and complete exclusion is greater. However, the informal sector is more active. GSLs join a robust informal sector that includes 'merry go rounds', a local form of rotating credit and savings association (ROSCA), funeral societies and other types of ASCAs.

Informal financial institutions are very common in Kenya, especially ROSCAs or merry-go-rounds, to which 29.3% of Kenyans belong.[36] Another 5.4% belong to ASCAs. Through analysis of the 'financial access strands' developed by the first FinAccess survey, Johnson and her colleagues concluded that 50.7% of Kenyans participate in the informal financial sector (ROSCAs, ASCAs

29 Odell, Marcia and Paul Rippey. *The Permanence and Value of Savings Groups in CARE COSAMO's Savings Program, Nyanza Province, Kenya*. Aga Khan Foundation, June 2010, pp. 14-15.
30 Odell, Marcia and Paul Rippey. *The Permanence and Value of Savings Groups in CARE COSAMO's Savings Program, Nyanza Province, Kenya*. Aga Khan Foundation, June 2010.
31 Correspondence with Paul Rippey, June, 2010.
32 Malkamäki, Markku. *Group Savings and Loans - Model in Kenya: Saving for Change or Failing to Change?* Mimeo, June, 2010, p. 22.
33 Malkamäki, Markku. 2010, p. 9.
34 Rippey, Paul. *FSD Update*, February, 2010.
35 Ibid.
36 Johnson and Nino-Zarazua, 2009, p. 9.

Table 2: Percentage of population by access segment in the study area[37]

	Formal	Formal other	Informal	Excluded
Nyanza - Total	13	16	34	37
Western - Total	15	13	36	36
Kenya rural - Total	16	16	28	40

and non-related individuals like moneylenders, shop-keepers, trade creditors and employers). They found that the variables that most strongly influenced financial strand access were employment, age, education, sex and poverty level. Women participate heavily in ROSCAs and MFIs, but are less likely than men to have a formal sector bank account or a SACCO account. Youth are less likely to be included than other adults. As a result, ROSCAs 'tend to intermediate small amounts that women require based on their income and expenditure flows, where as men often require larger lump-sums of credit than these can provide'.[38]

Table 3, cited from FSD Kenya and based on FinAccess' data, summarises the type of institutions in the semi-formal domain in the project area. Note the very high percentage of users who indicate that they have lost money in these institutions. Despite these losses, these institutions continue to command a very high share of the Kenyan financial market. Significantly, this is not just among individuals who have no choice. 'Half of all Kenyans use some form of informal finance and there is strong overlap between formal and informal service use. Over half of those who are banked or using SACCOs also use an informal service and three-quarters of those using MFIs'.[39]

Another key dimension of segmentation is that GSLs require their members to be more than simply bank clients - they must act as owners. NGOs in many countries have transformed into MFIs by centralizing local 'village banks' and similar organisations, transforming villagers from owners to clients in the process. Preparatory studies often find that many villagers prefer the client role, as the ownership role involves more work, more responsibility, and more headaches. To the author's knowledge, there are no extant studies that indicate the preferences of GSL members in this respect. Table 4 illustrates what this distinction means in practice, and the roles that MFIs assume through their control systems.

The owner/client distinction can be unimportant however, in more rural markets (Market Category 1-3 areas in the Grant and Coetzee formulation. Where formal financial markets are poorly developed, villagers rarely have the choice to be 'client', because there are simply no financial institutions there to serve them.

Table 5 indicates the market category of each region in the study. Nyamira is slightly more commercial than the other districts (with more cash crops and employment opportunities and therefore a larger proportion of the population in formal employment). However, poverty remains high, and like the other districts, most households rely on very small landholdings with little commercial potential. This means that there is likely to be a transitional period - possibly lasting for decades in some areas - in which the demand for informal financial governance in this area remains robust.

There is an active debate in the literature about the path to long-term sustainability of savings groups as institutions. There is a continuum of possible paths that empowered groups can take, ranging from - at the sustainable end - adhering firmly to all important rules and innovating only in ways

Table 3: Semi-formal financial services providers[40]

	Savings offer	Usage	Losses	Credit offer	Usage
ROSCA and welfare/clan groups	fixed amount at fixed interval (day/week/ month etc.)	29.3%	56.0%	short-term rotating fixed amount at fixed intervals (can flex)	29.3%
ASCAs/GSLs	flexible contributions but withdrawals limited by liquidity	5.4%	55.9%	Short-term flexible amounts and timing within limits of liquidity	1.7%

37 Source: FinAccess Secretariat. *FinAccess National Survey 2009: Dynamics of Kenya's Changing Financial Landscape,* database, Table XX1.- can't find table XXI in the FinAccess 2009 report

38 Johnson and Nino-Zarazua, 2009, p. 19.

39 Financial Sector Deepening Trust, 2008, p. 17.

40 Cited from Financial Sector Deepening Trust. *Strategy Paper, 2008-10*. Nairobi, 2008, Table 3, p. 17.

Table 4: Client responsibilities in savings groups and solidarity lending groups

Responsibilities	Solidarity group clients	Savings group members/owners
Attend frequent meetings	√	√
Collect from delinquent neighbours	√	√
Replace a poorly performing group leader	√	√
Detect fraud	MFI	√
Monitor the ledger accounts	MFI	√
Resolve major internal disputes	MFI	√
Arrange/oversee an audit	MFI	√

that strengthen prospects for future success, to (at the unsustainable end) frequently and unsystematically introducing changes that could have a serious detrimental impact on institutional viability, especially as they accumulate over time.

While a strong sense of ownership might orient groups and their members towards the sustainable end, this cannot be assumed. If rules are out of alignment with standard village practices, some degree of institutional 'devolution' or 'entropy' is almost inevitable.[41] Rippey argues that relatively high education levels, combined with a significant level of social capital, increase the likelihood of institutional sustainability in the Nyanza setting. 'COSALO groups show a high degree of assiduity in record keeping and respect for procedures'.[42]

Another new dimension of segmentation frequently seen in current literature, which may modify the Grant/Coetzee formulation in this context, revolves around the opportunities and threats presented by mobile banking. CGAP's Focus Note 57[43] grapples with the question 'how much will branchless banking go beyond payments into savings and other banking services for unserved people?' Branchless banking schemes to date have been built largely around payments and domestic remittance services. In Kenya, more than half of M-PESA customers use the service primarily for remote person-to-person payments. Similarly, in Brazil payments to businesses make up three quarters of transactions at correspondents.

Services beyond payments are already on offer and are used by low-income customers.[44] M-KESHO is the mobile phone-enabled, interest-bearing savings account resulting from Safaricom's alliance with Equity Bank. It includes micro-credit and micro-insurance services, and marks an important stage in the evolution of m-banking (and potentially rural financial inclusion) in Kenya. New laws facilitating 'agency banking' will also allow further outreach to underserved populations.

In addition to opportunities, m-banking presents strategic risks for GSLs. From the perspective of centralised microfinance, 'M-banking solutions have potential to make individual lending programmes hugely more efficient for both MFIs and clients, but are the nemesis of groups'.[45] In a world where members can transfer funds, make loan repayments, and deposit savings on their mobile, they may see hours of travel and meetings as very costly. The only people attending meetings might be those who want to borrow. Large-scale free-riding by members would be fatal to group cohesion, especially when groups must deal with problems like delinquency. The study area will be on the front lines of this issue, and much will depend on the extent to which GSLs really are about more than transactions.

Table 5: Market category of the study districts

District	Productivity	Seasonality	Monetisation	Social capital	Market category
Nyamira	Medium	High	Medium	Medium	3
Rachuonyo	Low	High	Low	Medium	2
Vihiga	Low	High	Low	Medium	2

41 On a case of savings groups in northern Mozambique see Matthews, Brett Hudson. *Governing the Oral Institution.* Mathwood Consulting Co., Toronto, 2009, pp. 7-8.

42 Rippey, Paul. (February, 2010). *Group Savings and Loans Associations gain efficiency from new approaches*. FSD Update issue 03.

43 Pickens, Mark et. al. *Scenarios for Branchless Banking in 2020.* CGAP Focus Note 57 (2009).

44 In less than five years, Banco Azteca has opened 8.1 million deposit accounts and 8.3 million loan accounts and has sold 11 million insurance policies, largely to lower income Mexicans (Rhyne 2009).

45 Wright, Graham A.N. Electronic Banking: The Next Revolution in Financial Access in India? In Wright, Graham A.N. (ed.). M-Banking, MicroSave, Nairobi, no date, p. 56.

Chapter 2

OVERVIEW OF THE STUDY AND THE SAMPLE

As directed by Financial Sector Deepening, the DAI team undertook the study of CARE's GSL programme between June 2010 in the project districts of Nyamira, Rachuonyo and Vihiga, by using three different surveys instruments: GSL profiles, focus group discussion tools, and structured questionnaires

Table 6: Instruments used in this study

Instrument	#
GSL profiles	40
Focus group discussions	47
Individual Interviews	449

The survey team comprised three field teams, each composed of a supervisor and three enumerators. In advance of the survey, CARE equipped the survey team with lists of the GSL leaders in the project area, including their mobile phone numbers and the locality, with information on the nearest market and the nearest school.

2.1 GSL PROFILES

The 'GSL Profiles' summarized information about GSL groups. One was usually prepared to represent each village selected for the study. The information collected was primarily structural (number of members, start-up and cash-out dates, incubation channel, record-keeping and cash management systems, etc.). This information was then linked to, and used to cross-check information from structured questionnaires.

2.2 FOCUS GROUP DISCUSSION TOOLS

The DAI team used focus group discussions to provide greater qualitative depth to the information from the questionnaires. The team included several members with experience as focus group facilitators. In each village, an experienced facilitator, with the support of a note-taker, led a discussion with a group of 6-8 members (or non-members, separately) on topic related to the study. The team also used focus groups during the pilot stage to finalize survey questions and cross-check content from other sources, as shown in Table 7.

2.3 STRUCTURED QUESTIONNAIRES

The questionnaire included sections for members, non-members and group chairpersons. Non-members were individuals who lived in the same villages as members and could reasonably be expected to be aware of the GSLs. They were interviewed in order to ascertain their views on GSLs, as well as to gain an approximate picture of how their characteristics and views were similar or different (on dimensions of relevance to the study) than those of members. The DAI team asked important questions more than once, in different ways, to ensure understanding, and included a quick numeracy/literacy test. Questions probed comparative levels of impact, trust, and institutional viability by channel, and tested for any systemic differences in markets served by channel.

Table 7: Focus groups conducted

Focus group types	Number of groups	Number of participants
Baseline - members	6	39
Baseline - non-members	6	34
Seasonality analysis - members	6	39
Seasonality analysis - non-members	6	35
Livelihood mapping	6	39
Relative preference ranking	5	32
GSL segmentation - members	7	49
GSL segmentation - non-members	5	30
Total	**47**	**297**

Before conducting the study, the team received two days of classroom training focused on use of tools and orientation to the study, followed by three days of closely supervised field piloting and a competency test. All team members reviewed the results with the team to consolidate learning. One non-performing member was removed from the team.

Prior to each day of field work, the supervisor identified a village in the target area, communicated by phone with two GSL Leaders, and then met with them to discuss the survey. The GSL leaders provided a list of members, and the team selected individuals from the list at random to interview during the day. The supervisor also prepared a GSL Profile of at least one group per village to provide a picture of the group-level situation for the study. The supervisor also arranged focus group discussions (Table 7) with the GSL Leaders during these meetings (or, if possible, by phone the previous day). During the morning one enumerator would visit the local market or conduct door-to-door visits to find non-members to interview. Where circumstances permitted, non-member focus groups were arranged, usually through informal meetings in the market.

2.4 GSL MEMBER DEMOGRAPHICS

The survey team focused its energies predominantly on individual interviews. Descriptive demographic data on the individual samples appears in Table 8. In total 449 interviews were conducted, divided approximately equally between four categories of individuals: GSL members recruited by CARE staff; GSL members recruited by the 'faith based organisations'; GSL members recruited

Table 8: Descriptive data, individual sample

N=449	CARE	FBO	Franchise	Non-member
Total	84	121	116	128
Villages	10	27	21	24
Districts	2	3	2	3
Age (average)	39	45	46	40
Female %	74%	71%	70%	58%
Local home languages (ex. Swahili & English)	98%	94%	85%	91%
Household size (average)	6.0	6.2	6.3	5.6
Years of school, husband	8.7	8.3	7.6	9.5
Years of school, wife	7.8	8.1	7.5	8.1

through the franchisees; and non-members living in the same villages, who were often familiar with the GSLs by reputation. The team selected 'non-members' based on their socio-economic similarity to the members. That is, non-members - as judged by the survey team - had the potential to be GSL members. However, they were not intended to be a control group and should not be viewed as one.

GSL membership skewed towards women and older people (52% of women, and 71% of men are over 40, compared to 13% of women and 8% of men under 30) although there were groups that served 'youth' and younger adults in several villages. Membership also skews towards individuals with relatively high dependency ratios, which may be in particular need of the services that these savings groups offer. Linguistically the regions were also diverse; the assessment team conducted interviews with individuals who represented 7 native languages. GSL membership skews towards the inclusion of individuals who speak minority languages at home, although with important variations by incubation channel.

For comparison, the average household size in rural Kenya is 5.5,[46] so GSLs appear to attract members who have slightly larger families and greater dependency burdens. The average age of members in the indirect channels is more consistent with other evidence on ASCA membership in Kenya, which skews to the mid-40s.[47]

2.5 GSL GROUP CHARACTERISTICS

Forty group profiles were prepared. Table 9 shows the distribution of GSLs for which profiles were prepared. Together, these groups represent 1,105 individual members, with the average group size of 28 and the largest, 67. More groups have lost members since inception (14 groups) than have grown in membership size (13 groups). However, total membership has grown by 60, from 1,045, and it has been concentrated in the five fastest growing groups, which have added 80 members between them.

CARE recommends that groups divide rather than grow beyond 30, because larger groups require longer meeting times to process larger numbers of member transactions. However, if growth is being driven by a desire to

Table 9: Descriptive data, GSL sample

	CARE	FBO	Franchise	Total
Groups	8	20	12	40
# members, current	265	528	312	1,105
# members, inception	229	540	276	1,045
Average, current	33	26	26	28
Average, inception	29	27	23	26
Variability in members	22%	19%	18%	19%

[46] FinAccess Secretariat, 2009, p. 8.
[47] For example Malkamäki , 2009b, p. 10.

Table 10: Reported product activity by channel

	N	Savings, this cycle (KSh)	Loans taken, last two cycles	Savings, last cycle (KSh)	Cash-out, last cycle (KSh)
Total	313	1,122,725	1,194	408,015	658,398
Franchise	114	445,215	360	80,090	134,648
Faith-Based (FBO)	115	396,960	527	204,090	323,197
CARE	84	280,550	307	123,835	200,553

economize on a scarcity of good managers (as would appear to be the case from the observed pattern of growth and concentration) the problem cannot be solved by limiting group sizes. Limiting group sizes also cannot solve the most common reason for large groups raised in the field: that they are driven partly by geographic dispersion, especially in thinly populated areas. The Odell/Rippey study observed that groups naturally split when they reach a size they consider unwieldy; they also share leaders when they feel they need to. It seems unnecessary to overlay this organic process with additional rules.

The average sampled group has a life of 11.6 month before it cashes out and is reconstituted. The majority (30 groups) break after 12 months, while the remainder break in slightly less time. The shortest cycle identified in this sample was 9 months. The level of variability in member numbers[48] is not excessive, given that the average group has been through a little more than 1 cycle and there is always a process of mutual trial and assessment, especially during the early cycles.

Table 10 shows overall activity of the GSLs by financial product by incubation channel. Total savings reported by all sampled members at the time of the survey stood at KSh1.12 million ($US 13,370), suggesting that among the 100,000 members of GSLs in the study area, there is approximately US $4 million in savings. Across all three channels, members reported taking 1,194 loans over the past two cycles (with an average of four loans taken per member). Loans appear to be more concentrated within the FBO channel, which accounts for almost half of all loans taken.

Out of this total membership, 151 members across the three channels[49] were also active in the last cycle. During the cash-out, they received KSh 658,398 ($US 7,840) in payouts, based on savings of KSh 408,015 ($US 4,860).

The structure of GSLs in Kenya, like that of savings groups in other parts of Africa, is immensely diverse. As observed by Rippey on a recent visit, some groups permit variable savings amounts while others do not. Also, some groups cash out the funds at the end according to the amount saved, while others cash out using a flat system that is equal for all, regardless of amounts deposited.[50]

To complicate matters further, CARE has also been encouraging GSLs to shift from the use of ledgers to a passbook-only system, because this increases both the transparency of the records and the simplicity of management, without compromising the safety or flexibility of capital pooling. However, as Table 11 illustrates, this appears to have added greater confusion and complexity, as many groups now use both systems in parallel.

Table 11: Information management

Ledgers only	15
Ledgers and passbooks	25
Passbooks only	0
Total	40

In fact, a recent monitoring report observed that 'the group (members) are often better educated relative to members in other countries, and many opt for keeping ledgers'.[51] Many GSLs also have 'add-on' cash books for bank reconciliation and tracking other information that the record-keeper may want, such as off-book loan records. Interviews highlighted that resistance to introduction of the passbook-only system comes from numerous sources, not just from GSL leaders who don't really believe it is 'safe', but also from members who prefer to keep their passbooks at home.[52] Even CARE staff and CBTs continue to harbour doubts about the viability of a 'ledger-free' MIS.

As noted earlier, the groups interviewed for this study speak many different local languages. Table 12 presents information on the languages most commonly spoken at home by the members, and the predominant languages in which group records are written. The two languages shared across groups are English and Kiswahili, so most records are prepared in those languages. Six groups prepared records in both English and Kiswahili. Nevertheless, the diversity of languages in record keeping, and the difficulty of preparing records

48 'Variability in members' refers to the number of drop-outs plus the number of new members who have joined, divided by the current membership.

49 Eight outliers have been excluded from this portion of the sample as they claimed returns on saving in excess of 200%.

50 Rippey, Paul. *Field Visit to COSALO Project, Mar. 28-Apr. 1, 2010*, p. 6.

51 Rippey, Paul, *FSD Update, February, 2010*.

52 In the passbook only system, passbooks are retained between meetings in the group box.

in a common one (e.g., English or Kiswahili), appears to reinforce the value of CARE's effort to shift away from ledgers, especially since illiteracy is also a factor.

Table 12: Language

Languages	Language spoken at home (whole sample)	Records (group level)
Kisii	212	2
Luo	87	1
Maragoli	58	1
Kiswahili	37	10
Luhya	32	0
Tiriki	17	0
Kinyore	6	0
English	0	32
Total	449	46

Michael Olela, member of an FBO committee in Oyugis (Rachuonyo district) explained that 'people feel their money is safe when there are lots of records - the more records, the better. And even though they don't understand English, knowing the records are in English gives them more trust in the group'. He acknowledged that the FBO found it difficult, however, to reach poorer people.

Another area in which GSL groups diverged from the standard is in the use of cash boxes. Thirteen of profiled groups do not use them (see Table 13). In most cases this appears to be a start-up issue, as the boxes cost about Ksh 2,600 each. Pressure within the group to have a box often builds up towards the end of the first cycle, when money must be collected and kept so it is ready for the final distribution. Many groups purchase their cash box at this point. While it might be beneficial for more GSLs to open bank accounts, a significant constraint is proximity to a bank branch. CARE has been piloting a box with a separate compartment and slot to support daily deposits, but very few groups have adopted this feature to date.

2.6 CAPABILITIES

GSLs are savings-led, and this may present particular problems for innumerate or illiterate individuals, who may either minimize their savings in the group, or avoid membership altogether due to fears that they do not have the capacity to protect their savings in a text-based setting.[53] Member capacity to

Table 13: Cash management

Cash box	24
Bank account	6
Both	3
Neither	13
Total	40

understand and identify transactions recorded in passbooks or ledger accounts and correct errors may have an adverse impact on both membership and relations of accountability within the group. Johnson and Nino-Zarazuo report based on FinAccess data that 'while ROSCA use was not strongly influenced by education, the use of ASCAs - a more complex service - was more strongly influenced'.[54]

Table 14 shows that GSL members are less likely to be literate and numerate than non-members, which suggests that GSLs are achieving a 'pro-poor' orientation relative to other financial institutions, probably through relatively simple processes and systems.

The 83 affected individuals represent a distinctly vulnerable market segment that is likely to have more difficulty trusting methods of saving outside of their own household, particularly when those methods rely on text. On average these individuals attended school for 5 years (compared to the whole sample, which attended school for 9 years) and were older than average (48 years compared with the whole sample, which averaged 42 years). As observed by Johnson, for this segment CARE's initiative to remove ledgers is particularly important, because use of ledgers may act as a barrier to access and trust for some of the lower educational stratum of the economically active poor. FinAccess data supports this conclusion, also suggesting that numeracy is the larger of the barriers.

[53] This anti-poor selection bias was identified in community-based financial groups in Cambodia, where illiterate respondents were far less likely to belong (33%) than their literate neighbours (55%). This selection bias may also have been causing a skew in the membership against women, due to their literacy deficit in that country. Matthews, *Towards safety and self-reliance*, p. 12.

[54] Johnson and Nino-Zarazua, 2009, pp. 16-17.

Table 14: Literacy and numeracy

Percentage of interviewees who cannot	… Read a simple sentence	… Recognise a 2-digit number	… Recognise a 4-digit number	Total percentage of sample
Members (N = 321)	15%	12%	16%	18%
Number of respondents	48	37	50	59
Non-members (N = 128)	8%	8%	14%	19%
Number of respondents	10	10	18	24
Total (N = 449)	13%	10%	15%	18%
Total # of respondents	58	47	68	83

Chapter 3

IMPACT OF GSLs ON LIVELIHOODS

To assess the impact of GSLs on livelihoods, the survey team asked members about changes in the number and scale of their livelihood activities, their household cashflow, seasonality effects, household assets and the role of GSL products and services on these variables. Focus group facilitators probed further on all these areas, especially in how they linked to GSL membership.

Focus group participants reported that a major reason they joined their GSLs was to get loans throughout the year. Before joining their GSLs, many members faced difficulties in securing loans, especially for enterprise-related purposes. Like savings group members in other parts of Africa, focus group participants reported that their major non-enterprise financial concern was payment of school fees and related costs, which they finance from occasional GSL loans as well as from the end-of-cycle payouts. Another key issue is payments for emergencies, including the costs of medication and hospital visits.

Many of the members' financial concerns are enterprise related: they want to start new businesses or expand existing ones, or simply to finance their working capital in a more reliable way. As farmers, they also need loans frequently to pay for seeds, fertilizer and labour related to land preparation and harvesting.

The primary livelihood activity cited by focus group respondents in the study area is the cultivation of maize (2 plantings a year, in July and December) and beans, largely for family subsistence. Tea is also grown, especially in Nyamira, which is the most commercial of the three districts, and many GSL members work on the tea plantations. Storing grain across seasons is normal, both for family consumption and for price arbitrage, so securing storage capacity is a priority for many members.

The past few years have been difficult in the project area, as inflation has driven up the prices of basic supplies, including food, fertilizer and seeds. For businesses, the price of labour has also risen sharply. These price increases have added to the difficulty of smoothing consumption across seasons. Commercialisation has continued across the region. A focus group in Nyamira commented on the wider availability of credit for small business activities, while one focus group in Rachuonyo (the least-developed region) commented on how a cash income (as distinct from in-kind sources) has become, for the first time, essential for survival.

A summary of the basic seasonality of the region appears on the next page. The major costs that impact seasonal cash flows include school fees (due in January, May and September), church contributions, purchase of food and clothing, and land preparation costs (including purchase of seeds and fertilizer). Festivals and life cycle events (Christmas, circumcisions, weddings, and funerals, for example) also involve high expenses.

The long rains from March through early June are the most difficult period of the year. There is little income during this period and many costs. In addition, the disease burden increases and households are less food secure.

Table 17 shows the sub-sample of members who have received at least one cycle-end payout. This group was stratified by size of reported payout in the last cycle, and divided into quartiles, with members reporting the largest payouts in the top quartile. Despite the difficulty of some periods during the year, focus group discussions and interviews indicate steady diversification of livelihood activities, noteworthy considering the brief life of the majority of GSLs. This diversification is concentrated in the middle quartiles, where it is likely to have great impact. Payouts in the bottom quartile were mostly too small to permit new business start-ups.

Members reported that they added new investments to their household enterprise portfolios in several sectors - tea cultivation, a hair salon, logging, carpentry, money-lending and trade in clothing, wood, grain, vegetables, medicines, paraffin, sugarcane, bananas and kerosene.

The median payout reported by the sample at the end of the last cycle was Ksh 2,900 (see figure 3, below, for distribution of payout sizes). Based on the estimates members provided during the survey, this sum is equal to about 6 weeks of the typical household's cash in-flow during the lean season, and therefore could be a sizable contribution to the process of income smoothing. (It is also comparable to the annual bonus provided to tea labourers in November).

Table 15: Primary livelihood activities

	Nyamira	Rachuonyo	Vihiga
On-Farm	Tea planting, maize growing, cattle rearing, poultry farming, beans, bananas, vegetables, dairy farming, napier grass farming, grain storage.	Growing maize, beans, cassava, livestock, vegetables, grain storage.	Growing maize, beans and vegetables, raising chickens, sheep and goats, grain storage.
Off-Farm	Small scale businesses such as hotels, kiosks; selling of timber, passion fruits, firewood, and other products; contractual labour, hair dressing.	Selling maize, sweet potatoes and omena (fingerlings), contract labour, quarrying, boda boda (taxi), tailoring, teaching, nursing.	Selling maize, sugar, beans and omena; hotel business, selling of vegetables, napier grass, bananas, avocadoes and firewood.

Table 16: Seasonal factors affecting household cash management in the study area

Month	Description
January	Dry season. New Years – high expenses including the costs of seeds and fertilizer; labour for planting maize, beans and vegetables; school fees. Vegetable and omena sales provide a moderate contribution.
February	Dry season continues. High planting costs as farmers continue to cultivate and top-dress the farms, then plant maize. Food shortages and low income result in rising prices. Vegetable and omena sales continue.
March	Dry season winds down and long rains begin. Potato planting and weeding. Low income continues.
April	Long rains continue. Very low income; food running out. Rain may destroy crops, triggering hunger. Rains cause infestation of mosquitoes and malaria in people; death of livestock; increased medication costs.
May	Long rains peak. Beans harvested, ploughing. School costs. Mosquitoes, sickness, livestock losses and medication costs.
June	Long rains wind down, dry winter begins. Harvest of green maize and millet generates income; planting of second millet.
July	Dry season. Harvest of maize, high income. Planting of second millet and maize; high planting costs. A lot of sickness due to cold weather
August	Dry season. Harvest and high income continue. Ploughing, weeding and planting continue, causing high expenses.
September	Short rains. Ploughing and planting continue. If rains don't come, crops are damaged. School costs.
October	Short rains end. Weeding of second crop. Food shortages increase, prices rise.
November	Harvest of second crops begins; water shortages. Tea growers get bonuses from Kenya Tea Development Authority; for example, bonuses avg Ksh 3,000 in Nyamira.
December	Harvest of second crops continues. Christmas, wedding and circumcision expenses. For businesses, very high income from retail sales in this month. Farmers may sell a lot of vegetables. Urban relatives visit, bringing money.

Due to the risks of saving at home using mostly in-kind instruments,[55] this type of lump sum, timed as it is at the most difficult time of the year financially, would be very difficult for a rural household to reliably create without the help of a financial service provider of some type. Also, the size range of payouts in the histogram testifies to the remarkable ability of GSLs to match their cash flows to member needs. It would take a sophisticated MFI, with considerable financial capacity, to match the changing cash flow needs handled by these small village institutions.

Table 17: Diversification of income streams by payout quartile

N=152		% increase in income streams
Top quartile	38	11%
Upper middle quartile	38	21%
Lower middle quartile	38	28%
Bottom quartile	38	3%

[55] Losses from saving at home were documented for rural Uganda by Wright, Graham A.N., & Leonard K. Mutesasira. *The relative risks to the savings of poor people.* Small Enterprise Development (Vol. 12, No. 3), Sept., 2001. These losses present huge financial management challenges for households not just because of their relative size (estimated at 24% of annual savings in the Wright study) but also because of their unpredictability and large variability by period.

Most members invested their payouts in their existing businesses, commonly in trading stock or other inventory, agricultural supplies, hiring labourers or renting land for cultivation. Some members reported securing improved prices for purchased stock. Non-financial benefits also resulted from these payouts. Several members stated that the GSL provided new clients for their shops and services; others stated that they no longer have to borrow from outside their groups. One member stated that she has now learned 'how to live as an independent woman'.

Figure 3: Histogram of cycle-end payout

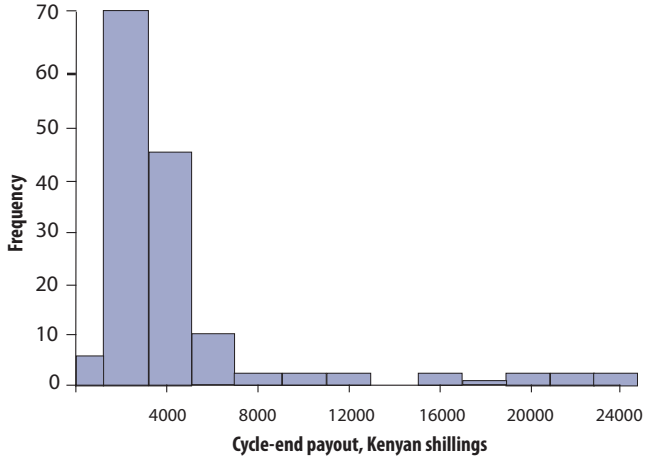
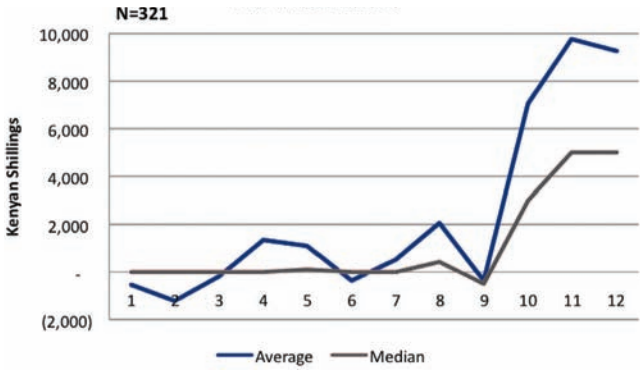


Figure 4 shows the median[56] and average household cash flows by month among the member sample. Most member households barely break even throughout the first six months of the year, and recover in the second half, beginning with the first main harvest in June and July. While the average data cannot be seen as 'typical' they help to understand the aggregate cash flows available within the GSLs for intermediation, and when pressures/cash shortages are likely to be most acute (February, June and September).

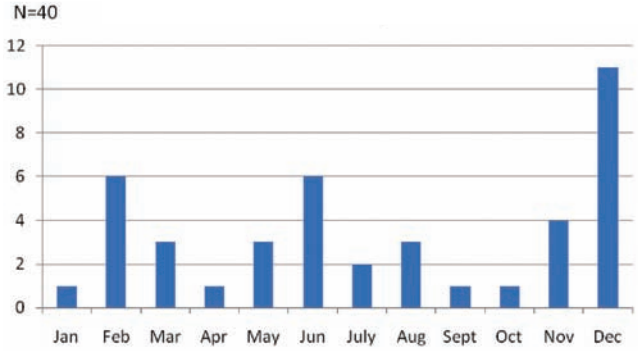
Figure 4: Impact of seasonality on member cash flows[57]



There are numerous sources of vulnerability in members' lives, including medical emergencies, funeral expenses and periods of hunger. Not only are these events traumatic in themselves, they can also force families to divert critical resources from livelihood activities. Some GSL members can draw down their savings during these events, avoiding the burden of additional debt. GSLs also operate a social fund designed to provide funds to members during these times, and 28% of respondents acknowledged receiving help from their GSL during a family emergency. Many members also report that other members of the group provided moral support or help during these difficulties. These coping mechanisms play an important role in limiting adverse livelihood consequences.

How closely are GSL services aligned with member livelihood requirements? Based on the study, planned GSL cash-out dates (as of June 2010) seem to mostly coincide with major seasonal cash shortages (see Figure 5, below). For example, the largest number of groups pay out in December, which aligns with the need for cash for school fees, Christmas and other events. While these cash payments may not be 'livelihoods-related', cash is fungible and the required cash outlay could otherwise be expected to impact livelihood activities adversely.

Figure 5: Cash-out dates by month



December also marks the end of the surplus period and the beginning of the long lean period. Thus, a December payout may also be used by members to stock supplies for the costly months ahead. The spikes in February and June also align with the need to meet planting costs. In the words of the Samabeth focus group in Vihiga, 'GSLs solve seasonal livelihood problems like school fees in January when the students are going back to school, so we use the money to pay school fees. Also we can buy seeds and fertilizers in preparation for planting seasons'.

While the alignment between seasonal cash requirements and cash-out dates is valuable, it is worth noting that not all members benefit from it (see Table 18). Since the cash-out is the largest and most useful lump sum members will receive, the freedom of the group to choose the cash-out date is one of the most important benefits GSL offers to it, and without a doubt is vital to demand for the GSL service over time. Yet a substantial minority of groups (30%) have their cash-out dates chosen by their community-based trainers (CBTs), putting this key competitive advantage at risk. A key role of the CBT is to give this power to the group, from the first cycle. Evidence that CBTs still exercise this adverse control in the second cycle is even more disturbing,

Table 18: Who chooses the cash-out date for your group?

N = 304	Members choose	CBT chooses	
	No.	No.	%
Franchise, first cycle	34	35	51%
Second cycle	37	4	10%
FBO, first cycle	25	9	26%
Second cycle	48	30	38%
CARE Direct, first cycle	34	8	19%
Second cycle	36	4	10%
Total	214	90	30%

[56] The median offers insights quite different from those of the mean because it avoids skews in the data resulting from households with very large incomes. The cash flow data are estimates that are used for this purpose more to assess seasonal variation than the size of absolute flows.

[57] Cashflow is simpler and more precise than 'income' and 'expenses', since it includes things like remittances and doesn't include abstract accounting concepts like 'accruals' that it would be difficult for a village respondent to understand (and might trigger fears of taxation).

especially CBTs hired by FBOs, where the incidence of CBT control seems to be increasing.

Because GSLs are financed by member savings, it is vital that they meet members' savings needs. The survey team consulted both members and non-members to determine the reasons that people save, to assess whether those reasons differ between members and non-members, and to assess whether the GSL payout amounts have an impact on the accomplishment of member savings goals.

In interviews the team read out a list of reasons that households might save, and asked survey participants to mention the top five of these reasons in order of importance to them personally, and rank those in order from 1-5 (with 5 being the most important). The results appear in Table 19, below. For both groups, the most important reason for saving was schooling. For example, 241 members (77% of all members) mentioned this, ranking it on average a very high 3.8 out of 5. For comparison, non-members also ranked this priority first. However, their focus on schooling was not as strong, first because a smaller majority (68%) cited it, and second because those that did ranked it slightly less important (3.4 out of 5).

Team members read out a total of 22 items to respondents, and the top 10 are presented in the Table. The other items included purchase of materials, asset improvements, funerals, motorbikes, preparation for old age, care for elders, travel, bicycles and weddings. Some respondents mentioned other priorities to the team: the most commonly noted was saving to purchase cows, mentioned by 13 people.

The priorities of members and non-members are generally comparable, with items falling in a similar order, and the top six items for the whole sample capturing the top five in both groups. However, with the exception of 'family food security',[58] modest differences can be observed between the two groups in the other priorities in their respective lists.

For example, GSL members have slightly larger families (6.2) than non-members (5.6) in this sample.[59] A point raised consistently by GSL members across this study was their desire to use GSLs to fund their children's schooling. So it is quite possible that this is a higher priority among GSL members than among the wider population around them.

Also, 'small business' was ranked slightly higher by GSL members than non-members. A point raised consistently by GSL members across this study was their desire to borrow to help them with fund their farm and off-farm business activities. As in the case of schooling, there is a possibility that the reputation of the GSLs attracts people who are more interested in these services than the wider population around them.

'Emergencies' and 'earn interest' are qualitatively different from the others on the list, as no specific savings goal is stated. Taken together, these two priorities receive almost equal weight from members and non-members. However, GSL

Table 19: Reasons for saving, members and non-members (score on a scale of 1-5, with 5 being most important)

	Members			Non-members		
N = 449	**Rank**	**% who mention**	**Average score**	**Rank**	**% who mention**	**Average score**
Schooling, primary or secondary	1	77%	3.8	1	68%	3.4
Small business	2	59%	3.3	3	50%	3.5
Family food security	3	60%	2.7	4	52%	3.3
Emergencies	4	52%	2.8	2	60%	3.0
Earn interest	5	42%	2.9	8	26%	2.2
Medical costs	6	36%	2.2	5	45%	2.5
Pots/pans or small assets	7	28%	2.6	9	22%	2.1
Buy land	8	17%	2.9	7	28%	3.3
Larger business	9	12%	3.7	6	25%	4.0
Tertiary education	10	13%	3.4	10	15%	2.9
Other		81%	2.9		91%	2.8

[58] While members rank food security higher than non-members do, the difference is nominal. Although slightly fewer non-members mention it (52% compared to 60%), they rank it more important..

[59] See Table 3.

members place the most emphasis on earning interest, while non-members place the most emphasis on emergencies. As studies have shown,[60] the losses and risks poor villagers face from saving at home make planning for the future extremely difficult. 'Emergencies' are a useful justification for saving that leaves the end use quite open-ended. However, 'earning interest' is even more open-ended (encompassing opportunities as well as risks). To be able to accumulate savings for an open-ended purpose - via an instrument that addresses members' illiquidity preference while being viewed as safe - has the potential to provide a very powerful tool for planning for the future.

Like 'schooling' and 'small business', 'earning interest' also suggests the strengths of the GSL model, since the GSL model makes it a priority to provide compensation for saved capital. The idea that interest, in significant amounts, is available on members' money helps to convince them of the value of monetizing their savings.

After establishing the reasons for which respondents were saving, the DAI team then read the same list again to members only. This time, they asked members to prioritise it based on how they used their last GSL distribution? The average member responded by mentioning, and ranking, three uses to which they put their distributions. The results are in Table 20, below. Members' reasons for saving (reproduced from Table 19) appear for reference.

There is a strong correlation between the uses to which members put their cash-out distributions, and their savings priorities. The correlation is particularly strong for the top 5 savings priorities noted by members. The fact that members have numerous savings goals, and are successfully applying GSL services to virtually all of them, suggests that GSLs are providing services that offer flexibility virtually unmatched by more formal institutional providers of microfinance. When MFIs try to meet these needs, they typically do it by lending (i.e., forcing the client to 'save down').

The one point of difference between the top 5 reasons for saving and the top 5 uses of distributions reinforces this point. "Emergencies" are clearly an important savings priority, but equally they can't be timed in advance, as GSL payouts are. Many GSLs have 'social funds' that address this gap.

The high rank given by members to earning interest again stands out. Not everyone needs to reinvest large amounts in subsequent cycles for the additional cash to be useful. Although only 58 respondents (19%) mentioned it, they ranked it highly as a use of their distribution. A segment this large may form new groups specifically for that purpose, as has been done elsewhere.[61] This suggests that there may be significant demand among members for reinvestment of capital in subsequent cycles.

Women and men had broadly similar priorities (school fees and food supplies topped both lists), although women were more likely to focus on expenditures for farming inputs, while men were more likely to purchase cows or goats. Among women, there was a range of top priorities, including funeral costs, transportation, home renovations and purchase of chickens.

Table 20: Member use of GSL distributions, compared with reasons for saving (score on a scale of 1-5, with 5 being most important)

N = 313	Use of GSL distributions			Reasons for saving		
Scale of 1-5	Rank	% who mention	Average score	Rank	% who mention	Average score
Schooling, primary or secondary	1	56%	3.8	1	77%	3.8
Small business	2	41%	3.9	2	59%	3.3
Family food security	3	35%	3.1	3	60%	2.7
Earn interest	4	19%	3.3	5	42%	2.9
Pots/pans or small assets	5	20%	2.9	7	28%	2.6
Emergencies	6	17%	2.8	4	52%	2.8
Buy land	7	12%	3.3	8	17%	2.9
Equipment/materials	8	14%	2.7	11	15%	2.3
Medical costs	9	15%	2.6	6	36%	2.2
Asset improvements	10	10%	2.9	13	11%	2.8
Other		9%	4.4		9%	

60 See Wright, Graham A.N., & Leonard K. Mutesasira. *The relative risks to the savings of poor people.* Small Enterprise Development (Vol. 12, No. 3), Sept., 2001. Similar results were found in Cambodia. Matthews, Brett Hudson. Towards safety and self-reliance: community finance and public trust in rural Cambodia, CCA, Phnom Penh, 2005.

61 See for example Sharma, Abhijit and Brett Hudson Matthews. On an informal frontier: the ASCAs of lower Assam (with Abhijit Sharma). In Wilson, Harper and Griffin (eds.) Financial Promise for the Poor, Kumarian Press, West Hartford, CT, 2010.

3.1 PRODUCT USE

This study sought to understand how group members use different GSL products. Table 21 below looks at the savings side of the GSL. The member sample was segmented into quartiles by amounts deposited in an average month during the current cycle. To control for the impact of wealthy outliers, the median is reported rather than the average. The flexibility of savings amounts for the members (as shown by the wide range of differences in savings size in each quartile) is worth noting, as is the range of savings sizes (the top quartile are saving over 12 times as much as the bottom quartile).

Table 21: Member saving

N=257	
Median savings per month in your GSL, this cycle	
Top quartile	1,411
2nd	408
3rd	200
Bottom quartile	110
Have you withdrawn from your GSL, this cycle?	
Yes	79
No	238

The ability to withdraw savings during the cycle is apparently valued, as over a third of the members have exercised this option. Similarly, though it is not essential that members borrow from GSLs, results show that a large majority (93%) have done so (see Table 22), with the average respondent reporting 4.4 loans in the last two cycles.[62] The picture here is complex, as it includes members who belong to more than one group, and members who have not yet completed a cycle. What is very clear however, is that GSL members use their loan facilities enthusiastically and often. The ability to withdraw savings during the cycle is also apparently valued, as a quarter of the members say they have exercised this option.

Table 22: Member borrowing

N=283	
Do you ever borrow from GSLs?	
Yes	264
No	19
If yes, how often, past two cycles?	
Top quartile	9.94
2nd	4.70
3rd	2.65
Bottom quartile	1.44

3.2 SUSTAINABILITY

Earlier studies have indicated that people lose money in savings groups. Nearly 20% of the respondents are aware of such events, including 17% of members.

Table 23: Awareness of losing money in savings groups

"Do you know anyone who's lost money in a GSL?"		
N= 449	No.	%
Members	54	17%
Non-members	30	23%
Total	84	19%

By way of comparison, FinAccess asked members of customary groups like 'merry go rounds', ASCAs and funeral societies if they had ever lost money in their groups? Losses were especially high in Nyanza (9%) and Western (8%) compared to rural Kenya as a whole (4%), probably due to the high level of activity of such groups in these areas.[63] This latter point is especially significant as members may be inclined to understate this awareness to minimize their sense of personal risk. It would seem however, that most GSL members are realistic about their risks. They seem to consider the risk of absolute loss to be acceptable trade-off for convenient access to a flexible service, and returns on invested capital that far exceed those available in the formal sector.

If members consider saving important for reasons like those they outlined in the Table 19, they will want to maximize their risk-adjusted returns, and will weigh the risk of loss against the gains, just as they do when they save in livestock. If they prefer the GSL mix of security and return for some purposes, demand for GSLs will be strong and increase.

Table 23 provides evidence that with increased confidence that they can earn interest, members are prepared to risk open-ended, longer-term saving in GSLs, even though they are aware that there is a risk of losing money in them. In other words, they see their GSLs on an efficient frontier for risk-adjusted returns. The lower interest rates were to drop, the more this freedom would be lost - even if rates stay above the break-even level implied by the Table above.

[62] It was indicative of the high level of use of this service that some people did not attempt to count the number of times they had borrowed: they simply told the team "many". Since this cannot be quantified, the true number is understated in the Table.

[63] FinAccess Secretariat, 2009. Appendix, QK-12, p. 34.

Chapter 4

IS THERE A GSL MARKET SEGMENT?

There are many financial institutions in the region. In the main towns of the area (e.g., Kisii, Vihiga, Nyamira and Oyugis) there are commercial banks and MFIs. Equity, Family, Kenya Commercial, Cooperative, Diamond Trust, Standard Chartered and Barclays all have local branches. KWFT, Jamii Bora and Faulu operate across much of the region. In addition, most towns have Savings and Credit Cooperative Societies (SACCOs). Table 24 summarises the financial services providers mentioned by member and non-member focus groups the DAI team spoke to. Kisumu - an important regional economic centre for the three districts - has at least 15 different financial institutions with a retail presence in its downtown, along with a branch of the Central Bank of Kenya.

Despite all these financial institutions, most study respondents live in rural areas and rely primarily on informal financial service providers like moneylenders, shop-keepers and the 'merry-go-rounds'.

This does not mean they are unaware of the MFIs and banks; however a variety of factors lead most people to prefer other service providers. A focus group in Kidinye, Vihiga reported that, 'In case you take a loan from the GSL and you are unable to pay the members will understand and won't take anything from you unlike KWFT, FAULU and Equity bank'. Another group in Nyamira township felt it had easy access to banks and MFIs, and that rates were lower there. Still, they preferred their GSLs because they give 'instant loans' without elaborate processes or waiting times. Most members seemed to believe the interest rates on GSL loans were not high, because the dividend share-out at the end of the cycle reduced their cost of borrowing.

4.1 CHARACTERISTICS OF THE GSL SEGMENT

Is there a distinctive GSL market segment, and if so, what are its characteristics? Attitudes towards saving are a likely source of differentiation. Most GSL members see themselves as taking a somewhat more systematic 'pay myself first' approach to saving versus non-members (see Table 25). The extent to which this attitude influences the community members' decision to participate, rather than resulting from their participation, is much less clear.

Table 25: Attitude towards saving

N = 449	Members	Non-members
"I save a planned amount regularly."	41%	30%
"I save a planned amount when it is available (e.g., after the harvest."	34%	29%
"I save what's left over after meeting my needs."	20%	30%
Total	321	128

Attitudes to the GSL itself may be another key differentiator. The study compared attitudes of members with those of non-members living in the same villages (Tables 26 and 27). It was hypothesized that there may be differences between the members and the general population on this dimension, and that these differences can help predict the long-term sustainability of the GSLs as an institutional form.

First, the team asked members to identify the most important benefits they see in GSL membership. The team read out a list, and respondents were asked to select from it and rank benefits from 1-5 (with 5 being the highest). A total of 16 benefits were proposed; the top 10 appear in Table 26 below.[64]

Table 27 asks a comparable question of non-members: 'What are the most important characteristics you look for in a financial services provider?' A total of 21 benefits were proposed, including the 16 listed to members, plus 5 additional ones that reflect wider possibilities of the whole financial sector.[65] The top 10 are presented in the table. It is important to remember that for most

Table 24: Financial services providers in the study area

	Nyamira	Rachuonyo	Vihiga
Financial service Providers - formal and semi-formal	M-Pesa, banks, KWFT, Nyamira Tea SACCO, Gusii Rural SACCO Wakenya Pamoja,	KWFT, Equity Bank, Faulu Kenya, Co-operative Bank, Adok Timo, Barclays, Jamii Bora, M-Pesa	M-Pesa, Equity Bank, Faulu, KWFT.
Financial services providers - informal	Nyata Development Group, Jua Kali Development Group, Shopkeepers, moneylenders, ASCAs, merry-go-rounds (ROSCAs), GSLs	Moneylenders, shop-keepers, SILC (CRS savings groups), community groups, church committees development	Shopkeepers, moneylenders, ROSCAs, GSLs.

64 The 6 summarized in 'other' at the bottom of the table are 'strengthens community', 'learn business skills', 'trust the people', 'easy to deposit', 'close to do business' and 'as big loans as I like'.

65 "Low/no fees", "trust the organisation", "long opening hours", "transfer funds to far away" and "bank on mobile phone".

Table 26: Benefits of GSL membership, as ranked by members

N = 278	Rank	% who mention	Average score
Easy to get loans	1	68%	3.8
Safe for cash	2	56%	3.9
Save regularly	3	58%	3.0
Helps me manage money	4	42%	2.6
Simple to use	5	37%	2.9
Best rate on savings	6	38%	2.7
Cheapest loans	7	28%	3.0
Easy to withdraw savings	8	25%	2.7
As many loans as I like	9	19%	3.4
Teaches me about money	10	24%	2.6

respondents, top-of-mind financial service providers include moneylenders, shop-keepers and ROSCAs in addition to banks, MFIs and SACCOs.

Benefits in each list fall into three categories: product characteristics (e.g., 'easy loans' or 'best rate of savings'), expressions of confidence ('safe for cash', 'trust the people') and non-product related benefits ('helps me manage money', 'learn business skills'). Because they are all in a single list, respondents must weigh their relative importance, creating a composite picture of potential bases for segmentation and loyalty.

Four of the top 5 priorities in the two groups are the same, and in a similar order. While members place slightly more emphasis on easy loans than on cash safety, these items dominate both lists. In focus group discussions with members, 'ease' seemed to be linked to two key features: 1) Members emphasized that GSL loans are processed 'instantly', and 2) involve no paperwork. Four loan-related benefits were included in the list. 'Cheapest loans' ranked 6th, 'As many loans as I like' ranked 9th, and 'as big loans as I like' ranked 17th (last).

A reputation for cash safety is a prerequisite for the viability of the GSL business model, and in spite of the difficulties noted above, most members seem confident that their savings are secure. Non-members complained in focus groups that when they leave money with shopkeepers, their money is often lent out without their approval, and may not be available when they need it. Respondents do not seem able to imagine the safety level typical of most formal financial institutions.

The biggest difference between the two lists involves non-product related benefits, which play a much greater role for members than non-members. The fact that 'save regularly' appears as high as it does suggests that members

Table 27: Characteristics of good financial services provider, non-members

N = 278	Rank	% who mention	Average score
Easy to get loans	1	68%	3.8
Safe for cash	2	56%	3.9
Save regularly	3	58%	3.0
Helps me manage money	4	42%	2.6
Simple to use	5	37%	2.9
Best rate on savings	6	38%	2.7
Cheapest loans	7	28%	3.0
Easy to withdraw savings	8	25%	2.7
As many loans as I like	9	19%	3.4
Teaches me about money	10	24%	2.6

Table 28: Key points of differentiation, members and non-members

N = 375	Members			Non-members		
	Rank	% who mention	Average score	Rank	% who mention	Average score
Helps me manage money	4	42%	2.6	14	12%	2.7
Teaches me about money	10	24%	2.6	18	10%	2.4
Strengthens community	11	19%	2.7	20	7%	2.3
Learn business skills	12	17%	2.8	21	4%	3.5
Trust the people	13	14%	2.5	8	25%	3.0

may indeed require help or discipline to save regularly, and that they see an important role for peer pressure in helping to motivate them. While ROSCAs also provide this motivation, ROSCAs usually require everyone to save an equal amount. GSLs permit variations in member savings amount, increasing the benefit.

This view is reinforced by the fact that members assign a very important role to GSLs in helping them manage their money. By contrast, this item appeared 14th on the non-member list. The other key points of difference in perceptions between the two groups, and their relative order in the two lists, appear in Table 28.

Most of the benefits in this list are non-financial in nature. Without the kinds of group practices and policies that help members to manage their money, learn more about money, build mutual accountability and learn business skills; many members would not be able to fully match their GSL's financial service proposition to their own household needs. Within the tight constraints of GSL financial and human capabilities, members are stating here that GSLs have mainstreamed financial literacy into their programmeming. In the focus groups supporting the study, many members cited 'solidarity' as a reason for participating. The general umbrella term 'solidarity' (like the term 'financial services') was excluded from the list as it was not sufficiently specific to carry meaning. In practice, the first four items on this list, plus the clearly expressed enthusiasm of members for their group 'social funds', are what 'solidarity' appears to mean to members.

The attitude of members towards their role in governance - whether they see themselves as 'owners' or 'clients' first - may be another source of segmentation. Are members more likely than non-members to be willing to take on these responsibilities? And if there is a 'GSL segment,' what distinguishes it on this dimension?

Table 29 compares the attitudes of members and non-members on various dimensions of GSL governance. Since the non-members live in the same villages, they may have spoken with members, may be aware of the public reputation of GSLs, and may be generally aware of some aspects of how the

Table 29: Attitude to governance, members and non-members

N = 449	Non-members	
	Members	Non-members
I'm treated more fairly when I apply for a loan	1	6
The managers have more skill	2	4
The group's cash is kept in a safer place	3	5
I can earn more money on my savings	4	2-3
The group makes more profit on its activities	5	7
I know more about what's going on the group	6	1
It's easier to withdraw money when I want	7	2-3
It's easier to deposit money when I want	8	9
Leaders show more respect for the rules	9	8
Loans are lent out on less risky projects	10	11
Leaders are less arrogant/show more respect for me	11	10
Other	12	12

GSLs function. Members were asked to 'identify the top 5 changes that would make you save more in GSLs/belong to more GSLs. Non-members were asked to 'identify the changes (1 or more) that might convince you to join a GSL'. Note that the item "I can earn more money on my savings" refers only to interest earned, while "The group makes more profit on its activities" also refers to other group activities, such as joint enterprises or joint income on commonly held assets like pots and pans or furniture rented out for celebrations. These

Table 30: Overlap with informal groups

	N	Number of GSL offices held	Number of ROSCA memberships held	Number of other group memberships
GSL chairperson	27	29	13	8
Other GSL office holders	76	126	24	6
Other GSL members	218	0	112	35
Total	321	155	149	49

joint enterprises and assets were cited in focus groups and were noted as very common by Odell and Rippey.[66]

These priority lists are quite different. Among non-members the top priority was to understand ("I know more about what's going on in the group"). This desire for understanding clearly reflects a willingness to accept ownership responsibilities. In fact, a majority of non-members interviewed indicated an interest in joining a GSL, should an opportunity come up.

Another important priority is to 'withdraw my money more easily when I want'. This is a normal concern in the shift to more monetized savings practices, as is the concern to ensure that returns on savings are high, just as returns on savings-in-kind frequently are.

Interest on savings is arguably not governance-related. However, it ranks quite high on the priorities of many respondents, because it offers them an opportunity to set aside ownership duties and focus on their role as clients. Since GSLs are composed of owners, not clients, a strong emphasis on this priority is a good indication of an immature group.

For members, these concerns also exist, but are viewed as less important. The most plausible explanation is that members have gained some comfort, from experience, with the way in which GSLs handle transparency, return on savings and cash withdrawals. Thus, members tend to focus on other issues that continue to concern them. These include the desire for fair treatment when applying for loans, more skilful management, and safer storage of cash. These issues crowd out concerns about return on capital, which otherwise might have been expected to remain paramount.

The desire for fairer loans and more skilled management might suggest problems with the leadership. However, respondents shrugged off propositions like 'leaders should show more respect for the rules' and 'leaders should be less arrogant/respect me'. A focus group from Morama summarized the loan problem, saying, 'the money from our GSL is often borrowed immediately after contributions, leaving others with no loans. In cases of emergency all the money could be lent out, so we have to go to a moneylender or shopkeeper'. The members hold management responsible for correcting and avoiding these liquidity shortages.

Given the many observations of external observers about 'entropy' in policies and procedures, it is interesting that 'leaders should show more respect for the rules' receives so little attention. If this is not a concern of members, there is little reason for leaders to be concerned about it either (the sample of 78 GSL leaders ranked this priority at the same level as the other members - 9th). Yet the transition from traditional, personalized leadership to rules-based leadership is one of the most important aspects of institutional modernization.

Another dimension of member attitudes is shaped by experience with other institutions. The study area has many informal groups. Table 30 reveals considerable overlap in membership and leadership between GSLs and other local groups, especially ROSCAs. For example, of the 27 GSL chairpersons interviewed for the study, 13 were simultaneously participating in ROSCAs and eight in other informal savings groups. GSL members were considerably more likely to belong to ROSCAs (46%) than were non-members (30%). The FinAccess survey collected data about these organisations, which included traditional welfare and funeral societies, ROSCAs and ASCAs. Many use ledger accounts, passbooks and/or receipts, much like GSLs do. Some practice formal separation of duties between chairmen and treasurers, engage external auditors and/or use locked boxes. Most are primarily engaged in helping members save for various purposes. The proximity and density of these close institutional relatives of GSLs is a distinctive characteristic of the project area.

The diversity of systems used by GSLs to keep records, including formal and informal books, and multiple languages (not always spoken by most members) depicted in Table 12 above may be partially explained by this overlap between GSLs and more traditional institutional forms. If groups elect officials partly due to their experience with managing similar groups, they will bring their experience and their traditional practices with them. In some cases they will adopt the advice of CARE based on the training; in other cases they may not. The result is likely to be a fusion of practices from different models. This fusion of practices may also have an impact on scale-up, since in areas where traditional groups are strong and the GSL methodology is recognized as a step forward, diffusion may be accelerated by the cross-fertilization of local practices and leaders.

[66] And cf. Odell and Rippey, 2010. "Of the 64 groups for which there was sufficient information about IGAs to assess them, nearly three-quarters of the groups (72 percent or 46 groups) reported that they had at least one income-generating enterprise." p. 28.

4.2 IMPACT OF INCUBATION CHANNEL ON THE GSL SEGMENT

Has the steep drop in GSL incubation costs impacted the ability of CARE to provide a compelling proposition to the GSL segment? In other words, are attitudes different in the CARE-facilitated channel than in the lower-cost franchise and FBO channels? Are member perceptions of the benefits they will receive, or the quality of governance, different? Are the franchise and FBO channels themselves different from each other, and if so, how?

Tables 31-33 build on tables 25-28 by analyzing the same data by incubation channel. Attitudes to saving by incubation channel appear in Table 31. Interestingly, attitudes of those recruited directly through CARE appear closer to those of the general population than the attitudes of those recruited through the franchise and FBO channels. This suggests that the incubation channels developed for this project may be more effective at targeting a distinct segment than CARE can be directly. The introduction of local agents may naturally tend to engage the attention of a more self-reliant population with a stronger financial planning orientation at the level of their families and households. If that is the case, it is not surprising that the strongest orientation to planning is seen in members recruited through the franchise channel, which presents an entirely business-like face.

Table 32 compares the views of members recruited through the various incubation channels about the benefits they are receiving from membership. What is extraordinary is how stable the basic benefit proposition has remained during CARE's channel piloting efforts. While there have been some concerns from the project consultant about short-cuts taken by CBTs through the new channels in training, and resulting 'entropy' in the methodology, this analysis suggests that these matters may be of little overall concern to members or to the market positioning of GSLs.

This becomes more clear in Table 33, where member perceptions by incubation channel are grouped, and compared with the perceptions of non-members (from Table 27). In comparing member perceptions with those of non-members, any within-channel differences pale in comparison to the larger proposition that GSLs offer distinctive non-financial benefits. These points of differentiation hold up very well across channels. In fact - as in the case of attitudes to saving above - the transition from direct to indirect incubation has led to clearer articulation of a distinctive GSL market segment. In addition, 33% of franchise members said they had gone to their group for help during an emergency, compared to 26% of FBO members and 24% of CARE direct members.

Table 31: Attitude towards saving

N = 449	All Members	Franchise	FBO	CARE
"I save a planned amount regularly"	41%	52%	45%	29%
"I save a planned amount when it is available" (e.g., after the harvest)	34%	39%	35%	32%
"I save what's left over after meeting my needs"	20%	9%	20%	39%
Total	321	116	121	84

Table 32: Benefits of GSL membership, members

N = 278	Rank			
	Franchise	FBO	CARE	Reference: All Members
Easy loans	1	1	1	1
Safe for cash	2-3	2	2	2
Save regularly	2-3	3	5	3
Helps me manage money	6	4	6-7	4
Simple to use	5	5	3	5-6
Best rate on savings	4	7	4	5-6
Cheapest loans	8	6	6-7	7
Easy to withdraw savings	11	8	8	8
As many loans as I like	7	11	12	9
Teaches me about money	12	9	13	10

Table 33: Points of differentiation, members and non-members

N = 375	Rank			
	Franchise	FBO	CARE	Non-members
Helps me manage money	6	4	7	14
Teaches me about money	12	9	13	18
Strengthens community	9	12	9	20
Learn business skills	10	10	14	21
Trust the people	14	14	11	8

Table 34 shows the differences in attitude towards GSL benefits among members, by sex. This is another area where segmentation has held up well, with women composing about 70% of the membership in all three channels. Overall, men in the member sample have slightly lower levels of education, and are less likely to be numerate/literate. Sampled men are older (average, 55) than women (average, 44). In general the differences are quite small. As might be expected, women ranked safety of cash higher, while men ranked easy loans higher. Perhaps less expected was the tendency of men to rank 'strengthening community' and 'simplicity of use' more highly than women. Women are also more likely to see GSLs as a forum for learning business skills.

Table 35 shows differences in governance attitudes between female and male members. Women prioritise fairness in loan allocation, and higher interest on savings while men are more concerned about the cash safety, and the corollary to safe cash - easy withdrawals.

Table 36 compares member attitudes to governance by incubation channel. Stripping costs out of incubation could negatively impact institutional quality from start-up, which would skew member attitudes to governance. Are there important differences in attitudes to governance between direct and indirect incubation?

It is apparent that while attitudes are quite similar between the CARE facilitated and FBO channels, members in the franchise channel have a distinctly different set of governance priorities. They are primarily concerned about the skill of their managers: an issue of much less importance to other GSL members. It is plausible that groups in the FBO channel may find it easier to tap good leaders, because faith communities attract educated individuals to a context in which community service is expected. However, this expectation will only last over time if senior leaders in the faith communities continue to pay close attention to GSLs. The franchise channel may not have such favourable access to initial leadership talent.

Table 34: Benefit segmentation by sex

N = 321	Women (N = 229)	Men (N = 92)
Safe for cash?	1	2
Easy loans?	2	1
Simple to use?	6	3-4
Helps me manage money?	4	6
Learn business skills	11	13
Strengthens community?	12	7

Table 35: Governance segmentation by sex

N = 321	Women (N = 229)	Men (N = 92)
Fair loans	1	3
Higher interest	2	7
Safer cash	4	1
Deposit is easy	6	9
Withdrawal is easy	8	4

Table 36: Attitudes to governance, by incubation channel

N = 313	Rank priority			
	Franchise	FBO	CARE	Reference: All Members
I'm treated more fairly when I apply for a loan	4	1	1	1
The managers have more skill	1	6	4	2
The group's cash is kept in a safer place	5	2	2	3
I can earn more money on my savings	3	3	5	4
The group makes more profit on its activities	2	8	9	5
I know more about what's going on in the group	6	5	3	6
It's easier to withdraw money when I want	8	4	8	7
It's easier to deposit money when I want	7	7	6	8
Leaders show more respect for the rules	9	9	7	9
Loans are lent out on less risky projects	10	11	11	10
Leaders are less arrogant/show more respect for me	12	10	10	11
Other	11	12	12	12

Members from the franchise channel rounded out their top three priorities with more profit on group activities, and higher interest on savings. This heavy emphasis on returns suggests members may think of governance largely in terms of short-term profit. When this attitude is combined with a desire to find a leader who can deliver this benefit for them with relatively little effort on their part, the resulting GSL institutional structure is vulnerable to rapid methodological change.

By contrast, members in the FBO and direct channels appear more concerned about group problems like improving loan allocation and creating safer cash management systems, while being less likely to blame managers for the fact that these problems exist.

Do GSL members change their attitudes towards benefits and governance over time? Shifts in priorities could create shifts in incentives that may support further market development. Table 37 highlights shifts taking place in attitudes towards governance over time. The member sample was divided into those that had not yet completed their first cycle (N=161) and those who had experienced at least one full cycle, including the end distribution (N=156). Such a division helps to expose differences that result between people's initial expectations (based on promotion or word of mouth) and their expectations based on actual experience.

A distinct shift in attitudes is clearly visible. Based on liquidity constraints, especially during seasonal periods of tight cash flow, the fairness of the processes governing allocation of loans becomes the most important issue. The ability to withdraw savings also rises in importance, probably for the same reasons. The safety of cash storage, especially at the end of the cycle when it is not possible to keep cash all loaned out, also takes on added importance. Members see these governance priorities as sufficiently important that interest on savings becomes less important in relative terms. In other words, a process of learning about governance through action/experience takes place.

Table 37: Attitudes to governance, comparing first and later cycles

N = 321	Rank priority still in first cycle (N=161)	Cycle 2 + (N = 156)
The managers have more skill	1	3
Fair treatment when I apply for loans	2	1
I can earn more money on my savings	3	4
The group's cash is kept in a safer place	4	2
It's easier to withdraw money when I want	8	6

Table 38: Reported savings and payout, by incubation channel

	N	Average savings	Average dividends	Total	Memo: return on savings
Total	151	2,702	1,658	4,360	69%
Franchise	39	2,054	1,399	3,453	77%
Faith-Based (FBO)	73	2,796	1,632	4,427	69%
CARE-direct	39	3,175	1,967	5,142	60%

Do systematic variations in financial policy emerge by incubation channel? If they do, this could affect segmentation, and the likely sustainability of different channels. Table 37 shows savings and dividend levels by channel. The sample size, while small (members who have already received at least 1 payout) is sufficient to draw some tentative conclusions. Note that sample GSLs had an average duration of 11.6 months and a maximum duration of 12 months.

The average member reported saving Ksh 2,702 in the previous cycle. Average savings amounts are a good proxy for member trust. The largest average savings of GSLs came from CARE-facilitated groups, possibly because the CARE name inspires some confidence when members feel it is directly involved (another factor may be the relative length of time that CARE-facilitated GSLs have been operating). Average savings amounts are smallest within the franchise channel, which would have the least 'brand recognition' to help with market development. Again, length of experience may be a factor in the smaller savings levels in the franchise channel, as more respondents had longer experience with the FBO and CARE channels.

There are some differences in dividend levels and 'return on savings' between the channels. For example, it is plausible that earning trust is simply less difficult for an FBO than for a franchise, and that as a result FBOs feel less need to deliver high returns in early cycles to capture market share. Differing returns may also reflect differing attitudes towards 'profit'.

By April 2010, Richard Mokaya, the franchisee for Manga, had incubated 712 groups representing over 30,000 members. He encourages a change in interest rate policy among the groups. Many started at 5% or 10% a month; he now encourages them to move up to at least 10% - and believes that many could stay fully lent out at 20% a month. Mokaya, like other franchisees, is looking for ways to build the GSL business after the project is over. If franchisees can convince their members that supporting the franchise will lead them to higher returns, they are more likely to transform it into a permanent proposition.

To summarize the review of incubation channels, the reduction in costs resulting from the shift out of direct incubation and into indirect does not appear to have had a major impact on member perception of benefits or the distinctive positioning of the GSL as a financial institution. However, there is evidence that FBO-incubated and franchise-incubated GSLs appear to have different philosophies of institutional purpose and membership, with the stress placed more on member responsibilities in FBO-incubated groups, and more on leader responsibilities in franchise-incubated groups. While GSLs in the FBO channel remain in the tradition of 'mutuals' or cooperatives, GSLs in the franchise sector are evolving in a more commercial direction, analogous to the 'investment clubs' found in many parts of the world.

Underlying this, a slightly different risk/return proposition may be evolving in the two channels. It is interesting that members in the franchise channel appear simultaneously to be more profit-driven and more motivated to plan their savings in advance. Since higher returns require high risk, and higher risk makes planning more erratic, this underlines the role of the GSL as simply one financial instrument in a much wider household financial portfolio.

Table 39: Member asset estimate, by incubation channel

N = 321	All	Franchise	FBO	CARE
Housing quality (roof, walls)	2.6	2.6	3.2	2.7
Land	4.7	4.3	4.7	5.1
Consumer goods	1.4	1.4	1.4	1.2
Agricultural goods	1.4	1.4	1.5	1.0
Education – primary	1.5	1.3	1.5	1.6
Education – secondary	0.6	0.6	0.7	0.5
Education – tertiary	0.2	0.2	0.2	0.1
Total	12.4	11.9	13.0	12.2

Table 40: Reported savings and cash-out, last cycle, by 'return on savings' quartile

N = 151	N/Quartile	Average savings	Average dividends	Average total	Memo: return on savings
Return on savings, top quartile	38	2,731	3,301	6,033	128%
Return on savings, upper middle quartile	38	1,611	1,280	2,891	80%
Return on savings, lower middle quartile	37	2,468	1,239	3,707	52%
Return on savings, bottom quartile	38	3,992	801	4,793	16%

4.3 OTHER DIMENSIONS OF SEGMENTATION

Because GSLs are savings-led, a simple asset indicator was prepared to estimate the relative level of assets of members by incubation channel. The indicator relies primarily on respondent testimony, with the team spot checking assets whenever practical.

The asset estimate reinforces the picture that emerged through analysis of attitudes. Through the franchise and FBO channels CARE is reaching a population that is more likely to own agricultural assets, less likely to have completed primary school, and likely to own less land than the members recruited directly.

Channel-based comparison masks the diversity of policies between groups within channels, which becomes more evident in Table 38. Here the sample of members who had already received at least one payout was stratified by quartile, with those who report receiving the highest return on savings at the top. Low returns on saving can result from several factors: low interest rates, conservative lending policies that result in very high cash balances, and of course losses from bad investments (several respondents reported negative returns). Conversely, high returns involve high interest rates, aggressive but sound lending policies that minimize idle cash (more active lending to non-members, for example), and good follow-up that minimizes delinquency problems.

The evidence from Table 41 indicates that in GSLs, women save significantly more than men. (Savings of Ksh 2,828 is equal to approximately US $34, while the lump sum payout amount is approximately US $55.) This pattern corroborates other evidence (e.g., Johnson et. al., University of Bath, 2009) that GSLs' cash flow outputs are more suited to the financial requirements of women than to the 'lumpier' cash flow requirements of men. The men in this sample are older, and have lower overall household cash in-flows than the women, so it could be that GSLs match their financial requirements reasonably well.

Table 41: Reported savings and payout, last cycle, other dimensions

	N	Average savings	Average dividends	Average total	Memo: return on savings
Women	106	2,828	1,771	4,599	69%
Men	45	2,406	1,392	3,798	68%

Table 42: Household characteristics, by 'experienced' savings quartile

N = 151	Top quartile	Q2	Q3	Bottom quartile	All
Average savings, last cycle	7,921	2,156	1,255	862	3,060
Assets	14.6	11.6	9.7	9.9	11.5
Of which . . .					
Land	5.6	3.9	3.5	3.2	4.1
Education, secondary	0.8	0.8	0.2	0.4	0.6
Agricultural goods	1.6	1.1	1.3	1.0	1.3
Household cash inflow, last 12 months (median)	5,604	3,038	2,167	1,967	3,000
Income volatility (standard deviation of monthly cash inflows/median inflow)	55%	62%	65%	68%	62%

GSLs depend on savings for the availability of funds, and their ability to meet member needs. Do active savers differ from other members?

In Table 42 the members who have been through a full cycle are stratified by quartile of savings during that cycle ('experienced' members). For several of the more active respondents, this included savings in other GSLs. The average top quartile member saved Ksh 7,921 (about US $94) in the last cycle, while the average bottom quartile member saved Ksh 862 (about US $10). The greatest discontinuity between quartiles divides the top quartile savers from the other three quartiles. Top quartile savers have greater household assets than other members, including more land, more agricultural equipment and more secondary school education. Their household cash inflows in the past 12 months were also significantly higher. They are more likely to belong to multiple GSLs, and save proportionately more in GSLs relative to their margin of greater income - a behavior that presumably implies greater confidence in the safety of their savings.

The bottom two quartiles by savings have very similar asset endowments and household cash flows. As noted earlier (at Table 9) some GSLs seem to be losing members, while other better performing ones are gathering members in. This means that savings behaviour in the bottom quartiles is probably partly explained by poor group performance, not just poverty or lack of trust.

4.4 INTERNAL SEGMENTATION

Based on informal financial markets in other countries (e.g., the 'investment clubs' of Mongolia, or the credit unions of Latin America) it was hypothesized that there may be some internal segmentation within the groups - for example, between borrowers and investors.

This hypothesis is tested in Table 40. 'Non-borrowers', a special category that is a subset of the bottom quartile, appear within their quartile grouping and separately. The relationship between the frequency of borrowing and the extent of savings is weak, which shows that genuine intermediation is taking place. The distribution of office-holders is also interesting, with most record-keepers in the top quartile of borrowers and most chairpersons in the middle quartiles of borrowing frequency.

Interestingly, those who borrow the least are also earning the lowest returns on their savings. Malkamäki reports that some groups in COSAMO (a closely related project) rebate a portion of interest paid by borrowers back to them during the cycle-end cash-out.[70] This observation was corroborated by Rippey who reports on groups where a refund of interest paid dominates the cash-out (a cash-out method he dubs 'regressive').[71] It is probable however, that causation also works the other way: that is, that some members are unable to borrow because the GSL has performed poorly.

There is a large concentration of members who are not very active as either savers or borrowers (see Figure 6). Specifically, 66% of bottom quartile savers are also bottom quartile borrowers. These 'double bottom quartile' members (N=25) are scattered across 11 of the 38 groups with second cycle representation in the study (Vihiga = 3; Rachuonyo = 2 and Nyamira = 6). The team interviewed a total of 66 members in these 11 groups, of which 18 were innumerate/illiterate and 9 were double bottom-quartile. Compared to the whole sample of 151, the sub-sample of 66 members in these groups had lower median in-flows (Ksh 2,250 a month compared to Ksh 3,000 for the whole sample) and slightly lower assets (scoring 10.8 compared to 11.5 for the whole sample).

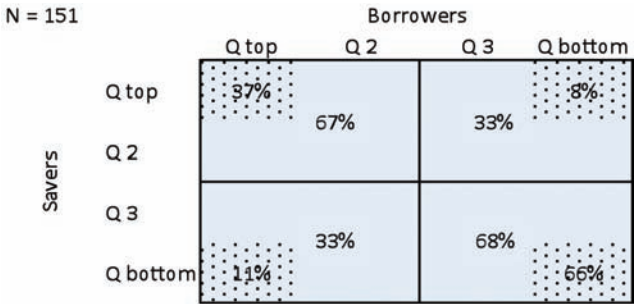
Table 43: Internal segmentation

Quartile by number of loans taken in past 2 cycles					
	Top quartile	Q2	Q3	Bottom quartile	Of which non-borrowers
N = 151	38	38	37	38	12
Average number of loans, last 2 cycles	9.9	4.6	2.5	1.0	0.0
Reported savings, last cycle	3,043	2,650	2,786	2,332	3,623
Reported payout, last cycle	5,155	4,347	4,775	3,175	4,679
Return on savings, last cycle	69%	64%	71%	36%	29%
Withdrawals, number in current cycle	14	5	16	14	3
Average number withdrawals, current cycle	0.4	0.1	0.4	0.4	0.3
Chairpersons, number	1	5	9	0	0
Record-keepers, number	9	2	1	1	0

[70] Malkamäki, Markku. 2010.

[71] Odell, Marcia and Paul Rippey. *The Permanence and Value of Savings Groups in CARE COSAMO's Savings Program, Nyanza Province, Kenya*. Aga Khan Foundation, June 2010.

Figure 6: Membership overlap by borrower and saver quartiles, experienced members



How do the governance priorities of the suppliers and users of capital compare to each other and to the whole membership? And how to they relate to the priorities of those who are currently less active product users? Table 44 compares priority ranking by the top quartiles of borrowers and savers to each other and to the priorities of the whole membership. Only members who have experienced at least one distribution already are included.

Not surprisingly, top-quartile savers are more concerned about the interest they earn than top-quartile borrowers. The two groups also disagree on the importance of being able to withdraw money when they want, with top savers showing surprisingly little interest in this. As noted above, most GSLs seem unable to consistently permit withdrawal on demand, so that the top savers may simply be individuals for whom the absence of this capacity is not a trust issue.

Both top-quartile groups downplay the widespread concern within their GSLs about loan allocation, suggesting that top savers are successfully limiting loans to relatively safe borrowers, and top-quartile borrowers are the ones benefiting. These groups also agree that managers should have more skill (a priority that almost ties for first with interest among top-quartile savers). Their other top priorities can all be addressed more effectively by managers with the skill to do a better job in liquidity management, cash handling and safety, and lending. Perhaps the strongest indicator of member concern for good governance, is their concern that leaders show respect for the rules. It is interesting that for both top-quartile borrowers and savers, this is viewed as considerably more important than it is by members from other quartiles.

The sub-sample of chairpersons who are in their second cycle (N=27) is included for comparison purposes. Two-thirds of this group are women, and at 45, they are slightly younger than the average age of the whole 2nd cycle sample (48). They saved Ksh 4,659 in the last cycle (substantially more than the average member), borrowed a similar number of loans (4.6) and withdrew savings slightly more frequently. Fair loans are their top concern, followed by easy withdrawals. The fact that they save so much and borrow relatively little is a healthy sign for the future of GSLs. However, they downplay the governance concerns of the top user quartile (especially related to the skill of managers and respect for the rules), which may be a less healthy sign.

Table 45 shows governance priorities for the 'entry' quartiles who are using GSL products much less actively. Two very strong differentiating factors emerge in this group. First was a desire for greater transparency among bottom quartile savers. Members who are innumerate or illiterate are disproportionately concentrated in this group; as are men. These high rankings suggest that problems with understanding the retail interface represent an important barrier to savings mobilization and trust at the bottom end of the GSL market. Second was a much stronger desire among borrowers than savers for skilful managers, again suggesting problems with loan allocation processes and to a less degree, liquidity management. The 11 GSLs where the 25 'double bottom-quartile' members were concentrated had a slightly different set of priorities, placing desire for higher interest and more skilled management ahead of other factors. These groups tend to be in more remote areas, where understanding of governance may be developing more slowly.

Table 44: Governance priorities, most active quartiles

	All	Borrowers (Q1)	Savers (Q1)	Chairpersons
N	151	38	38	27
Fair loans	1	2-3	5	1
Cash is kept in a safer place	2	4	3	3-4
Managers have more skill	3	1	2	5
I get higher interest	4	6-8	1	6
Withdrawing is easy	6	2-3	8	2
Transparency	8	9-10	9	7-8
Leaders respect the rules	9	5	4	7-8
Less risky loans	12	11	12	11-12

Table 45: Governance priorities, entry quartiles

	All	Borrowers (Q4)	Savers (Q1)	Chairpersons
N	151	38	38	27
Fair loans	1	1	1	1
Cash is kept in a safer place	2	2	2	5
Managers have more skill	3	3	9	4
I get higher interest	4	4	5	3
Withdrawing is easy	6	8-9	4	9
Transparency	8	6	3	2
Leaders respect the rules	9	8-9	8	8
Less risky loans	12	12	12	11

In summary, experienced members from most segments (including those who are very active borrowers and savers as well as those who are staying closer to the sidelines, 'watching' before committing) would like to see better governance, though for different reasons. This desire, and the associated incentives, may provide leverage for practitioners during scale-up to slow down the processes of entropy.

Chapter 5

CONCLUSIONS AND RECOMMENDATIONS

In its project appraisal document, FSD Kenya expressed its belief that, while 'innovative delivery channels and products such as M-PESA offer good prospects for further expansion of formal financial exclusion, very low-cost, decentralised financial intermediation offers greater promise for reaching the true bottom of the pyramid in the medium-term'.[72] The study corroborates that view, but with caveats about institutional quality and scale-up priorities.

5.1 LIVELIHOODS AND SEGMENTATION

Savings groups achieve their impacts through the delivery of four general categories of benefits:

- Basic saving and loan services, including *both* withdrawals and deposits;
- Emergency saving, loan and grant services;
- Social solidarity and mutual commitment; and,
- Creation of an unintimidating learning environment for members that allows them to understand money management, financial institutions and group governance at their own speed and level.

The first three attract members and keep them active; the fourth may enhance loyalty over time. Many practitioners see GSLs and other savings groups playing a bridging role between the practices and attitudes of informal financial markets, and those of the formal financial sector. If this is the case, the evidence from this study suggests that GSLs' benefits serve two distinct functions. At the product level, GSLs strive to mimic modern financial products, and in the process they help shape member product knowledge and expectations of the surrounding financial markets. With respect to the non-financial aspects such as social solidarity and knowledge management, GSLs play a more conservative role, reassuring members that however complex the financial world may be, the community values such as attitudes towards leadership and governance need not change quickly.

The evidence presented by this study suggests that both the indirect incubation channels developed by CARE (franchise and FBO) have proven to be useful innovations in achieving low cost GSL start-up in Kenya. A market segment has emerged that is clearly differentiated from the wider market composed of non-members of GSLs.[73] Compared to non-members, GSL members are more likely to be female, have larger households and be poorer. They are more likely to be concerned about school fees and microenterprise development. They are more likely to plan to save regularly, and appreciate the benefit of the disciplined savings regime afforded by their groups. These characteristics are well matched with the services that GSLs can offer.

It is especially striking that many of these segmentation characteristics appear more clearly articulated in the indirect channels than they are in those facilitated by CARE directly, even though GSLs in the latter have been operating longer. The reason for this distinction is not entirely clear. It is possible that the training and orientation of CARE staff, either by itself or in combination with CARE's public visibility and reputation as a donor/development agency, add an inherent skew to participation which can only be removed once CARE has taken a step back from the front lines.

The 'GSL segment' has also developed distinctive attitudes about the role of their financial service provider. GSL members are far more likely than non-members to expect to receive advice (especially about how to manage money) from leaders and other members or their GSL, in addition to savings, loans and emergency support. While this advice is not 'expert' (in the sense that it would show little awareness of more formalised financial markets and options) it is highly valued by members, and would be very responsive to their capacities and character. Through repeated use of the GSL, members gain confidence in the possibilities opened up by access to a somewhat safe, somewhat flexible place to save. They report that they see more and more of their savings in terms of open-ended goals, and invest simply to 'earn interest'. Where GSLs continue to operate safely and transparently, this shift in attitude can be expected to deepen with enormous long-term impact.

In addition to the findings about the GSL segment, the study has shown how the two incubation channels themselves represent different, yet arguably complementary, paths. Members in the franchise channel appear more profit-oriented and seem more inclined to look to their managers to solve the group's problems. In the absence of a well-known community 'brand' (like a church, or CARE itself) to lend them credibility, they appear to be working harder to manage their public reputation by maximizing returns on savings. Members in the FBO channel appear to have access to more technically competent group leaders, and appear to be saving slightly more. They also appear more inclined to solve group problems collectively.

There are several reasons why this divergence between channels may be beneficial. First, it offers outreach to a wider population through multiple arenas. Second, it provides multiple points of attraction and loyalty for potential members. Third and finally, it reflects the reality that poor people manage their finances on a portfolio basis, and see benefits to belonging to multiple groups.

The desire to belong to multiple groups requires some elaboration. Since different groups have different cash-out dates, different attitudes towards risk and return, different savings policies (equal contribution versus member choice) and different cash-out policies (savings-led, flat, regressive or a mix of these) the whole incentive structure of this informal financial system leads members to view GSLs not just as groups but also as discrete 'products' (much

[72] FSD Kenya. *Project Appraisal Report: Group Savings and Loans.* Nairobi, March 2008.

[73] It would be possible to dispute this observation by arguing that the non-member sample was not fully randomised and may not be truly representative of the whole population. This point is accepted. The goal, which in the view of the author was achieved, was to establish a fairly good 'sketch' of the segmentation position rather than a photograph. Greater depth of segmentation analysis could usefully be achieved, but it was outside the scope of this exercise.

as consumers in the formal sector might purchase multiple term deposits for 'laddering'). Investments in each GSL can then be aligned to different savings goals in order to draw down usefully large sums at different times of the year.

Diversification of membership has other benefits as well. An important complaint raised by members about their groups was that loans are not always fairly allocated. In the more commercialized areas (like parts of Nyamira), members complained that funds would be immediately lent out, leaving many members without access. These concerns were particularly acute during periods of tight GSL cash flow, such as February, June and September. This is particularly important for groups that don't permit withdrawal of savings before the end-of-cycle cash out. This complaint may be sourced in the methodology, since there appears to be no guidance for groups on how to allocate loans when funds are insufficient to meet demand.[74] Clearer, rules-based guidance from CARE would reduce the sense of injustice and the awkward questions that members can ask when (for example) leaders and their friends appear to be benefiting at the expense of other members. This helps in overcoming the trust issues that inevitably must be addressed in any savings-led group.[75]

Addressing these types of liquidity problems places a large premium on management skill and judgement, and helps explain why this is an important governance priority for many members. There is also a wide divergence in the performance of groups by growth versus loss of membership, with a small number in each channel accounting for the overall growth of membership. Over time, this process is leading to a smaller number of larger, better managed groups. So GSL members may want to belong to multiple groups partly to identify good leaders and hedge the risks of participation with poorer leaders, or ones who are just tired. All this suggests that in a mature GSL marketplace many households may prefer to make small contributions to multiple groups rather than larger contributions to one group, even while migrating gradually towards other semi-formal and formal institutions.

The results of this study suggest that CARE's channel innovations have not impaired the ability to develop a viable GSL model. The new channels are proving not just to be more efficient GSL incubators, but also to be more effective at targeting a distinctive 'unbanked' segment that is likely to remain loyal over time.

[74] The only note in the CARE (and VSLA) Manuals states that "If the total value of loans requested is more than the money available in the Loan Fund, the Association must discuss adjustments to the individual loan amounts until all members are satisfied." CARE & VSL Associates. VSL Field Officer Guide, p. 25 and VSL Village Agent Guide, p. 23.

[75] Another incentive sourced in the methodology is the matter of large, late-in-the-cycle deposits. These funds contribute little to group earnings, but earn the same dividends as other shares. Many groups may be restricting this activity, and will certainly discourage it. For members who wish to deposit surpluses whenever they have them, membership in multiple groups with different end dates is clearly useful.

5.2 GOVERNANCE AND SUSTAINABILITY

All considerations of impact and segmentation are dependent on institutional or group quality; especially after donors (such as CARE) phase out, and over longer time periods. Even now, 17% of members and 23% of non-members interviewed know someone who has lost money in a GSL. While these figures are considerably lower than those in other ASCA and ROSCA segments (where 56% of members have experienced personal losses of savings) GSLs have existed for a far shorter period of time, so the data is not comparable.

A basic assumption underlying the 'fire and forget' model of GSL incubation is that 'entropy' or 'mutation' will not seriously impair the integrity of the financial transactions governed by these institutions, at least over the medium term. Several external studies covered in the literature review (including Odell & Rippey, Malkamäki, Johnson & Nino-Zarazua) refer to this question, and there remains considerable debate over the severity of the problem and the best ways to deal with it. There is no doubt that enormous institutional diversity is evident within the GSL universe in the study area, and that it may not be realistic to expect the consolidation of a remotely 'standardized' or 'branded' GSL model, even in the medium term. This also may not be necessary for the success of the GSLs as institutions.

This diversity seems to be partly due to variations in training practices. In a recent report, Rippey observed that CBTs appear to be cutting corners on training at the expense of quality.[76] For example, many groups do not permit unequal savings amounts. This restriction greatly reduces savings flexibility, and excludes poorer members who can't meet the agreed contribution requirements, especially in seasons of very tight cash flow). Apparently, this practice variation results from the fact that it takes too long for the CBTs to adequately explain the benefits and operational mechanics of accepting these cash flows. The DAI study team observed that some CBTs are controlling the timing of group cash-outs, which also greatly reduces member value. In the FBO channel this CBT control is greater in the second cycle than it is for groups still in the first, which may help to explain why this channel is the only one in which group size has been dropping.

Clustering of groups, a practice particularly common in the franchise channel, has an impact on the member value proposition. Groups re-form and re-start the same day that they cash-out. While this does not appear to have had an adverse impact to date, the future prognosis is worrying. Not only does this risk impairing the power of members to choose each other and their leaders, it begs the question: why cash-out at all? It surely will not be long before it occurs to some groups that the whole complicated and time-consuming process of cashing out can be avoided altogether. It may also not be long before it occurs to some GSL leaders that a lot can be hidden when there is no action audit, and thus there are personal opportunities for enrichment.

[76] Rippey, Paul. *Field Visit, April 2010*, p. 6.

Most important however, GSL standard processes are not being followed in a strict or disciplined manner by the groups themselves. Members ranked 'respect for the rules' ninth in order of governance priorities for their groups - a placement that may help to explain the process of 'entropy'. No matter how rigorous or consistent the training, if rules are easily set aside whenever they collide with 'the ritual solidarity that is the basis of such groups'[77] (or by a similar turn, with a compelling human story) it is difficult to see how wide variations in practices can be avoided.

A related challenge is the impact of the extraordinary rich and quite dense variety of informal savings-type groups already in operation in the area. As pointed out earlier, many GSL leaders are currently members of ROSCAs, ASCAs or welfare/clan societies. In fact, it seems quite natural that new groups might select people with such experience. CARE has been attempting to persuade groups to adopt a passbook-only system of accounting since COSALO began. This system encourages greater transparency and leadership accountability in a setting where few members are capable of reading the ledgers, much less preparing them. The passbook-only system also reduces the need for a very time-consuming training programme, and substantially reduces group work. Yet none of the groups we encountered had adopted the new system, and both franchisees and FBO committee members saw the ledger system as inherently safer, despite the consequences for transparency.

Based on this study among others, there is already evidence in the project area that groups are not adhering to the methodology, and this may erode product quality especially over the medium term. The following is a list of ways in which the methodology is changing:

- Restrictions on member withdrawals during the cycle;
- Record-keeping that cannot be understood by most members;
- Payouts that cannot be explained by the GLS principle that each member receives the same profit per share;
- Fixed savings contributions;
- Lengthening periods of loan delinquency;
- Top-down decisions by CBTs on cash-out dates; and
- Nominal action audits, with membership, leadership and cash reconstituting the same day.

Many of the items on this list, if widespread, would have a serious negative impact on the capacity of members to gain the benefits of even semi-modern financial products.

[77] Johnson et al, citing Clifford Geertz, *The Role of Groups*, op. cit, p. 2.

5.3 MOBILE BANKING

The diffusion of mobile banking in Kenya is changing the competitive landscape, and it raises further questions about the future of GSLs. Seventy-three percent of GSL members stated that they used a mobile phone, and 22% of the residents of Nyanza and Western provinces are registered M-PESA users.[78] Focus group members were asked whether they use M-PESA, and remarks from GSL members in Jokinda (Rachuonyo) were typical. "Almost all the members present use M-PESA and have not registered with M-KESHO but are willing to register. In M-PESA you walk with your money wherever you go, there are no limits on withdrawal time unlike banks which closes at 4 pm. Your money cannot be deducted no matter how long it stays in the M-PESA." However, most members were recipients rather than initiators of M-PESA transfers, and often did not know how to send them.

Nor did this mean that they saw mobile banking replacing their GSLs. The DAI team asked them to consider a time 5 years from now in which it would be possible to save, borrow and transfer funds easily with major banks and MFIs through their mobile phones. Even in this scenario, they could not imagine finance without their GSLs. Where else would they get instant loans without collateral or bureaucracy? Where else would they have access to a social fund in emergencies? Where else would they share in interest earned from lending during the year? At Kidinye (Vihiga) the members added: "when using M-PESA you have to be literate but in GSL you can access your money even if you are not literate."

The attitude of GSL members to mobile transacting is generally positive. Members can help other members to learn the banking software on their mobile phones – a task that falls naturally into their goal of helping members to manage their money. Six GSLs in the DAI study had bank accounts, and sixteen had no cash box. For those GSLs, liquidity management could become simply a question of finding a local mobile banking agent with adequate financial capacity to meet their deposit and withdrawal needs.

Jipange Sasa ("Plan Now") is a network of savings groups in Kibera that hints at the future at the group interface with mobile banking.[79] Groups in this network aggregate funds weekly in M-PESA stored value on the phones of their committee members, who visit an agent before each meeting to convert the value to cash for on-lending. The greatest value they see in mobile banking in its ability to overcome geographic dispersion resulting from member travel and migration. Of course, there are important constraints to achieving similar engagement in the rural areas, not least lower levels numeracy and literacy, and lower agent financial capacity (as noted above). It is likely to be some time before mobile service to GSLs is widespread in remote rural areas.

[78] Use of M-PESA from the FinAccess survey 2009, question G1, detailed break-down by province.
[79] Wilson, Kim. *Jipange Sasa*. In Financial Promise for the Poor, 2010, pp. 99-107.

There is also potential for mobile information management. "SIM cards and debit cards stored in the cash box will serve as a record of group transactions, show payments forwarded to a bank, or surplus funds lent to a group nearby. They will record the savings and credit history of each borrower."[80] Whether this method is likely to prove superior to eliminating records altogether, or simple a useful alternative, remains to be seen, but it is certainly worth testing.

5.4 CARE'S PROJECT GOALS

CARE International in Kenya had four goals at the outset of this project. They planned to:

- Shift to 100% commission-based compensation for community-based trainers (CBTs);
- Introduce two new GSL incubation channels (through franchisees and FBOs);
- Reduce CBT time spent per GSL trained; and,
- Move to an optional ledger system with the goal of eliminating ledgers altogether once this project was over.

It seems fairly clear that with respect to the first two goals, CARE has succeeded very well. While there could be debates about the structure of commissions (outside the scope of this report, and well addressed already by Paul Rippey), the introduction of private sector agents and commissioned compensation has cut costs drastically without any apparent reduction in livelihood impact. Outreach has expanded through the addition of new channels for delivery of training and other incubation services. New population segments have been reached that subscribe in different, but complementary, ways to the basic GSL service proposition.

With respect to the third goal, results are subject to internal monitoring and are outside the scope of this report.

With respect to the fourth goal, at project-end, there has been no significant progress towards weaning groups off ledgers. Ledgers have been optional for two years, and the project incentive systems have given every player in the incubation chain (CARE staff, franchisees, FBO committees and CBTs) an incentive to convince groups and their leaders to test the optional passbook-only system. The fact that all of the 40 GSLs randomly selected for analysis in this study still use ledgers suggests that eliminating the ledger altogether, as contemplated in the next stage, looks highly challenging.

The ledgers are the tool with the single largest capacity to shield GSL managers from full accountability to members - even when that is not the managers' intention. Governance will not improve quickly in a passbook-only system. There is clear evidence from this study that members are learning from experience over time, and that their experience is teaching them that the quality of the financial services they receive is dependent not just on front line product factors like interest rates or contribution rules, but on governance quality in a wider sense. The DAI study found that while members as a whole ranked 'respect for the rules' ninth, the most active savers and the most active borrowers with multi-cycle experience ranked this value considerably higher. Bottom quartile savers and innumerate/illiterate members with experience rank transparency very highly compared to other members, suggesting that greater transparency is key to deepening outreach. This process of learning through experience is shifting member and leader incentives and potentially offering market-based leverage points for reducing the impact of 'entropy' while increasing the value of GSLs as an intermediate institutional form that supports transition into more developed financial markets.

GSLs will need to compete for space with ROSCAs (which many GSLs are integrating into their operations already, perhaps partly to help members meet their portfolio needs) as well as with ASCAs. However ROSCAs are also adding GSLs to their operations. This has made it very difficult – if not impossible – to assess whether GSLs are spontaneously replicating, or dissolving into more traditional formations, or (more likely) some mixture of the two. This raises an important question: what is the true nature of 'impact'?

- 'Replicate' GSLs so that millions of Kenyans gain access?
- Improve governance with the ASCA and ROSCA models, leading to reduction in savings losses and enhanced product usefulness/ flexibility?[81]
- Disseminate the triple-lock cash-box technology and related practices through the informal intermediaries in Kenya?

While these goals are clearly all related to each other, they are also distinctly different, and the first by itself may not really measure the true impact.

Franchisees and FBOs that are considering plans to build sustainable businesses from the GSLs they have been involved in forming should consider the key points of differentiation identified here. Can they generate income by finding market-based methods to:

- Help members reduce the risk of loss in their groups?
- Signal to the market about the quality of GSL leadership (e.g., by a 'certification programme')?
- Help members reduce the risk of loan capital shortages?

[80] Wilson, Harper & Griffith. The Box and the Ark. Financial Promise of the Poor, p. 212.

[81] This raises an interesting question. If thousands of ASCAs, ROSCAs and other savings groups adapt their practices and in the process improve the quality of financial service delivery to their members because they have been exposed to GSL practices (e.g., through cross-leadership fertilization) can this impact be attributed to GSLs?

- Teach members how to manage their money?
- Teach members business skills?

Franchisees are in a particularly good position to do this, as they are experts in money and business themselves, and have the ability to find market-based mechanisms for meeting members' needs.

The decision for FSD at this point, rests on a determination of what scale-up means. If diffusion results in a nation covered with groups that are in most respects no different from other ASCAs, this will result in increased financial inclusion. The aim should be 'to strengthen the basic operation of the ASCA concept and support its expansion rather than attempting to increase the sophistication of the financial service offer'.[82]

But what happens if the ASCA concept is not strengthened - if the result is closer to a 'reverse take-over' by traditional ASCAs? What happens if reasonably modern financial products are being delivered through a management and governance platform that is based on fundamentally traditional village values? These conservative values will clearly have an impact on the quality of financial services delivered, and that impact may increase over time.

As CARE often points out, its primary purpose in GSL practice is member empowerment. This goal is independent from the goal of developing a healthy financial intermediary. But it cannot simply be assumed that all ASCA practices are inferior to GSL practices - especially in the 'softer' social/cultural dimensions. At their philosophical and historical roots, GSLs are simply a standardized version of informal savings groups. The density of informal groups in many parts of Kenya suggests that the process of scale-up should include a deep dialogue with local culture about how to get village financial intermediation right. From this dialogue one (or several) strong, well grounded Kenyan models can emerge.

It may make sense to test (perhaps through structured action research) ways to ensure that the model is strong and stays strong. Should standardized 'good practices' be nurtured and then disseminated, to support higher quality diffusion?

5.5 RECOMMENDATIONS

While the terms of reference for this assignment did not request recommendations, some obvious potential action points emerge from this study and are summarized here:

- Both franchise and FBO incubation channels are capable of achieving market development goals, and can be usefully scaled up. The channels complement one another and where delivery costs warrant, can operate simultaneously in the same markets.
- Given the state of mobile banking in Kenya, in any scale-up it makes sense to test different models of linking mobile banking to GSL practices (at every level: information management as well as both individual and group cash management) and to integrate working approaches into training and incubation visits.
- An important priority for scale-up should be to enhance appeal to younger women, including youth and women below 40, as this represents a major gap and major opportunity for market growth. For example, CBTs could be trained to focus more on helping younger women gain the skills needed for leadership roles in the groups, or on having their existing skills valued more by other members. Training should include a module on practical methods of reaching the younger demographic.
- The increasing concern of members to see better governance through greater transparency and greater compliance with rules could support some kind of training or certification programme to ensure the emergence of a small group of very good GSLs/GSL leaders in various markets. CBTs and GSL leaders who demonstrate their value as informal auditors could receive similar encouragement.
- Clear, minimum standards of GSL quality, including quality of products, management and governance, should be identified and housed with an appropriate entity as part of a process of migration towards a Kenya-wide quality standard. These standards should be realistic and flexible enough to encompass similar entities, such as SILCs and ASCAs. Periodic sampling should be conducted to assess levels and trends in quality. It may be worth piloting 'action learning' associations of GSL practitioners in the project area to test whether they can establish and maintain minimum standards of quality and practice based on GSL fees.
- CARE should address member concern about allocation of loans and withdrawal of savings under varying liquidity constraints by promulgating clear, rules-based procedures.
- Entropic and informal practices, including those used by traditional savings groups, can be at odds with the demands of good governance, especially in the related areas of transparency and product quality/flexibility. Practitioners involved in scale-up should understand the logic and incentives that lead to entropy and/or fusion, perhaps through implementation of a systematic study of the practices of informal savings groups, and train CBTs and channel leaders to actively engage with leaders to show them, on their own terms, systematically and methodically, the value of necessary changes.
- To reduce the risk of continued entropy and/or fusion, the passbook-only system should be field-tested and successfully demonstrated as soon as possible. CARE should cease training in the ledger system as quickly as possible, as the ledger system corrodes transparency and trust, the lifeblood of this savings-led model. To further accelerate integration of

[82] Financial Sector Deepening Trust. *Strategy Paper, 2008-10*. Nairobi, 2008, p. 18.

illiterate/innumerate individuals into active membership, it would be useful to integrate the most effective possible oral tools (pictures, stories, mnemonic box design, etc.) into this system to maximize public trust (savings mobilization) and depth of outreach.

- CARE should implement a small study to assess the characteristics of good GSL managers, and why there is so much demand for groups that are larger than 30 members.
- CARE should make provision for a strong and empowered voice internally that consolidates field knowledge with GSLs and VSLs across Africa to develop and test the tools required to support group governance that enhances member trust and savings mobilization.
- Scale-up should not be rushed. It should involve piloting to prove the potential for critical quality practices to be sustained, and to identify market-based approaches to ensuring sustainable delivery of meso-level services, such as GSL supplies, audit services and training.

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NOTES

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