In September 2008, CARE Kenya, with support from FSD Kenya launched a pilot project of group savings and loan (GSL) promotion, designed to test whether innovative management and incentive systems could lead to large outreach at low cost per member.

CARE’s Community Savings and Loans Project (COSALO), is simultaneously testing two innovations. CARE hopes that both innovations will permit greater outreach at lower cost, through empowering local entrepreneurs and faith based organisations to do work that previously was done by CARE or other implementors.

The first innovation being tested is that all the Community Based Trainers - CBTs - who do the actual work of group formation are being paid exclusively on a commission basis. They receive approximately two dollars per group member in all the groups they form, with two-thirds paid when the group starts saving, and one-third coming when the group distributes its assets at the end of the year to ensure that CBTs monitor the groups’ quality over the year. The CBTs are not CARE employees, but independent contractors working purely on a commission basis.

The second innovation is that CARE is transferring some of its management responsibilities to two groups of local partners: faith-based organisations (FBOs) and local entrepreneurs, (franchisees). The franchisees operate under a memorandum of understanding with CARE, and are recompensed for their work at about $3/per member.

As part of the test, CARE is also directly managing a small group of CBTs; although they are managed by CARE, they also are paid on a commission basis.
The ten Direct CBTs, like all the CBTs, are independent contractors managed by CARE’s field staff, and paid on a commission basis for each group member trained. Many of the Direct CBTs are recent graduates of teachers colleges, who either could not find a teaching job, or preferred to work for CARE.

CARE has signed memoranda of understanding with five FBOs – the Catholic Church, the Church of God of East Africa, the Quakers, the Seventh Day Adventists, and the Word of Faith Church. In each case, the churches have set up committees who in turn supervise the CBTs, and assist with mobilisation of new groups. The church committees each manage three or four CBTs. CARE signed an MOU with the predominant church organisation in each district, but the FBOs agree to be non-denominational, and publicize their services to everyone, regardless of religious beliefs.

COSALO delivery channels

<table>
<thead>
<tr>
<th>Category</th>
<th>Managed by</th>
<th>Number of CBTs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct CBTs</td>
<td>CARE</td>
<td>10</td>
</tr>
<tr>
<td>FBOs</td>
<td>Five churches</td>
<td>20</td>
</tr>
<tr>
<td>Franchisees</td>
<td>Four local entrepreneurs</td>
<td>20</td>
</tr>
</tbody>
</table>

Initially, CARE is directly responsible for the training of CBTs, and provides a great deal of technical assistance and oversight to the FBOs and franchisees. In future, CARE expects to delegate an increasing amount of responsibility to the franchisees and FBOs.

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CARE has also signed MOUs with four franchisees, local entrepreneurs, who in turn supervise groups of CBTs. The franchisees, two men and two women, all have existing businesses: they sell agricultural products; run a hair salon and sell MPESA money transfer services; own a bookstore; and transport goods. The franchisees have about five CBTs each, and most say they could manage twice that number.

In all three cases, CARE provided the initial training to the entrepreneurs and FBOs, and to the CBTs. CARE staff provide regular support and visits to the CBTs and the franchisees and FBOs.

The initial results, four months after the first groups were formed, are positive. The project is well ahead of its goal of having each CBT form three groups a month; in February 2009, the average was 4.4 groups per CBT. Group quality seems to be very good. Operational costs are now about eleven dollars per member; the goal for the entire project is ten dollars.

CARE will continue to study the progress of the experiments carefully. It is bringing in a consultant on franchising to help perfect the agreements with the franchisees and FBOs; in particular the consultant will help re-examine the remuneration plans, and help develop a code of conduct to separate the other businesses of the entrepreneurs from the savings group business. CARE still needs to strengthen its data management substantially, put in place safeguards against double-counting of members of multiple groups as well as the eventual creation of fictitious groups, and develop both an exit strategy for the regions where it is working, and an expansion strategy that will allow it to take advantage of the large networks of the FBOs, as well as allowing the most successful franchisees to expand their businesses into other regions.

Compiled by Anthony Murathi, Nelly Otieno (of CARE Kenya) and Paul Rippey, an independent GSL consultant.
WORKING WITH FSD

FSD works with a wide range of partners across government, the private sector and non-governmental organisations. We are always open to any new ideas and partnerships where they can contribute to our mission of increasing financial inclusion in Kenya. Since our aim is to help in developing markets which are changing rapidly, we do not prescribe a specific rigid process for organisations wanting to work with FSD. There is no application form. Nevertheless we do have principles which guide the way in which we work. Anything in which FSD is involved must clearly contribute to the development of inclusive finance in Kenya. FSD can invest in building financial markets through technical assistance, grants, loans or equity. The long-term return we seek is in terms of the contribution to increasing financial inclusion. A major concern is to ensure that our funding does not contribute to market distortions — especially anything which might give an unfair competitive advantage to a particular market player.

We always expect to see our partners taking a significant and tangible stake in projects, sharing the costs and risks. In working with the private sector an appropriate level of financial contribution is essential. Where our funding is used by ourselves or our partners to purchase goods and services, best practice procurement principles must be followed. We want to encourage fair and open competition stimulating the development of markets while simultaneously ensuring the process is efficient and maximises value for money. In partnering with the private sector, we take a business-like approach. Our commitments will always be clear and honoured. Simultaneously partners are expected to achieve agreed targets.

MORE ABOUT FSD

We have an active information programme and are always delighted to answer questions about our work or Kenya’s financial sector. Often the easiest way to obtain information is simply to visit our web-site on www.fsdkenya.org. This provides a range of up-to-date information and links to the sites many of our partners. All the studies published by FSD are available for download electronically from our web-site. If you have a specific question then this can be addressed to info@fsdkenya.org. We will respond to all queries as quickly as possible and you should always receive a reply within one week. Our quarterly newsletter contains updates on FSD’s programme and can be downloaded from our web-site or e-mailed to you directly (let us know if you’d like to be included on our mailing list). Many of our publications are also available in hardcopy form and can be obtained on request.