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FSD Updates

GROUP SAVINGS AND LOANS ASSOCIATIONS GAIN EFFICIENCY FROM NEW APPROACHES

Group savings and loans associations (GSLs)

Group savings and loans associations (GSLs) are a simple financial intermediation model where members of a group (usually between 10 and 20) contribute equal amounts of savings or their multiples during meetings which are held weekly, fortnightly or monthly. The savings are then loaned out to members of the group at an agreed interest rate, building up the group's funds. The members' passbooks are the core form of documentation although in some GSLs a simple ledger showing each meeting's transactions is also kept. At the end of every 12 or 18 month period, an action audit is done and the savings together with interest from loans are distributed to the members in proportion to their savings. The GSL is then dissolved but reforms immediately. Research has shown that due to the simple nature of the model, GSLs continued functioning well and independently following initial support in the form of training. CARE Kenya with FSD's support has designed and is currently implementing a GSL development project which is testing cost-effective ways of delivering training to GSLs. Results from the project will be shared with other GSL implementing organisations semi-annually in forums to be organised by CARE.

Project overview

In September 2008, CARE Kenya, with support from the Kenya Financial Sector Deepening Trust (FSD Kenya) launched a pilot project for the promotion of group savings and loan (GSL) associations designed to test whether an innovative management and incentive system could lead to large outreach at low cost per member. CARE's Community Savings and Loans (COSALO) project began forming groups in Western Kenya in November 2008, and the first groups started saving a month later in December. COSALO is a two and a half year project, with a total budget of US$1.3m and a target of reaching between 42,000 and 96,250 group members.

The wide spread in the projected membership stems from the innovative nature of the project and the uncertainty about how well its innovations would work. COSALO is simultaneously testing two ideas. CARE hopes that both innovations will permit greater outreach at lower cost, while maintaining good group quality. The two innovations are:

1. Use of **independent contractors**. Most of the fieldwork is being done by independent contractors rather than paid employees. These include *franchisees* (local entrepreneurs) and FBOs (faith based organisations), who manage and supervise Community Based Trainers (CBTs), the people who directly train and support the savings groups. The franchisees, FBOs and CBTs are all independent contractors rather than employees of CARE.
2. Use of **incentives**. All contractors – franchisees, FBOs and CBTs – are paid exclusively on commission, based on the number of group members successfully organized and trained.

Franchisees and FBOs receive a bit less than two dollars for each group member in all the groups they form, with two-thirds of that stipend paid when the group starts saving, and one-third coming when the group distributes its assets at the end of the year. In addition, the CBTs receive the same amount, a bit less than two dollars, for each group member successfully organized and trained.

COSALO community based trainer meeting one of her groups

CARE has signed memoranda of understanding (MOUs) with five FBOs and four franchisees. The franchisees and FBOs each have four or five CBTs under their supervision. In order to test the relative effectiveness of different management models, CARE is also directly managing a group of five CBTs. The CBTs are paid on a commission basis, at the same rate as the other CBTs, but the CARE field officers who supervise them are salaried and do not receive any commission. CARE refers to the franchisees, the FBOs and the direct CBTs as three delivery channels. The franchisees and FBOs report to CARE's three Field Officers, and are also frequently visited by CARE's energetic management team, based in Kisumu. To cope with the huge workload resulting from the higher than anticipated rate of growth CARE has recently recruited an assistant field officer for each of the three regions covered by the project.

The groups use a largely standard GSL/VSLA methodology. Notably, CARE introduces groups to both ledger and passbook record keeping, and allows the groups to choose which system they prefer; the groups are often better educated relative to members in other countries, and many opt for keeping ledgers.

Results to date

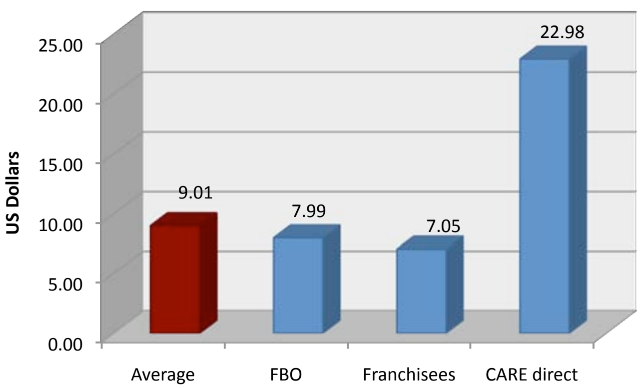
COSALO has had strong growth. As of the end of September 2009, one year after the project began and less than ten months after the first groups began saving, CARE reports that there are 59,378 members in 2,053 groups, which puts CARE well more than halfway to their two year target of 96,250 members. There were 36,705 members at the end of June, and CARE added more than 1,500 members a week during the quarter. At this rate, they could achieve their best case projection for the completion of the project almost a year early.

The project has also been remarkably efficient. Total expenditure reported is Kshs 35,846,749 at the end of September. The key indicator of cost-per-member is a strikingly low Kshs 604 (USD9.01), at the 67 exchange rate that was the basis for budget preparations.

This cost-per-member figure comes from quite rigorous calculations, in that the costs include all overhead, administrative and field costs of CARE billed to the donor, as well as some substantial one-off costs including the purchase of a vehicle and three motorcycles, the use of occasional consultants, and even the cost of writing the present essay. In calculating the cost-per-member, CARE counts only members of groups that have started saving, and excludes any groups in earlier stages of group formation. CARE accounts for the entire payment to the Franchisee/FBO and the CBT at the moment the group begins saving, even though only two-thirds of the amount is disbursed then, with the last third disbursed at the end of twelve months when the group distributes for the first time. CARE is not counting spontaneous self-forming groups as outputs, but it should be noted that there are probably very few of these, since CBTs would rush to offer training to any spontaneous groups they learned about so that they could earn stipends from them.

The nine-dollar-per-member figure can be expected to fall still further as the project remains at a level of high productivity. However, once CARE announces that it cannot pay for the creation of new groups, the figure will begin to rise and will go up steadily over the following 12 months, as CARE's recurring expenses continue every month, while no new groups are being formed.

Cost per member by channel



Franchisee Judy Angaya training a group

The current project is scheduled to finish at the end of 2010 with a cost per member above ten dollars. However, if CARE is allowed to re-align some other budgeted expenses into stipend payments, or if additional funding is obtained, then the fixed costs can be spread over a larger member base. The demand for group formation and the productivity of the teams in the field can easily carry the project substantially above 100,000 members before the scheduled completion of the project.

To date, the franchisees have been the most productive channel, as the four entrepreneurs and the CBTs working under them have unleashed their creativity to produce remarkable output in ways that are discussed below. The second most productive channel is the FBOs. The churches each have chosen a committee of five or more parishioners who oversee their CBTs. The formation and initial work of the committees in some cases was slowed by internal church politics, and once or twice CARE had to request that members be replaced. Initial productivity of the FBOs was much lower than that of the franchisees who as independent entrepreneurs quickly grasped the earning opportunities of the arrangement and did not hesitate to form groups on a massive scale. The FBOs, however, are catching up as the committees have stabilized. The FBOs have the advantage of having access to their church networks; in some cases there are hundreds of churches of a single denomination in the same district. The FBOs work with people of all denominations and "even non-believers" as one committee member added. Their agreements with CARE require them to be non-sectarian and the incentive system that CARE has put in place encourages them to reach out beyond their own denomination.

The least productive channel is that of the "direct CBTs". Their supervisors, the CARE field officers, have other duties besides supervising the CBTs, and of course they do not have the same financial incentive as the franchisees and the FBOs. Also, the direct CBTs happen to work in districts with lower population density. For all these reasons, their production is notably less than that of the CBTs working for the franchisees and the FBOs. CARE regularly checks for multiple memberships. While CARE does not prohibit people from joining multiple groups, it does not pay the CBTs for training the same individual more than once.

Group quality

Measurement of group quality at COSALO, as in most savings group programmes, is so far largely subjective. However, CARE is adopting the Access Africa management information system (MIS), which will allow it to track two good measures of group health easily, attendance and savings. However, until that database is put into place, and until there are established international

Keeping the books

norms for performance, subjective impressions will have to do. After two visits to the project, in March and September 2009, which covered about twenty groups, and extensive interviews with project staff, franchisees, CBO committees, and CBTs, this consultant came away with these impressions:

- COSALO groups show a high degree of assiduity in record keeping and respect for procedures.
- Meetings are quite orderly and groups frequently fine members for lateness or other breaches of group discipline.
- Everyone contacted seems to speak a common language about the groups; there were no incongruous remarks or other indicators of divergent conceptions of the programme, and enthusiasm and comprehension are both at quite high levels.
- COSALO has an unusual number of groups that meet monthly or fortnightly rather than weekly. There is no evidence that this is a problem; it is simply an observation.
- A few groups showed fairly high absentee rates, in each case explained by extraordinary factors such as funerals. Again, this is a subjective impression that will soon be replaced by the hard data coming from the new MIS.

On the basis of available information, there is no reason to think that the incentive system used by COSALO has led to any compromise in the quality of groups. However, in such a volatile setting, it is important not to rely on impressions. When COSALO shifts over to the new Access Africa MIS in the next month or two, it will begin to generate reports that reflect group quality on the basis of quantitative data, particularly attendance and savings rates, which can be compared to international performance benchmarks.

Finally, it should be noted that everyone interviewed reported great demand for savings group training. This is despite the presence in the area of a number of small MFIs, a rapidly growing formal bank, Equity Bank, which is doing an impressive job of making their products attractive to poorer Kenyans, and the M-Pesa mobile cash transfer/savings service which is widely present in the area. Demand is expected to increase after the first payouts, in December 2009.

Keys to COSALO's efficiency

The use of entrepreneurs to form groups has changed the velocity of group formation, and is unequivocally the primary reason for COSALO's efficiency. Entrepreneurs, like the four franchisees at COSALO, typically assess and take on risks to a higher degree than is typically the case with NGOs. They value growth and high volume, and are willing to accept the risk of occasional problems as the price for growing their markets quickly. They also draw their motivation not only from monetary rewards, but from increases in their knowledge, networks and standing. They are finding all these benefits – remuneration, networks, and prestige - in their work with COSALO. They all work hard without counting the hours they work. In practice, what this means for CARE is a significant shift upward in what is considered possible and acceptable production of savings and loans groups.

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 (discussed in the next section).

- *High caseload:* Neither CARE nor the franchisees/FBOs have placed any limit on the number of groups a CBT can handle, and the average CBT managed thirty-four groups as at the end of August. Some of the more productive CBTs have fifty groups after less than a year of service.
- *Subcontracting:* To increase output, some CBTs have calculated that they could have more groups, that is make money faster by subcontracting some of their functions. They have hired assistants whom they pay directly from their own pockets. The CBTs continue to do the direct training themselves, while their assistants help with administration, record keeping, reporting, and organizing.
- *Training multiple groups at once:* CBTs typically train two or three groups at once, a practice that works well in other countries even though it is sometimes frowned on, especially for beginning CBTs.
- *Clustering:* An innovation never encountered before by this writer is that of creating large clusters of groups that meet at the same time and place. Two of the franchisees have clusters of 21 groups that meet at the same time and in the same place, each with approximately 600 members. These assemblies take place in the presence of a small army of supporters: the franchisees are present, as are most or all of their CBTs, plus assistant CBTs and village agents (volunteer organizers), in addition to, often, CARE staff, all of whom circulate from group to group to encourage, correct, train or otherwise support the members.

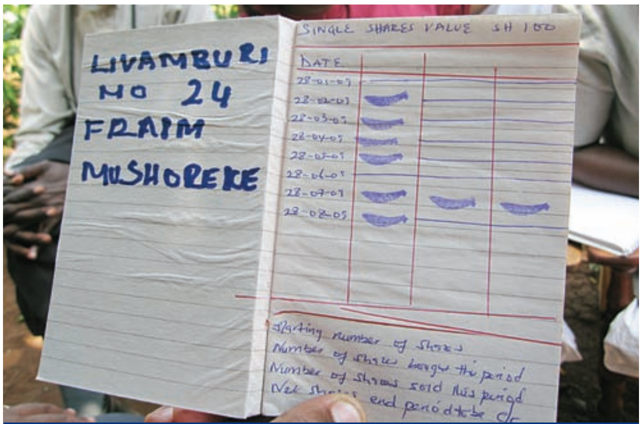
Risks

COSALO is apparently getting about twice the output per dollar spent, compared to any other savings group creation programme in Africa.[1] Such a disparity in productivity cannot be ignored, and if COSALO is successful it will raise donor expectations, and hopefully lead to a healthy competition among programmes to increase efficiency.

[1] However, everyone concerned with COSALO would be grateful to hear of other programmes that are achieving similarly high efficiency. As always, it will be important to understand how the cost-per-member is calculated, that is, what is included in the expense column, and who counts as a member.

This remarkable performance does not come without risks. Some of the risks facing COSALO are in areas where any savings-group programme must be vigilant, although the high velocity of COSALO calls for even greater vigilance than in other programmes: things can turn sour faster in a high speed programme. These risks concern the challenge of having a sufficiently strong MIS, the constant effort to maintain group quality, and possible interference with other providers of financial services, including other savings group promoters.

Since payments to the franchisees, FBOs and CBTs are one of the largest project expenses, it is particularly important for COSALO to have a good MIS which will capture current information, avoid double incentive payments if people choose to be members of multiple groups, and of course provide timely and accurate records which can be used to control for fictitious groups or members. CARE is aware of these issues and is addressing them.



Banana-shaped share stamps

More germane to this paper are risks tied to COSALO's unique model. In particular they concern the challenge of winding up operations in the area it is now working in and bringing the programme to a soft landing, while protecting the interests of stakeholders after this happens.

The COSALO entrepreneurs, FBOs and CBTs think in fundamentally different ways from the NGO staff of most savings group promotion programmes. There is an inevitable dissonance between the objectives of franchisees and FBOs on the one hand, and CARE and FSD Kenya on the other. There is no evidence at present of any problem in this area, but in the near future, the franchisees/FBOs will see their income from CARE decrease suddenly, and then end. In early 2010 (unless there is additional funding), CARE will have to announce to its franchisees and FBOs a date after which it can no longer pay them for new group formation.

When that happens, and after a probable last-minute flurry of new group creation, the entire field staff will have about twelve months of income, as they collect their final one-third payments for groups that distribute. After that, they will find themselves with a greatly decreased income, for the franchisees and FBOs all report that stipends from CARE have been a principal, or the principal, source of income during the period of the project.

Being entrepreneurs, they may try to supplement their income by monetizing their relationship with their savings groups in various ways, quite possibly in ways that are damaging to group members and to CARE and FSD's reputations. These could include everything from lending to their groups, borrowing from them, combining them into savings and credit co-operatives (SACCOs), or in a not unimaginable nightmare scenario, exploiting the groups through a Ponzi or pyramid scheme.

Also, as the project winds down, it may prove difficult to keep the field teams together. While the FBOs, CBTs and franchisees seem to form an exceptionally highly-motivated team at present, it's less clear that the CBTs will continue to have the same level of motivation when they only have a few groups left to shepherd through the share out at the end of the cycle. Some may see the writing on the wall and drift off in search of their next employment, leaving groups unmanaged as they carry out the crucial step of sharing out their funds.

CARE is aware of these risks, and is considering a number of options. These include strengthening the franchisee agreement to define more precisely what behaviours will be permitted, and what would be considered inimical to the group members' interests and CARE's reputation. CARE can also extend its relationship with the franchisees and FBOs by offering them and their networks of CBTs other work, including social marketing of such things as health or clean energy products, or simply inviting them to move to other parts of the country to carry out a programme expansion.

Finally, there is a danger in the incentive model of the CBTs and others turning their attention away from the benefits to group members that savings groups can bring, and towards the benefits to group promoters that they bring. In this case, it is possible that the CBTs and franchisee/FBOs will engage in reckless group promotion, possibly pressuring or paying people to join, getting half-hearted commitments from members, or enticing people to join by making unrealistic promises about the benefits of membership. There is no evidence that this sort of thing has occurred, and if CARE Kenya can prevent such mischief from happening, they will be in a position to set a new standard for bringing financial services to the rural poor efficiently.

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