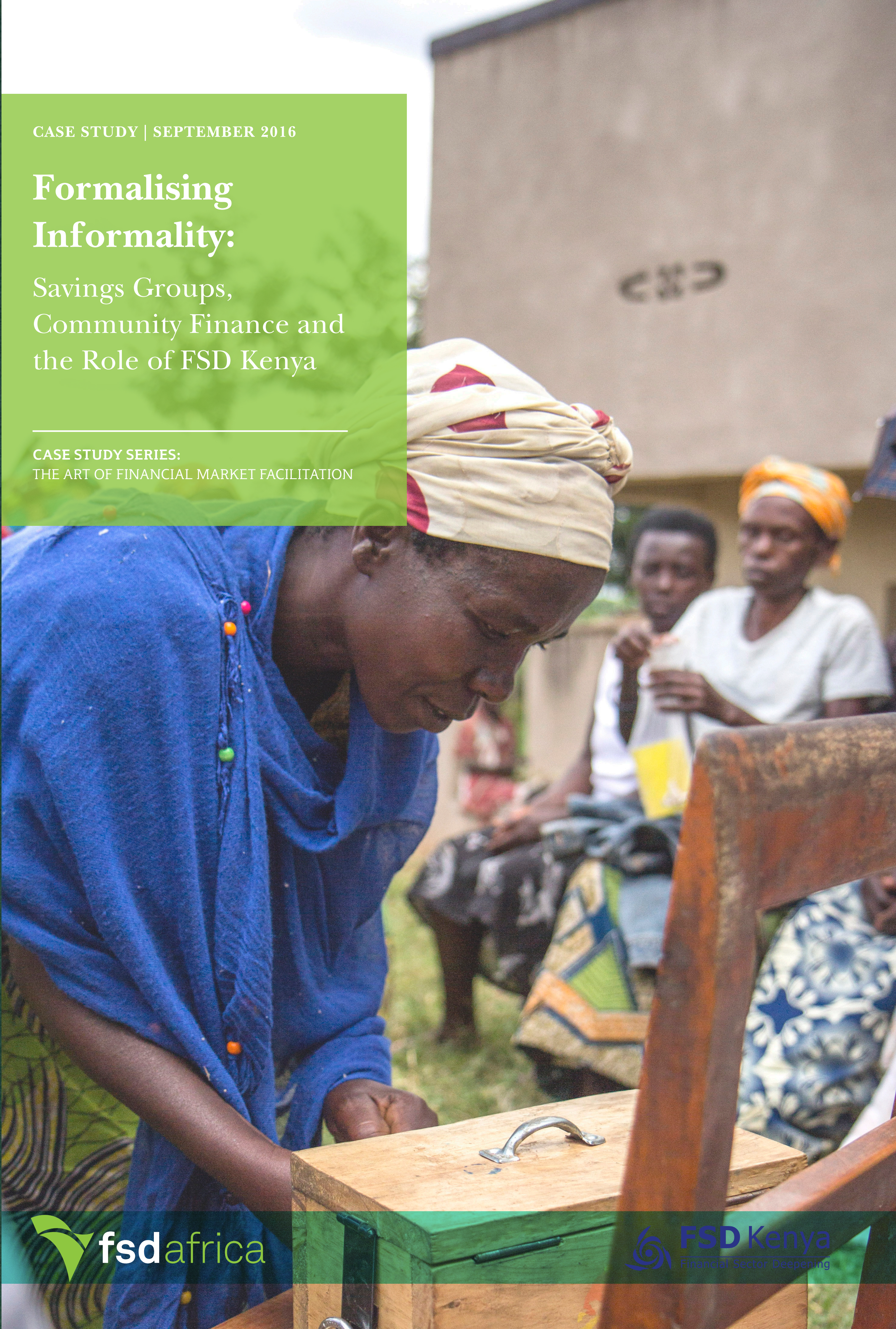


CASE STUDY | SEPTEMBER 2016

Formalising Informality:

Savings Groups, Community Finance and the Role of FSD Kenya

CASE STUDY SERIES:
THE ART OF FINANCIAL MARKET FACILITATION

fsdafrica

FSD Kenya
Financial Sector Deepening

Foreword

Since January 1949, when U.S. President Truman speech ushered in the modern era of international development, successive generations of theorists and practitioners have wrestled to determine the best means to deliver international development assistance to the world's poor.

Progress has followed a steady trajectory with the number of people living in extreme poverty falling from 1.99 billion in 1981 to 896 million in 2012. In spite of such progress, many questioned the prevailing relief-based approach to poverty reduction. The direct delivery by international aid agencies of welfare-enhancing goods and services to the poor would, they argued, lead to a temporary spike in poverty impact, but leave little behind once priorities changed or the money ran out.

It is against this backdrop that the 'making markets work for the poor' approach was born. This approach – also known as 'M4P', 'market systems development' or 'market facilitation' – gathered momentum during the late 1990s and 2000s. In July 2008, the Springfield Centre ran its inaugural '*Making Markets Work*' training course in Glasgow, Scotland. In September 2015, the World Bank's Consultative Group for the Assistance of the Poor (CGAP) issued: '*A Markets Systems Approach to Financial Inclusion: Guideline for Funders.*'

Today, 'making markets work for the poor' is a relatively well-understood concept. It focuses on harnessing the power of market systems, including their full range of participants – from suppliers and consumers to rule-makers and support services providers – to deliver benefits for poor men and women on a lasting basis. It seeks to achieve and maintain a careful balance between public and private sector interests, between the bottom-line and the bottom of the pyramid.

To do this, M4P programmes work closely with market players to understand market dynamics and test whether or not necessary behaviour changes can endure **(see Adopt, Adapt below)**. At other times, M4P programmes work with a diversity of players to encourage behaviour and practice changes to deepen and broaden the market system responses and improve the functioning of support systems **(see Expand, Respond below)**.

None the less, evidence from the field about how to apply the market facilitation approach in practice remains fairly limited and is often poorly documented. Despite some good examples,[1] there is a general dearth of material that captures which interventions work, which do not, and why. Accordingly, there remain important unanswered questions, such as: How to balance pressure for short-term results with slow-burn market development activities? What does effective communication and measurement look like, and what can it achieve? What attributes do successful market facilitators possess? How does crowding in and replication take place in practice? How and when do market facilitators look to exit? How is it best to select, engage and work with partners? What to measure, when and why?

This case study process emerged as a response to this challenge – a desire to learn more about the art of market facilitation in the field. In June 2015, FSD Africa commissioned the Springfield Centre to produce: a) one comprehensive case study of FSD Kenya – a financial market facilitation agency in Nairobi, Kenya; and b) six mini-case studies of financial market facilitation interventions from the wider FSD Network, by the FinMark Trust, FSD Kenya, FSD Tanzania and FSD Zambia.

This particular case study looks at the efforts FSD Kenya has made to strengthen semi-formal rural delivery channels and build linkages with formal financial service providers through savings groups. It also considers the extent to which FSD Kenya's strategy and approach governing the support to savings groups was consistent with basic M4P principles as codified in the "The Operational Guide for the Making Markets Work for the Poor Approach."[2]

Taken together, we hope that these case studies contribute useful learning to the theorists and practitioners that work in the field of 'making markets work for the poor', and beyond. For FSD Africa, the case study material will be put to immediate use in the FSD Academy M4P course – a five-day training programme for staff from the FSD Network and beyond. We warmly invite others to use and share them as appropriate.

Throughout, this process has benefitted greatly from input by FSD Network staff, as well as colleagues at CGAP – Barbara Scola and Matthew Soursourian, and at DCED – Jim Tanburn. We're also extremely grateful to the case study authors – Alan Gibson, David Elliott and Diane Johnson of the Springfield Centre. The views included in the case studies are their own.

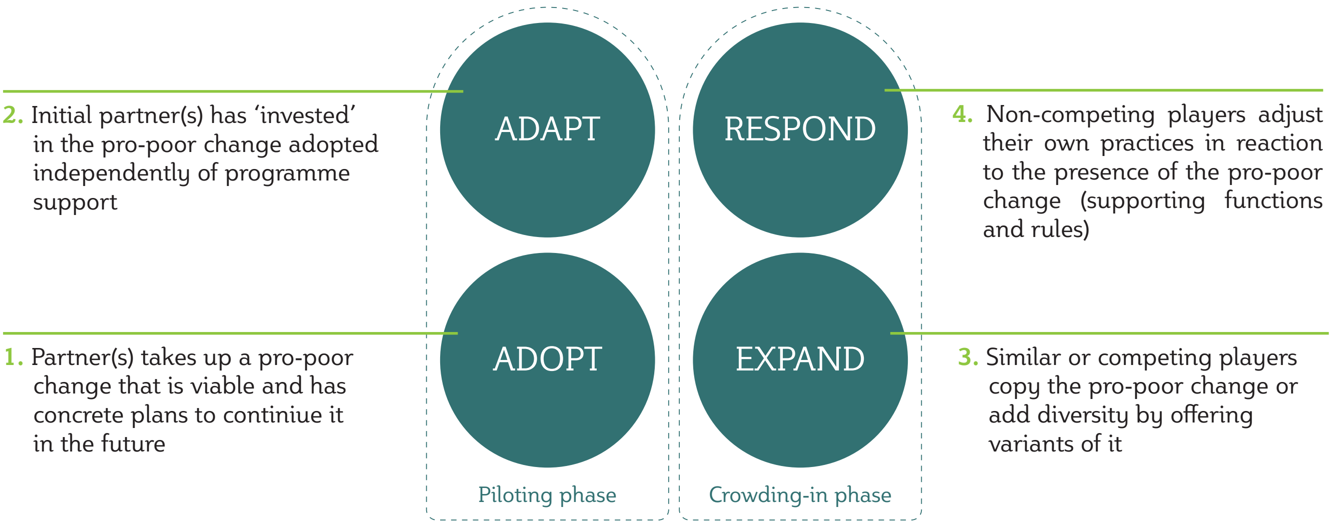
We hope that you find them engaging and informative, and that they refine and strengthen our ongoing effort to reduce poverty by making markets work for the poor.

Joe Huxley
Co-ordinator, Strategic Partnerships & Opportunities
FSD Africa

1. "The Operational Guide for the Making Markets for the Poor Approach", 2014. SDC, DFID, Springfield Centre
2. Ibid.

AAER: Systemic Change Framework

The AAER framework aims to codify the process of systemic change. It helps us to recognise market system evolution and the role of development actors, such as FSDs, within it.
To ensure coherence and the emergence of common facilitation lessons across the six mini-cases studies, the AAER Systemic Change Framework is used as the main organising structure.
However, it can only be a guide. Market system change is messy – hard to instigate, detect and attribute to specific actors. Though we attempt to use the framework as an organising the narrative, there are a number of exceptions.



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Front cover image: © FSD Kenya

1 Introduction

This section outlines what savings groups are, and why they are relevant to financial inclusion in Kenya.

Financial inclusion has increased significantly in Kenya. During the main period of FSD Kenya's work with savings groups, the proportion of adults using different forms of financial services increased from 41.3% in 2009[3] to 66.7% in 2013; a trend that continues and stands at 75.3% in 2016[4].

Whilst impressive, this growth has been largely restricted to payments services. More than one-third of Kenyans – more than 5 million people – continue to rely on informal sources of savings and credit. These are usually group schemes, which help families cope with short term risk and invest in their longer term aspirations. Informal group schemes are particularly relevant to women and people in rural areas.

Informal groups take many forms and are established for a variety of social and economic purposes. Rotating Savings and Credit Associations (ROSCAs) are ubiquitous in Kenya, and meet basic savings needs. Accumulating Savings and Credit Associations (ASCAs) are less common, but provide a means of accumulating longer term savings and providing flexible loans. Savings groups aim to improve on the functionality of ROSCAs, whilst tempering some of the risks and more sophisticated management requirements of ASCAs. Savings groups are self-selected groups, with up to fifty people who pool their money in a loan fund from which members can borrow. The groups are independent and self-managed; all transactions being carried out at meetings in front of all members to ensure transparency.

Savings groups require formation and initial capacity building through a structured process of training and support. However, once established, it has typically been expected that most will continue to function independently, and additionally stimulate some degree of copying by others.

From 2008, FSD Kenya supported CARE, and later CRS, to improve and scale up their work with savings groups in Kenya. By 2015, this partnership helped to form 15,288 groups, which served more than 400,000 people, 81% of whom were women. Research commissioned by the project[5] showed a further 7,644 groups were estimated to have been formed as a result of copying; taking the total number of groups in operation to almost 23,000. As average group sizes have increased from around 21 to 26 members per group, the number of people benefitting from this work on savings groups is closer to 600,000.

Glossary of Terms: ASCA's, ROSCA's and Savings Groups[6]

Rotating Savings and Credit Associations (ROSCAs):

"Informal savings and credit groups in which each member deposits the same amount of money at the same regular interval; each time members deposit, they give the whole of the amount collected to one member. When there have been as many distributions as there are members, the ROSCA ends. Everyone has put in and taken out the same amount; for example, ten people each save USD10 a week, and each week for ten weeks one person walks away with USD100." *[Source: CGAP]*

Accumulating Savings and Credit Associations (ASCAs):

"Informal savings groups that resemble ROSCAs but are slightly more complex. In an ASCA, all members regularly save the same fixed amount while some participants borrow from the group. Interest is usually charged on loans. ASCAs require bookkeeping because the members do not all transact in the same way. Some members borrow while others are savers only, and borrowers may borrow different amounts on different dates for different periods. If members pay interest on their loans, the return to savings has to be individually calculated and fairly shared among the group." *[Source: CGAP]*

This same evidence shows that group members use their accumulated funds for a range of investment and consumption purposes, as well as for emergencies. Payment of school fees was the most common use, followed by investment in agriculture and business activities.

A majority of groups put some of their resources into a 'social fund' to help members (and sometimes non-members) with particular emergency needs. Focus group discussions have found that "*…in many groups the financial services provided to individual members are subordinate in members' minds to objectives for the growth, evolution and welfare of the group as a whole*[7]."

3. 2013 FinAccess Household Survey; FSD-Kenya
4. 2016 FinAccess Household Survey; FSD-Kenya
5. For example: "Results of Study of Post-Project Replication of Groups in COSALO 1", Digital Data Divide, October 2011; and Rippey, Paul "Quality of Delivery Study", FSD Kenya, March 2015
6. This Glossary refers to general practice globally. In Kenya, certain aspects are different. For example: ROSCA's – ballots are sometimes held to approve share outs to multiple members; ASCA's – not all members save the same fixed amount; and Savings Groups – members might save different amounts; and deposit into a bank account more for increased security than leverage.
7. ibid Rippey

Savings Groups:

"Found everywhere, savings groups provide their members with a mandatory illiquid savings service coupled with access to loans. Composed of about 5 to 20 members, each group meets monthly or weekly close to members' homes. At each meeting all members save the same amount. The groups then lend these savings to members, store them in a lockbox, or deposit them in a group bank account in order to leverage a group loan. If an emergency strikes, members often can access a loan quickly from their group's emergency fund. They usually run for a fixed time period, typically 9-12 months, at the end of which the group shares out all accumulated funds and closes the group; often restarting on a new cycle. Savings groups provide limited but highly convenient services to large numbers of small, rural depositors." *[Source: CGAP]*

In summary, savings groups help members to meet their more immediate and short term consumption and investment needs. However, with improved organisation, record keeping and financial literacy it is anticipated that savings groups can also serve as bridge, connecting members to a range of formal financial services quicker than if individuals acted on their own.

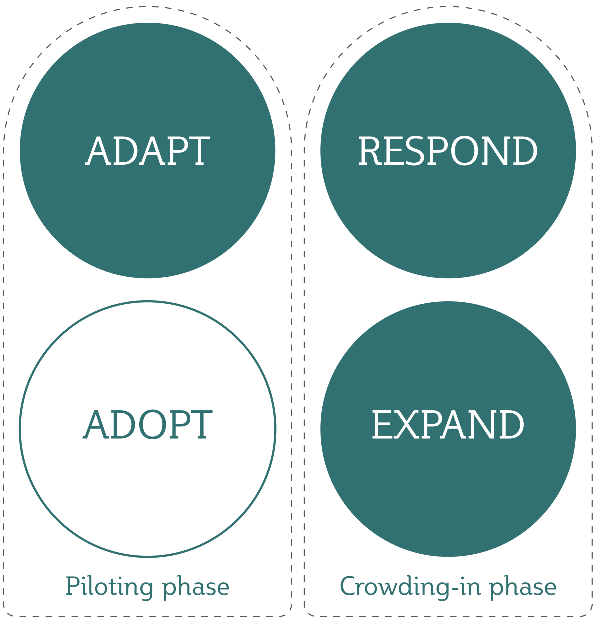
Members of a savings group settle accounts during a table banking session. © FSD Kenya

2 Savings groups – unpacking the extent of market system change

This section assesses the Savings Groups experience using the systemic change framework (Adopt - Adapt - Expand - Respond) described at the beginning of this document. It examines how the system has changed in response to intervention by FSD Kenya, in collaboration with its partners.

2.1 Adopt: has the initial pro-poor innovation been taken up and is it viable?

> As a result of development intervention, a market player(s) has successfully *adopted* a behaviour or practice change to the ultimate benefit of the poor, has recognised the value of continuing with these changes, and has accordingly made plans to invest in upholding these changes and covering any associated recurrent costs.



A considerable amount of evidence emerging from several countries, including Kenya, prompted FSD Kenya to support savings groups. This evidence showed that sustainability of formed and trained groups was encouraging (i.e. they continued to reform after share-out), as were signs of copying (i.e. new groups being established). Experience indicated that an initial subsidy by development agencies was required to train and establish trainers, who would then go on to form and support the savings groups. The premise held that once a notional 'critical mass' of trainers and groups was established, the 'system' would take care of itself. Aid funding was regarded by FSD Kenya as a one-off 'priming of the pump' with no need for recurrent subsidy.

However, FSD Kenya was hesitant to support savings groups because of the cost of achieving substantial scale – the required notional 'critical mass'. The target population was approximately 5 million people and the prevailing training and support costs for the formation of a group was USD50 per member. There was no prospect of USS250 million in donor funding being available to achieve this critical mass. As FSD Kenya noted at the time *"…with no recovery of these costs from users, the reach of the GSL [Group Savings & Loans] system is highly constrained by the availability of donor resources."*

FSD Kenya concluded that innovation was needed to reduce the costs of the model, whilst preserving its effectiveness. It provided a USD1.3 million grant to CARE, from 2008-2011, for an initiative (called community savings and loan project - COSALO 1) aimed at innovating on the existing approach in three ways:

- **A more streamlined group formation model.** This would be achieved by reviewing and improving the methodology where necessary. For example, experience had shown that half the time spent training groups was focused on ledger maintenance, the utility of which was deemed marginal when proper individual passbook records were kept.
- **A cheaper training delivery channel.** The prevailing approach was for salaried staff of NGOs to train groups. An alternative, more cost-effective approach, using Community-based trainers (CBTs), managed and supervised by faith-based organisations (FBOs) and franchisees (local entrepreneurs) was trialled.
- **The introduction of incentives.** For all delivery channels, contracted trainers were paid exclusively on commission, based on the number of group members successfully organised and trained to the required standard. CBTs received around USD2 for each group member in each group they formed. Payments were staggered, with one-third being paid when the group started saving and the balance paid when the group successfully graduated through a successful share-out distribution at the end of the cycle (typically after 9 to 12 months).

The COSALO 1 initiative followed an action research approach: testing different delivery channels, investigating sustainability and replication dynamics; around which a tight monitoring framework was put in place (which later allowed for comparative analysis of findings between geographic areas and groups). Learning from this pilot was prioritised. FSD Kenya wanted to co-ordinate learning and influence improved practices across the host of other organisations showing an interest in implementing variants of the GSL approach in Kenya.

Under COSALO 1, CBTs formed and trained 4,505 groups, with more than 125,000 members. An additional 2,253 groups were estimated to have been formed through copying of the initial groups formed. Average costs were reduced from the prevailing average of USD50 per member to USD8.4 per member. The franchisee channel was the most efficient, at USD6.7 per member, followed by the FBO channel at USD9.5 per member. The channel using CARE staff directly was less cost effective at USD12.5 per member, but still far cheaper than the prevailing norm.

The pilot also confirmed that there had been no reduction in the quality or sustainability of groups: *"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.*[8]*"*

The innovation introduced by FSD Kenya lowered the cost of group formation, training and support with no apparent reduction in group quality. However, FSD Kenya also sought to know whether savings groups were effective in reaching the financially excluded, and particularly those from poorer parts of the community.

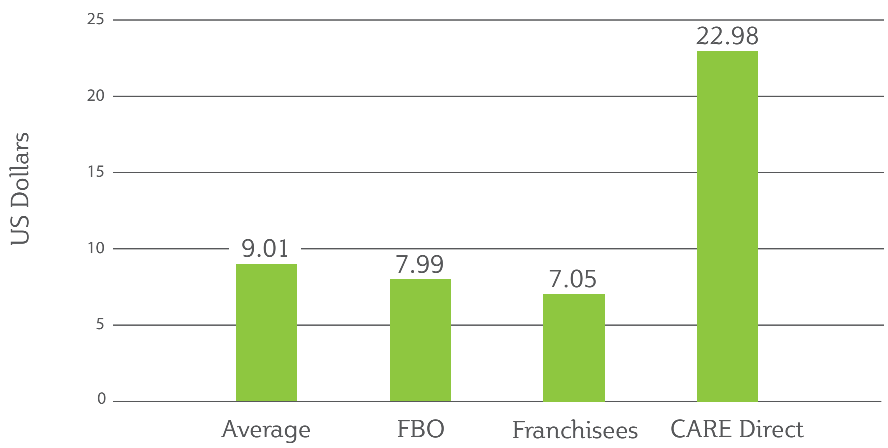
In the geographic areas of the COSALO's initiative, various studies (e.g. Quality of Delivery Study) found more people in savings groups had lower levels of financial exclusion than in either the comparison area or the country as a whole. More detailed analysis, highlighted in Box 2, indicated that savings groups brought financial services to significant numbers of people who previously had none. It also suggested that membership of a savings group had a positive influence on financial literacy, inducing members to use other financial services.

Savings Groups: increasing, or enriching financial access?

A key question that FSD Kenya sought to answer was the "extent to which SG programmes are *increasing* financial inclusion, by bringing one basic service to people who previously had none, or *enriching* financial inclusion, by bringing an additional service to people who may also use mobile transfer services or a SACCO, or a bank account. The higher percentage of informal usage among SG members, compared to non-members, coupled with the lower percentage of exclusion among SG members, strongly suggests that the SGs brought financial services to significant numbers of people who previously had none. SGs may also have a financial literacy effect inducing members to use other services" *[Source: Rippey, Paul, "Quality of Delivery Study: outreach, member satisfaction, safety and delivery channels in savings groups projects"; FSD KENYA, March 2015]*

During the second phase that began in 2011, FSD Kenya supported both CARE and later Catholic Relief Services (CRS) and measured poverty outreach using the Progress out of Poverty Index (PPI). PPI data is based on comparisons of the likelihood of being below the national poverty line. In the project's comparison areas, the likelihood of people being below the poverty line was 31%. Table 1 shows the likelihood of savings

Figure 1: Costs per SG member from different delivery channels



8. "Group savings and loans associations gain efficiency from new approaches", FSD Updates, Issue 03 – February 2010

group members in project target areas being below the poverty line.

Table 1: Findings of PPI assessment of group membership composition

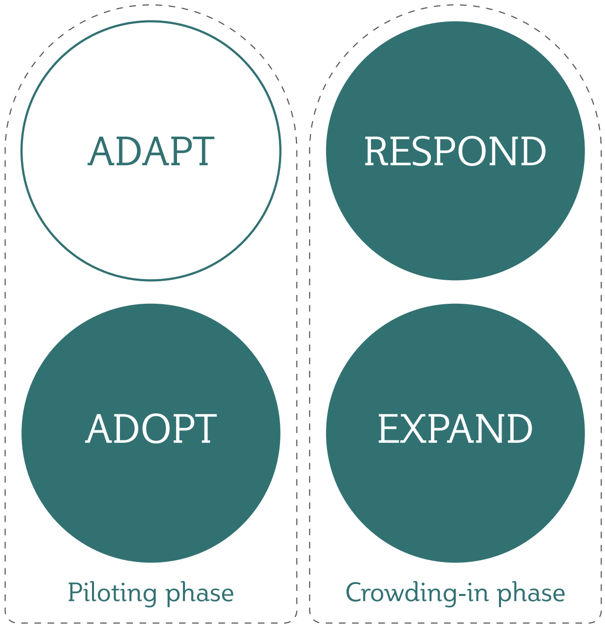
Location	Likelihood of members being below the poverty line
Eldoret (CRS)	**30%**
Malindi (CRS)	**36%**
Nyanza (CARE)	**34%**
Marsabit (CARE)	**77%**
Project comparison area	**31%**

Overall, the PPI data indicated that members of savings groups were not significantly better or worse off than non-members. Given that there was not a deliberate effort to reach poorer members of the community at the outset, this finding was not surprising. That said, given the extent of poverty and inequality across Kenya it is anticipated that the bulk of savings group members are on incomes which are not far above the poverty line and hence remain vulnerable.

The successful development of a training delivery channel in Marsabit was notable, however. Marsabit was chosen in order to test ways of reaching the north of Kenya, a region that presents considerable challenges in respect of issues such as insecurity, drought, isolation, poor infrastructure, poverty, and low population density. The impact on financial inclusion has been significant here: 11,000 people joined savings groups within two years, 77% of whom fell below the national poverty line. The majority had had no previous access to financial services at all. However, given the context of the region, the costs of delivering the savings groups were between four and six times higher than in other areas. This level of cost made scaling up unfeasible. FSD Kenya recognised that further innovation would be required. Different delivery models, drawing on successes in other countries that face similar geographical and infrastructural constraints (e.g. Mali) like using village resource persons (VRPs) are currently being piloted by FSD Kenya.

2.2 Adapt – has the market partner continued the innovation without further aid-funded support?

The market player(s) that adopted the behaviour or practice changes with the support of the development intervention has made qualitative and/or quantitative investments that allow them to *continue* with or *augment changed practices*, without further programme support. These actions, independent of the programme, constitute an 'acid test' for whether pro-poor outcomes will sustain at any level.



The premise of the COSALO I initiative was that forming and training groups required a one-off intervention. Once a critical mass (undefined and notional) of savings groups was formed, the system would become self-reliant and self-perpetuating. FSD Kenya's initial primary concern was therefore cost effectiveness, in order to reach this critical mass in an affordable way.

FSD Kenya did not initially prioritise the commercial sustainability of the trainers who form and support the Savings Groups. However, over time, it became increasingly evident that many groups remained dependent on the services of their trainer *after* the initial period of training and support for group formation. A trainer's support was particularly valued at the time of the share out, and to help resolve problems that inevitably arose from time to time.

In light of this evidence, FSD Kenya looked more closely into the issue of sustainability of the training system, particularly the motivations of the trainers. It was found that trainers were motivated by a variety of incentives. Although most trainers stated that their main motivation was non-financial (e.g. satisfaction derived from helping others, a sense of duty to their community), it was clear that fees earned from training were important to them, and vital to the continued provision of services.

FSD Kenya consequently evaluated the business model for trainers in more detail and learned that most trainers felt that their earnings were insufficient to justify their inputs. Consequently, FSD Kenya sought to refine the initial savings group 'innovation', in two ways:

- Working with CARE to alter incentives within the existing delivery model. Community based trainers were paid in two ways: a fee per member for each training session delivered and then a percentage of the final share out fund value.
- Working with another INGO, CRS, to test an alternative 'private service provider' (PSP) delivery model. PSPs were paid a set fee per visit and then an agreed-upon fee for any specialist service provided against request.

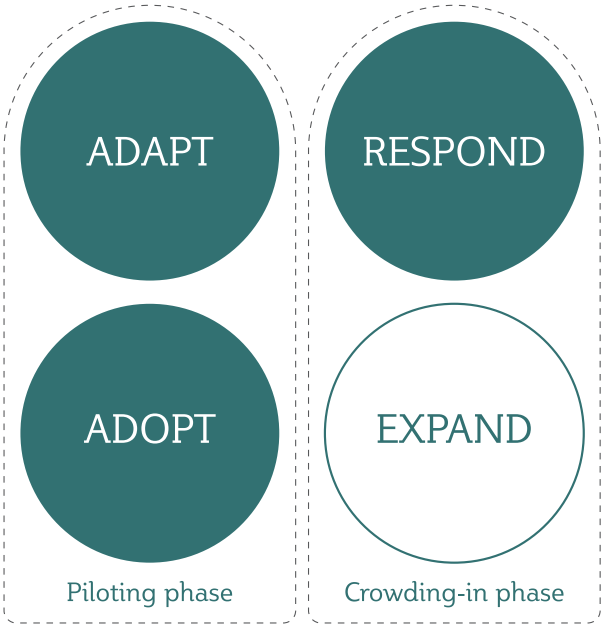
The different incentive structures in these two models influenced group formation and performance. Savings groups formed using the CARE model tended to have larger membership, meet monthly and have higher lending activity. Savings groups formed using the CRS model tended to have smaller membership, meet weekly and have higher savings activity.

The CRS PSP model has been more commercially viable: almost all groups formed by CRS now pay their trainer after the PSPs graduate, compared to half of the groups formed by CARE. It is not clear whether this difference is due to the differing incentives of each training model or the fact that CARE tried to introduce user fees mid-way through the initiative. As one report states, *"CARE has invested in the handover to a fee-for-service model, however the earlier existence of free training has poisoned the well perhaps fatally for people in the same areas to accept to pay up-front fees"*.

At the time of writing, it is not clear which model will be the accepted approach for nationwide scale up. The CARE model is cheaper than the CRS model, but the CRS model offers better prospects of a sustainable training and support system.

2.3 Expand – has the innovation spread across the system?

> A number of market players similar to those that pioneered the pro-poor behaviour or practice changes have adopted comparable changes – either pure *copies or variants on the original innovation* – that are upheld without programme support.



The innovation has spread in three main ways.

Fee-for-service providers

The revised rationale for investing in the setting up a sustainable network of trainers is that they would continue to serve existing savings groups and go on to form new groups. This proved to be the case. Membership levels of formed savings groups increased from an average of 21 members at formation to 26 members in subsequent cycles. All 1,847 groups formed under the CRS programme were formed by PSPs who had graduated from field officers and were therefore established on a fee-for-service basis. Less than 10% of CARE groups were formed on a fee-for-service basis, for the reasons given above (e.g. challenges in switching from project to client payments). Nonetheless, research conducted 12 months after the conclusion of COSALO 1 showed that CARE CBTs remained active in establishing new groups on a fee-for-service basis. However, at an average of one new group for every ten groups established under the COSALO 1 programme, the rate of propagation of new groups formed by CBTs is a fraction of the number created through copying (see below).

Copying

Of those groups formed, virtually all reformed at the end of the group cycle. During the project period, a further 7,644 new savings groups were formed by copying, without any support from FSD Kenya. Some were formed by members of an existing group who then set up a new group. Some were formed by people who had not been a member of a group at all. Almost 50% of these new groups were formed with the support of an 'unaffiliated' trainer, and more than 50% of these groups reported paying their trainer. This finding is significant as it indicates that there is a growing industry of independent training providers setting up and servicing savings groups.

Funded scale-up

FSD Kenya's initial innovation was to reduce the cost of the savings group formation model. The most cost-effective delivery channel proved to be private sector franchisees.

FSD Kenya recognised that many stakeholders (mainly INGOs) were interested in experimenting with variants of the savings group model. In response, it was envisaged that COSALO 1 would work closely with the FSD Kenya funded DFS project which it was felt had good expertise in action research methods, and with grassroots community based financial organisations. However, this collaboration never happened; and instead, CARE worked with SaveNet, a savings group coordination network, funded under CRS by the Gates Foundation. It was anticipated that SaveNet would help build:

- **Consensus:** on a best practice savings groups model which could be scaled up nationwide
- **Commitment:** from all stakeholders to resourcing a nationwide scale-up strategy
- **Cooperation:** from stakeholders to implement a nationwide scale-up strategy

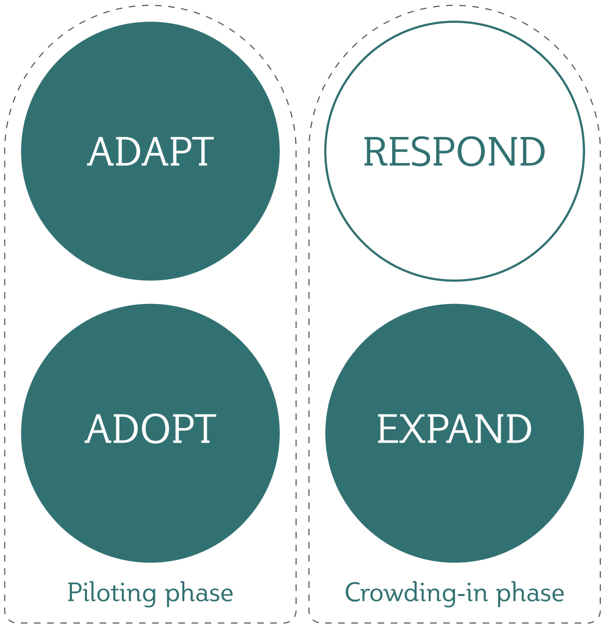
In 2013, FSD Kenya acknowledged that: *"The previous phase was over-optimistic regarding the potential to build capacity at a national level to guide roll-out… Although there is a significant appetite for cross-learning, the organisational incentives are simply not strong enough for the major saving group stakeholders to invest significant resources here. Harmonised funding of a saving group scale-up may not be feasible given the differing ways in which donors work and inconsistent incentives… The ambition for co-ordination of scale-up needs to be reset to creating a strong mutual learning environment and agreeing on principles which will guide individual players to operate in a way which is complementary."*[9]

In spite of this fundamental challenge to the original rationale of a funded national scale up, FSD Kenya continued to support CARE and CRS between 2013-2015 to develop and implement appropriate infrastructure to support savings groups roll-out for national inclusion.

FSD Kenya's support clearly influenced CARE and CRS to innovate their savings group formation approach, and may have influenced other stakeholders as well. However, final outreach is uncertain, as there is no data available to indicate the extent to which these innovations have been taken up beyond the FSD Kenya directly-funded work with CARE and CRS.

2.4 Respond – has the innovation stimulated wider changes within the system?

The emergence and continued presence of the pro-poor changes have incited market players in supporting systems to react to the new market reality by re-organising, assuming new/improved roles, developing their own offers, or moving to take advantage of any opportunities that have been created. The *response enables* pro-poor behaviour/practice *changes to develop further, or evolve*, and indicates a new capability within the system, suggesting that it can and wants to support pro-poor solutions to emerge and grow.



The immediate purpose of supporting the formulation of savings groups was to stimulate financial intermediation of savings and loans between members. However, it was anticipated that over time savings groups would form a bridge connecting members to a wider network of formal financial services. To this end, FSD Kenya supported development of financial solutions to link savings groups to formal financial services providers.

E-recording: improving transparency and accuracy

The work on e-recording evolved from two complementary directions. The initial work to support savings groups had shown that transparency, accuracy and efficiency could be improved (NB: 1 in 20 SG members reported they'd lost money at least once citing a mixture of dishonesty and/or poor record keeping as main causes). At the same time, FSD Kenya was involved in a

9. "Savings Groups Scale Up: Phase 2 (Project Plan)", FSD Kenya, October 2013.

research partnership with the Nokia Research Centre, which entailed a detailed assessment of the potential access to and benefits of mobile phones and smartphone technology for self-help groups across Kenya.

Based on the partnership with the Nokia Research Centre, FSD Kenya worked with a local software company to develop and test a smartphone application for savings groups. It was recognised that although not all savings groups had access to, or could afford, smart phones, many could afford. It is envisaged that the application could make material improvements in the performance of savings groups.

FSD Kenya is working with CARE and CRS to introduce the application into the savings group formation methodology. The longer term aspiration is that the application will help build accurate and transparent records of groups' transactions data that are regarded as critical to attracting the interest of formal financial service providers.

M-Chama: linking to formal financial services

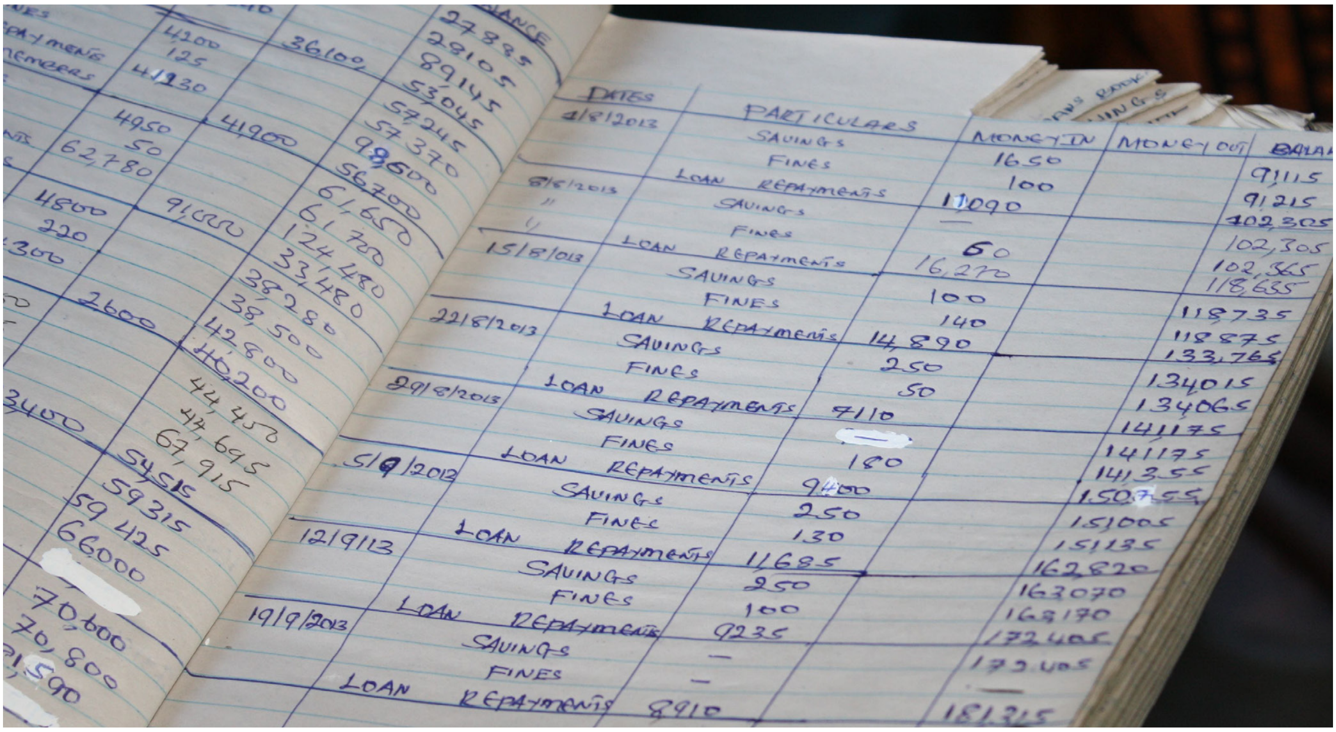
FSD Kenya entered into an agreement with Postbank in 2012, a national savings bank, to extend formal savings services to savings groups. It was anticipated that this arrangement would benefit savings groups in two ways:

- **Security:** as a savings group matures its volume of deposits increases and with it the threat of theft. Placing deposits in a bank and using mobile banking technology to make deposits and withdrawals reduces the need for cash, and therefore the risk of theft.
- **Access:** enabling savings groups to bank with established formal financial service providers like Postbank would raise their profile and credibility, making them more attractive to other formal financial service providers, thereby increasing access and choice.

A two-year pilot was undertaken servicing 118 savings groups. The pilot had to overcome a host of constraints, such as:

- **Proximity:** Postbank had more than 100 branches throughout Kenya, and needed to strengthen their network of local cash-in/cash-out agents to serve the needs of savings groups.
- **Cost:** to encourage the switch to depositing with Postbank, any fees charged needed to be very competitive.
- **Security:** there was a need to replicate/align security and access procedures with those of the lock-box method (e.g. typically three members hold keys to three different padlocks used to lock the metal box within which savings are kept safe)
- **Culture:** introducing formal financial services to those who had not had access to them before required understanding and sensitivity to the culture of those being served.

In spite of these challenges, the pilot made progress. Postbank reports that early stage planning is underway for a national roll-out, targeting 750-1,000 savings groups annually. FSD Kenya aims to engage with other market players that are interested in connecting their banking services to savings groups.



A savings groups ledger – Experience showed that half the time spent training groups was focused on ledger maintenance. © FSD Kenya

3 FSD Kenya: Strategy and approach

This section considers the extent to which FSD Kenya's strategy and approach governing the support to savings groups was consistent with basic good practice M4P principles as codified in "The Operational Guide For the Making Markets Work for the Poor (M4P) Approach" (August 2015).

3.1 Strategy

FSD Kenya's focus on savings groups was first encapsulated in its 2008-2011 strategy, under the theme of 'rural finance'. The objectives for working with savings groups were to:

– Strengthen semi-formal rural delivery channels
– Build linkages with formal financial service providers

In 2006, FinAccess had found that only 62% of Kenyans had access to any form of financial services. Over one-third of those with access relied on informal services, which meant basic ROSCAs for almost 93% of people. There was a strong gender rationale for this focus: *"[Informal] channels have been found to be more accessible to women and therefore offer a means to correct imbalances in formal sector access."*[10]

Savings groups had the potential to increase financial inclusion and choice through:

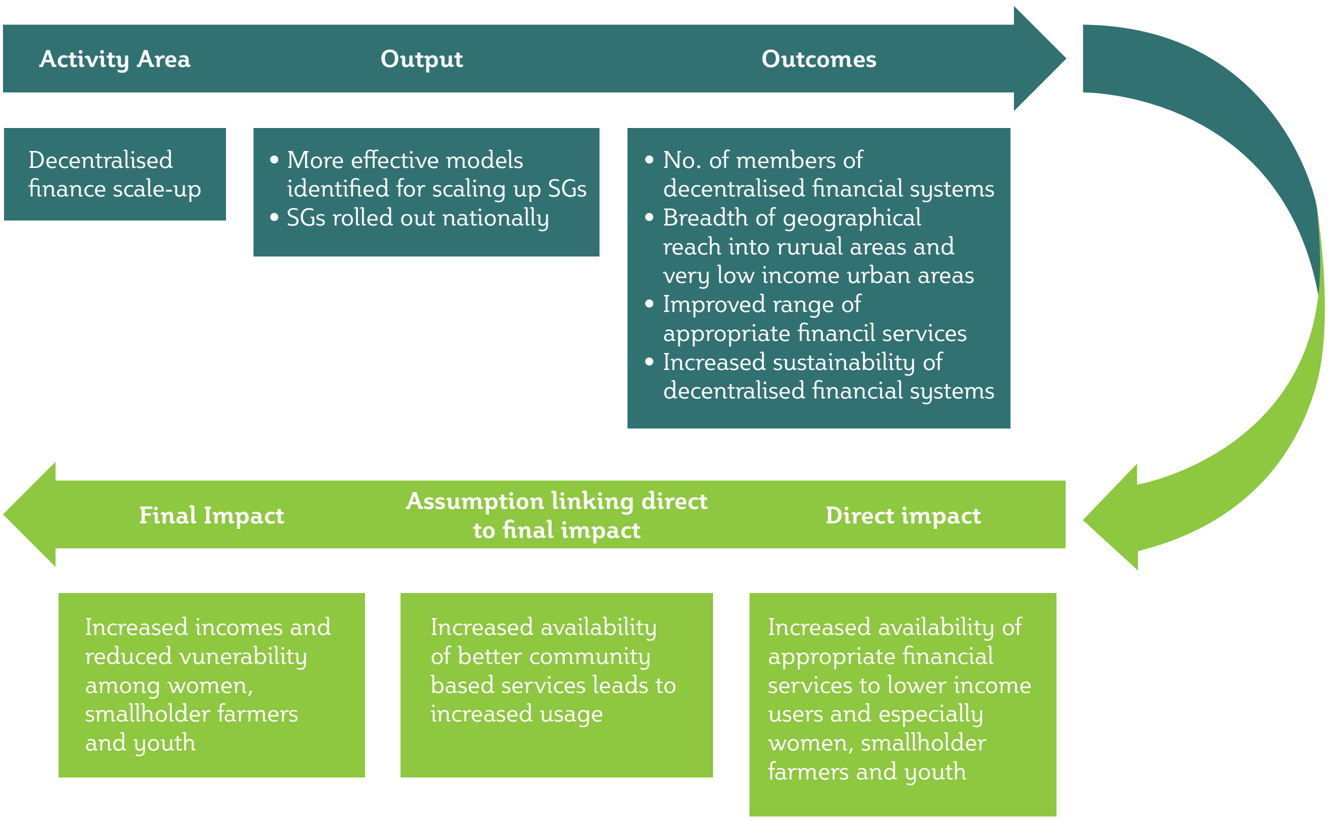
– **Extending access:** propagating the savings group model to those currently excluded
– **Improving benefits:** innovating to increase the efficacy of the model
– **Enhancing choice:** connecting savings groups with formal financial services providers

Encouraged by the results of its three-year pilot with CARE, FSD Kenya committed to further work with savings groups in its 2011-2015 strategy, as elaborated by the 'impact pathway' shown in Figure 2.

3.2. Diagnosis

FSD Kenya's approach used analysis to determine its actions. In pursuit of innovation, it tested different

Figure 2: FSD KENYA's impact pathway for savings groups



10. FSD Kenya Strategy 2008-2011.

organisations, delivery models and support approaches. A mixed methods approach was used, incorporating more experimental methods where possible. This was applied throughout the various phases from pilot to scale up, with key facets as follows:

- **Cost-effectiveness:** a comparative assessment was made of the cost-effectiveness of different delivery channels, as well as testing the same channels in the more challenging geographic and socio-economic environment of northern Kenya.
- **Sustainability:** a comparative assessment was made of the different business models for fee-for-service training provision.
- **Formal linkages:** a randomised controlled trial was conducted to qualify and quantify impacts on groups using the e-recording application.

Furthermore, the above analysis fed into the SaveNet platform, with the aim of learning from and influencing other stakeholders towards a common approach to a national roll out of savings groups across Kenya – the fundamental rationale for FSD Kenya's initial engagement with savings groups. However, as commented on above, in 2013 FSD Kenya confirmed that this ambition was no longer realistic. What isn't clear is if/how this realisation caused FSD Kenya to reflect on and revisit their original rationale for working with savings groups; or how this influenced the design of their continued work with savings groups over the 2013-2015 'Scale Up: Phase 2' period.

3.3 Vision

At the outset, FSD Kenya envisaged that the establishment of savings groups would require a one-off subsidy (interpreted as this subsidy being funded by development agencies). This needed to be done at sufficient scale to achieve a critical mass of groups, after which point the savings groups system would be self-sustaining and self-replicating. FSD Kenya was clear that given the scale of outreach required, and the then prevailing unit cost of establishing training groups, there wouldn't be sufficient donor resources to achieve this aim. FSD Kenya therefore focused on:

- **Innovation:** to develop and test savings groups formation models that were more cost-effective, without compromising on quality.
- **Roll out:** encouraging proven models to be taken up by stakeholders to achieve a critical mass of groups.
- **Connection:** encouraging links between savings groups and formal financial service providers, to cement recognition, credibility and access to a wider variety of financial services.

As Section 2 makes clear, this vision did not materialise as anticipated. Innovation did reduce the costs of establishing groups substantially – beyond expectations, in fact. However, it became apparent that training and support to groups was not a one-off aid-funded activity, but needed to be a recurrent, long term function in the system. Hence, FSD Kenya's vision evolved to incorporating the institutionalisation of fee-for-service training.

Similarly, though FSD Kenya's funding of two different delivery models, through CARE and CRS, has yielded impressive results and useful learning, nationwide roll out has not occurred. Consensus has not emerged between stakeholders as regards a single, 'best' model. Lack of unity is more a result of the political economy of development assistance than a lack of technical clarity. Different organisational incentives determine differences in decision making.

Connecting savings groups to formal financial services needs to be considered in light of other commercial opportunities available to formal financial service providers; where currently the prevailing view seems to be one of '…the business case for connecting to and through savings groups hasn't yet fully been made'. This view is interpreted that banks have other more profitable investment opportunities which they'd consider before the relatively lower returns available through innovating new services for savings groups.

3.4 Intervention

A common theme throughout FSD Kenya's work with savings groups was working in partnership. Whether with development agencies or market players, FSD Kenya recognised that it could not achieve substantial impact working in isolation. It therefore sought partnerships with organisations that had the track record, momentum, incentives and capacity to achieve significant change.

For the initial cost-reducing innovation, FSD Kenya partnered with CARE, which had been working with savings groups since 2004. At that time, CRS was still formulating its own thinking/model with funding from The Gates Foundation. A partnership with CARE had three benefits. Firstly, CARE had expertise and experience on which to build on. Second, if the innovation was successful, as a large INGO, CARE would be in a position to scale up with its own resources. Lastly, CARE had the level of credibility necessary to influence other stakeholders in Kenya to follow suit.

In a similar vein, FSD Kenya took a partnership approach in its work to connect savings groups to formal financial services, working with Nokia Research Centre, a local software firm and Postbank.

Informal group schemes are particularly relevant to women and people in rural areas. © FSD Kenya

Within these partnerships, FSD Kenya's role was consistent: it helped partners to test and learn, giving them the confidence to motivate funders to invest further resources to scale up. FSD Kenya did not simply sub-contract its partners to deliver results, as might have conventionally been the case. Instead it used a variety of instruments – research, technical assistance, finance – to influence the thinking and behaviour of its partners. It ensured learning emerged, and was presented, discussed and debated with key stakeholders throughout the process.

This influencing approach has been successful in bringing about lasting change. CARE and CRS continue the new approach to establishing savings groups. Postbank has confirmed that it intends to roll out its M-Chama product to thousands more savings groups and other informal groups over the next five years.

3.5 Measurement

Consistent with its objectives of innovation and influencing, FSD Kenya followed an action learning approach. Testing and improving innovations requires a tight measurement framework to assess efficacy and generate regular feedback. This required a close, active relationship between FSD Kenya and its partners, from setting objectives, to reviewing experience, to responding to opportunities and challenges. FSD Kenya was not a passive funder, but an actively engaged, enquiring partner.

A range of qualitative and quantitative methodologies was utilised. FSD Kenya sought to generate 'harder' data, to provide evidence with which to build consensus on what works, and why. Its Quality of Delivery (QDS) study is a clear example of how FSD Kenya has sought to use evidence to influence others. The QDS is a hugely detailed and insightful evaluation of the approach and results from its work with CARE and CRS.

Harder evidence was also sought to underpin efforts to connect savings groups with formal financial services. For example a randomised control trial was used to evaluate the impact on groups of the e-recording application, not only to help FSD Kenya understand the efficacy of the application itself on group and member performance, but also to help establish the business case encouraging other financial service providers to connect with savings groups.

Finally, through encouraging engagement with the SaveNet platform, FSD Kenya ensured its learning was available and encouraged others to do likewise, in support of a more coordinated and coherent approach to national scale up.

4 Lessons in facilitating systemic change

FSD Kenya has not yet been able to achieve the level of critical mass in the savings group system that it had anticipated, but it has been demonstrably influential in changing thinking and practice, through its analysis, its focus on innovation and the way in which it worked.

Be wary of the appeal of the 'big push' intervention: 'Big push' interventions often fail to stimulate lasting change in complex systems characterised by low levels of capacity. The apparent need for a system-wide intervention is usually an indication that a long-term, recurrent market function needs to be established in that system. In this case that function was training and support services to savings groups.

'Right size' support to increase prospects of sustainability: development agencies are often able to deploy a level of resources that exceeds prevailing norms within the systems in which they intervene. Consequently, their actions can be so intensive (in terms of money, expertise or effort) that they cannot be replicated by players within the system. By carefully assessing cost-effectiveness and feasibility, FSD Kenya's approach to savings group training and support was matched to local conditions, making take up by local service providers possible.

> **'FSD Kenya is very innovative. Looking at things in a different way and from a different perspective'**

An action research approach requires flexible implementation arrangements: FSD Kenya's action research approach had tightly defined objectives against which FSD Kenya and its partners could test, learn and improve. Whilst this is positive, there is a risk that the process never ends. Learning and improving matters only if it delivers results. For example, FSD Kenya's action research focused initially on evaluating different delivery channels to determine which was most cost-effective – working with CARE. When it became clear that savings groups had on-going support needs, the focus of its action research shifted to examining the viability of training services – working with both CARE and CRS. FSD Kenya was sufficiently flexible to shift its focus and expand its partnerships as it learned.

Facilitation is an active endeavour: FSD Kenya funded CARE and CRS, but it didn't just outsource interventions. Its staff played an active, informed and engaged role, as its partners observed:

- "FSD Kenya is proactive. It doesn't sit in the office waiting for reports to come in, and only then respond to what is on paper".
- "[FSD Kenya is] very innovative. Looking at things in a different way and from a different perspective".
- "FSD Kenya works actively with you helping to solve problems before they become problems".

Partnerships with a purpose: FSD Kenya sought partnerships with organisations that had the ability to add value, be that in terms of expertise, resources or motivation. At different stages it recognised that it required different partners in order to achieve different things: it did not become wedded or reliant on a single partner. More so, it worked with multiple partners to test different solutions to common problems. This competitive element improved learning, and increased options and ideas for what constitutes good practice in savings groups.

Achieve change by intelligence, insight and influence – not by 'buying' impact: FSD Kenya did not simply sub-contract its partners to deliver results, as might have conventionally been the case. Instead, it used a variety of instruments – research, technical assistance, finance – to influence the thinking and behaviour of its partners. By helping partners to test and learn, FSD Kenya helped trainers gain the confidence to invest their own resources to scale up and service groups; and funders and INGO's the confidence to invest additional resources in savings groups models informed by good practice lessons.

Be focused but retain wider awareness: Whilst FSD Kenya pursued a tightly focused action learning approach, it recognised overlaps with other work themes and teams across FSD Kenya. This overlap allowed for internal learning and reflection. For example, the savings group work initially ran alongside that of managed ASCAs. The work on the e-recording application emerged from a wider engagement on how mobile technology might be harnessed in support of financial inclusion. Such overlapping of themes and teams allowed for learning to shape initial ideas, and for initiatives generated to find a suitable home going forward.●

FSD Africa

FSD Africa is a non-profit company, funded by the UK's Department for International Development, which promotes financial sector development across sub-Saharan Africa. FSD Africa is based in Nairobi, Kenya. It sees itself as a catalyst for change, working with partners to build financial markets that are robust, efficient and, above all, inclusive. It uses funding, research and technical expertise to identify market failures and strengthen the capacity of its partners to improve access to financial services and drive economic growth. It believes strong and responsive financial markets will be central to Africa's emerging growth story and the prosperity of its people.

FSD Africa also provides technical and operational support to a family of ten financial market development agencies or 'FSDs' across sub-Saharan Africa called the FSD Network.

FSD Network

The FSD Network is an alliance of organisations or 'FSDs' that reduce poverty through financial sector development in sub-Saharan Africa.

Today, the FSD Network:

- Comprises two regional FSDs in South Africa (est. 2002) and Kenya (est. 2013) and eight national FSDs in Ethiopia (est. 2013), Kenya (est. 2005), Moçambique (est. 2014), Nigeria (est. 2007), Rwanda (est. 2010), Tanzania (est. 2005), Uganda (est. 2014) and Zambia (est. 2013).
- Is a leading proponent of the 'making markets work for the poor' approach.
- Specialises in a number of themes from agriculture finance and savings groups to payments, SME finance and capital market development.
- Represents a collective investment of $450+ million by DFID; Bill & Melinda Gates Foundation; SIDA; DANIDA; Foreign Affairs, KfW Development Bank; the MasterCard Foundation; RNE (Netherlands); Trade and Development Canada; and the World Bank.
- Spends $55+ million per year, predominantly through grant instruments
- Employs over 150 full time members of staff and uses a wide range of consultants

FSDs do not deliver financial services to the poor directly. Instead, they deploy financial resources, expertise and insights in collaboration with a range of public and private sector actors – from central banks and commercial banks to specialist training providers, telecommunication firms and microfinance networks – to create the market conditions that deliver financial inclusion, not only during the FSD intervention, but also beyond.

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