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FSD Reviews

IMPACT EVALUATION OF FSD KENYA'S SAVINGS GROUPS PROJECT

INTRODUCTION

FSD Kenya has invested substantially in supporting savings groups (SGs) based on the hypothesis that these kinds of informal services are more accessible to underserved markets. Leveraging on local assets (such as detailed information about members' backgrounds, transactions and behaviour, combined with social sanctions and social norms) enables savings groups to deliver a competitive value proposition for lower-income users, which the formal sector finds hard to beat. FSD Kenya has partnered with CARE- Kenya and CRS over a period of ten years to develop scalable and effective delivery models that make training available to established and new groups, as well as testing new solutions such as digital e-recording and linkage models to improve the services groups can offer.

Seeking to better understand both the impacts of groups and the drivers of these impacts, FSD Kenya commissioned a qualitative impact study of savings groups in Kenya, drawing on a cutting edge qualitative methodology for impact assessment, realist evaluation (RE). Realist evaluation understands impacts to be generated not simply as the direct result of an intervention or input (a supply-side view), but in relation to a two-way engagement which is also influenced by the motivations and contexts of users or beneficiaries. Attending closely to the influence of context and the reasoning of users, realist evaluation breaks down the impact pathway to identify the mechanisms through which outcomes are achieved at each stage, thus enabling us to better understand and make sense of the complex factors that drive the impacts of financial services in real world settings.

CONTEXT

The study took place in Rachuonyo sub-county, Nandi and Uasin Gishu counties. In these contexts, people's sources of income are often multiple and seasonal (e.g. mainly agricultural-based and dependent on the weather – these include trading of vegetables, bananas, sweet potatoes, maize, cassava, milk, tea). School fees represent one of the biggest expenses that families face, especially for secondary and tertiary school fees.

Respondents had access to a range of formal and informal financial services, but many of these were of limited usefulness for a variety of reasons. While social networks are often accessible to a range of users, including those from disadvantaged circumstances, they are not unproblematic. Respondents mentioned that in these areas it is difficult to borrow from neighbours because

Savings groups provide a useful source of quick cash in case of need, but also represent an extra source of income for their members.

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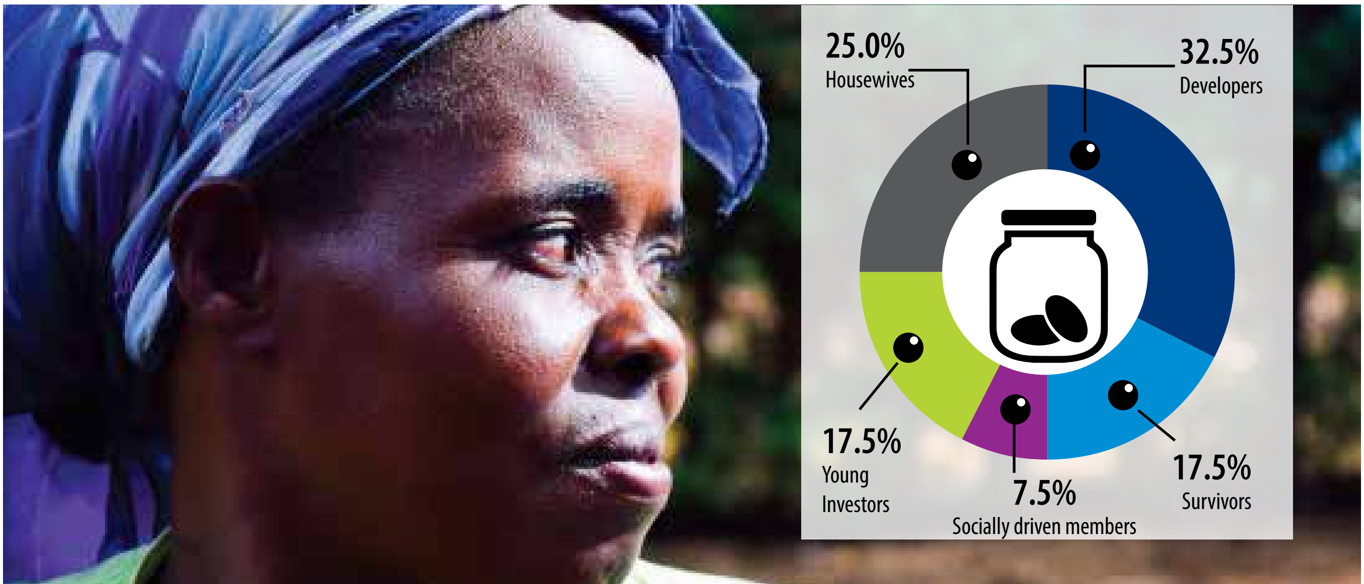
everyone is in the same situation and also because people may not trust each other's ability to repay loans. Neighbours ask a lot of questions on how the money will be used and repaid, which makes people feel vulnerable as they have to disclose their problems. In addition, there are social connotations around borrowing from neighbours which can be associated with people not working and "begging around". Mutual support is, however, still highly valued.

The study found that informal services such as Merry-go-rounds are very common among women and mainly used for managing day to day needs. These groups have limited value because the contribution and timing are fixed, whilst needs are ad hoc and require variable amounts. Women also save in the house or on MPesa but find this problematic because money can be easily spent, and there is no additional value in terms of interest. Some women are part of microfinance groups such as Kenya Women Microfinance Bank, but the general perception regarding MFIs is that such groups do not understand their members, especially when they have loan repayment problems. Other services such as bank services are less common, and mainly used by respondents who are employed in or retired from the formal sector or by those who are receiving tea payments.

FINDINGS

The study found compelling evidence that savings groups have delivered a strong value proposition for a range of population segments, particularly rural women. The research identifies five main areas in which SG members use their loans and share out money. These are: investment in assets, school fees and other education-related expenses, business improvement, small household items and food, and emergencies. While these uses cut across a variety of SG members, the study found that the benefits of SGs vary substantially based on the contexts of members. For example, some members use the SG services predominantly for emergencies while others use them for business investment and accumulation. The study identified five principle member segments, for whom SGs had different impacts (Fig.1).

Figure 1: SG members' segments



Women in the groups often feel they have acquired a new, effective way to ensure a better future to their children.

1. **Survivors:** These are mainly widows, aged 24-46 who derive their incomes from micro business and casual labour. Survivors rely mainly on informal groups of different kinds and MPesa. Unlike other segments who were able to invest through participating in SGs, survivors, with their meagre income and assets, use SGs predominantly to cope with emergencies and unexpected expenses, and to buy small household items or livestock. In this respect, SGs have been valuable in keeping their small businesses alive and taking care of family needs. SG membership has been mainly valuable to build the resilience of these households and improve their ability to face shocks. For survivors, SG's enable them to legitimately take loans when they face an emergency, since they often lack support from a partner and asking for help from neighbours often comes with negative stigma.

2. **Housewives:** These women (aged 26-52) have husbands who are working, and are primarily dependent on remittances from their husbands supplemented by petty trade. Housewives rely primarily on informal groups and MPesa. For them, membership of SGs has been primarily valuable in increasing their independence from their husbands and improving the management of their households. These women are now more actively participating in financial decision-making for their households together with their husbands. They feel that they can now

plan for the future of their children and their SG membership is motivating them to take more business initiatives. Having control over resources by being motivated to regularly save and take loans is particularly attracting for housewives who would not otherwise have means to accumulate money, since Mpesa is often seen as being too liquid.

3. **Developers:** These are both men and women aged between 45 and 55. The majority are married with established businesses in agriculture and trading, often involved in multiple income-generating activities. **This is the biggest segment of SG members**. Developers mainly rely on informal groups and Mpesa, but a minority also use SACCOs and bank accounts. Their income is stable enough to allow this segment of members to regularly save in their SGs and take loans for investment. They use the money from their groups to invest extensively in both business improvement and school fees, as well as assets and house improvements. Some have been able to move their children from public to private schools. For female developers who are often reliant on neighbours for support in times of need, being part of an SG means they no longer have to 'beg around', improving their independence and self-esteem. For this segment, saving is difficult due to the seasonal and irregular nature of their businesses. The SG gives them the flexibility to convert small sums into large sums through small regular savings, and the opportunity to take out loans when needed for school fees and other business investments, which can be repaid gradually on a flexible basis.

4. **Young investors and accumulators:** These are mainly young women aged 24-38, mostly married or with supportive partners. These members are running successful businesses in farming, livestock, and trading, often involving an extensive diversification of income sources. They rely not only on informal services but also on SACCOs and bank accounts. These members are all from an area in Nandi county where soil fertility is very good and there is extensive investment in land and dairy cows. Unlike other SG segments, accumulators mainly use their SGs for business investment, and small loans for household items are never taken. For this segment, SG membership has meant increased investment and liquidity, and has taught them how to manage their money to make it 'work' more effectively to uplift their livelihoods. For the few members with bank accounts, these are mainly used for saving and accumulating sums of money which are not needed for business. Money in the bank does not grow and members often do not trust the bank to keep their money safe, because of high charges. On the other hand, the ability to take frequent loans from their SGs while saving, is particularly important for these young business investors because they can maintain the high level of liquidity which is needed for their business to grow.

5. **Socially driven members:** These are all married men between 47 and 72. They are either farming or retired from formal employment and using a mix of informal and formal financial services. Unlike other members, these men have been part of the early adopters and promoters of SGs and they also cover other social roles in their communities. They use their SGs in various ways. However, they mainly see SGs as a powerful means to bring positive change and development in their communities. They have ambitious plans, not only for themselves, but also for their communities and want their SG to be a forum for unity and development. Many socially driven male members used to save in the bank, but they have realised that the bank does not give them the same return that they can get from the group. On the other hand, the group setting is for them the most appealing aspect of the SG model. The norm of "developing together" and upliftment of the community is central to their trust in the SG model. Indeed, as they use SG services they are encouraging other people to become part of an SG and benefit from this opportunity to develop their livelihoods.

The study also found that there are cross-cutting benefits of SG membership. Generally, SG's have increased women's motivation to work hard, and this has also impacted on the status and empowerment of female members. Indeed, independently of what SGs allow women to achieve economically, female members all said they experienced a change in social status. They are now labelled as "busy women" (Elliot, 2014) and their status in the community and in their household has changed because of their hard work. This may take the form of more respect from husbands and in-laws, increased joint-decision making in the household and also the opportunity to have more control over their labour and stop being so dependent on casual work on other people's farms.

Another cross-cutting effect is the impact that being part of an SG has on people's capabilities. Being part of an SG becomes a learning process for many members and this is illustrated by how people engage with their groups over time. Members across all categories are experimenting not only with SG services but also alternative strategies and credit sources. They have learnt how to save and make money work for them. They have also learnt how to borrow and they have ultimately become more creditworthy within the overall community. These mechanisms and financial impacts are therefore working for all members of SGs, notwithstanding their age, location, gender and household composition.

While SG membership has effected a clear change in women's status, the study found that it was not the case for men. Indeed, while some men are able to benefit financially from the SG by regularly investing loans and share out money into their business and assets, this does not seem to have generally changed their status in the community and their attitude towards work. Indeed, men who became members of SGs were usually already covering other social roles in their communities, such as being chair at a local church, and were already regarded as respected and trusted men. At the same time, it was clear from the different categories of members that men may often be part of groups because of a bigger social mission to develop their communities by giving people tools for their self-development.

Loans and share-outs are often used to pay school fees or other school-related expenses such as books and uniforms.

DRIVERS OF IMPACT

In a context where incomes are limited and unpredictable, and needs such as school fees create strong pressure on households, established and successful savings groups have overcome many of the limitations of other services available in these areas [1]. While the study identified a number of factors that were important in driving impact, the relevance of social norms and values was especially evident. Overall, the study identified 5 principle mechanisms that resulted in the positive impacts of SGs for the wellbeing of their members, and these factors combine economic and social features. These mechanisms are overarching drivers of impact valid for all the SG members segments previously described and they operate simultaneously.

1. Upliftment and community development

"I felt that unity is good and people can do so much if they are united so I felt I should join" (115)

"The money that we are using is now ours. When you save, it is your money that is saved there and when someone takes a loan, interest is also yours" (204)

The value of upliftment is centrally important in joining, staying in and benefiting from SGs. It is related to the fact that groups have been historically used to promote development in rural areas of Kenya (Johnson and Boulton, 2014), and thus fits into a wider ideology of *development through groups* in which people nowadays identify themselves. SGs fit into this mode of development while promoting community upliftment in several ways. By saving together SG members are contributing to each others' development. Indeed, because loans can be of a bigger amount compared to savings, everyone is developing through other people's money. At the same time, the fact that the interest on loans remains within the group gives SG members a sense of ownership over their money, again contributing to everyone's development. In fact, there is a perception that when people repay loans, the whole group is benefitting through the repayment of interest which will be distributed across members as end-of-cycle profit. This possibility is rare in other financial services.

1 The study focused on understanding the drivers of impact for group members rather than assessing the factors that lead to success or failure of groups themselves (which has been the subject of another study Quality of Delivery (ref) also conducted by FSD Kenya). The sample for the current study was therefore selected from among savings groups that had been successful through support from FSD Kenya in partnership with CARE Kenya and CRS.

The value of upliftment through groups leads people to join SGs, with the hope of developing themselves while contributing to the development of the whole community (Johnson and Krijtenburg 2014). However, group dynamics can have a more controversial contribution to the way in which people take decisions. Indeed, people do not only join groups with the hope of improving their life but also due to peer pressure and fear of social exclusion.

2. Making money work

"It was difficult to accumulate funds at once to use, now there [with the SG] I would be able to save and get a big amount of money that could help me do something substantial" (101)

SG makes money work through:

- Accumulation of interest
- Protection from spending

In these respects, they compete with the mattress, Mpesa and the bank

SG members find that SGs make them use their money in a productive way, by enabling them to save frequently and in small amounts, while accumulating and earning an interest over time. In this way, SGs allow their members to make money work for them, instead of having money idle and unused. This mechanism not only pushes people to become members of SGs but also contributes to their decision to keep saving and taking loans from the groups.

SGs have a particular value in a rural context where the most common financial services are informal (e.g. MGRs and saving in the house) with the exception of Mpesa and do not offer the same capacity to protect against spending. Indeed, the house and Mpesa were regarded as too liquid by SG members; cash in the house is easy to spend, as is money in Mpesa which is like having money in the pocket. Meanwhile, MGRs are not considered as savings tools because money does not accumulate interest, and the same contribution rotates among members.

3. Receiving assistance

Receiving assistance through moral support and loans works because:

- It is legitimate, quick, confidential
- Members do not have to ask neighbours and husband for support
- Members can save and take loans at the same time

"I just sat and thought life is hard, let me join this group as they might help me out" (106)

"They [the neighbours] will ask me many things, what are you going to do with the money something like that. So in the group nobody will ask you anything" (109)

SG members also decide to join and stay in their groups because they can get assistance from them. This assistance often takes the form of loans, but could also be moral support during emergencies. The ability of members to access loans while also saving is key, as well as the characteristics of this process. Loans are considered quick, legitimate and confidential.

Borrowing is viewed positively as a sign of development and women being "focused" rather than being stigmatised and associated with "begging around" as in cases where people have to ask for help from others (often neighbours). Indeed, the loan process is particularly important in the context where the research was carried out in which often women are juggling many expenses and emergencies with very little and unreliable income. In these situations, the instances of them having to ask for money from the husband or a neighbour is quite frequent but not always well viewed.

4. Money is always available

Money is always available means that:

- Members become more creditworthy and can access alternative sources of credit
- They can manage their time better – consumption smoothing
- They trust the group and feel that the group understands their need for flexible repayment

"You know, no one can be able to loan you some money in this village as we are speaking because of an emergency even let us say a loan of 200 shillings. But you can boldly go and get it from the group, or even tell one of the members to take a loan of two people and later refund the member and that makes life easy" (110)

"Presently we have groups from which we can seek help. and since most groups meet once a month you can approach somebody to bail you out while you wait for the meeting day to borrow money and pay him back. That way you will find people willing to help and after you get money from the group you can use it to handle your pressing issues" (116)

Another important mechanism which lead members to stay and use the SG services is the perception that money is always available. This refers to both the flexibility of loan repayment and the creation of alternative sources of credit as a result of being part of a SG. Indeed, repayments can be rescheduled. Also members can ask for assistance from other members and from external individuals in order to present the money for their repayment on the meeting day. The possibility of taking another loan on the same meeting day makes this process look more like members are re-financing their loans rather than repaying them. Indeed, by taking another loan on the same day, they can then refund the external loan which they have used to repay their SG loan.

This process makes SG members to be more creditworthy as their SG membership symbolises that they will be able to repay external loans at a specific time. Ultimately, the flexibility of the loan repayment is identified by SG members as if the group understands them and their problems. This is often compared to more formal financial service where SG members do not feel there would be such space for negotiation and flexibility. Ultimately, the opportunity to take loans, on different terms, from SGs and from other sources, helps members plan their time and activities and enables them to smooth their consumption.

5. SG members work hard

Ultimately, these mechanisms lead to SG members working hard to stay in their groups, as well as saving, and borrowing and repaying loans. SGs make their members busy while at the same time allowing them to develop together with the other members. Clearly all of these mechanisms work simultaneously and trigger each other cyclically. SGs motivate members to work hard, and working hard is considered here as both a mechanism which leads people to stay and use SG services, but also as a final programme impact. For instance, as members experience some economic improvement, more independence from their neighbours and husbands and an improvement in their household relationships, they also become motivated to work harder, increase their contributions to the groups and take and repay bigger loans. Indeed, because of all the mechanisms explained above SGs are a source of motivation for their members who hope to improve their lives.

SUMMARY

There have been a number of studies that have attempted to measure the impacts of savings groups on the lives and livelihoods of lower income households, mostly using experimental methods (Gash and Odell, 2013). These studies have been mainly focused on measuring impact, rather than analysing the contextual and behavioural factors through which impacts are achieved. This study not only demonstrates that successful savings groups have a strong impact on the resilience, income and quality of life for their members relative to other available services; it also uncovers some of the mechanisms which drive these impacts. Understanding the ways in which savings groups fit into social as well as economic values, and how they resonate with local contexts is useful for providers and policy makers seeking to improve the value of group-based and other financial services for lower income people.

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Download the *Impact evaluation of FSD Kenya's savings groups project: Final report*
http:www.fsdkenya.org/publication/savings-group-impact-study/

About FSD Kenya:

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 to create value through financial inclusion. It operates as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). Current funders include the UK's Department for International Development (DFID), the Swedish International Development Agency (SIDA), and the Bill & Melinda Gates foundation.

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FSD Kenya is an independent Trust established to support the development of inclusive financial markets in Kenya • **A** 9-Riverside, 3rd Floor, Riverside Drive • PO Box 11353, 00100 Nairobi, Kenya • **T** +254 (20) 513 7300
info@fsdkenya.org • www.fsdkenya.org • @FSDKe