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Use and Impact of Savings Services for Poor People in Kenya

Contribution to

Savings and the Poor
the methods, use and impact of savings by the poor of East Africa

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ABBREVIATIONS AND GLOSSARY

AFC	Agricultural Finance Corporation
ASAL	Arid and Semi Arid Lands
BDO	Business Development Officer
CO	Community Organiser
CS	Case Study
DFBK	Development Finance Bank of Kenya
FSA	Financial Service Association
HFCK	Housing Finance Company of Kenya
ICDC	Industrial and Commercial Development Corporation
IDB	Industrial Development Bank
IFAD	International Fund for Agricultural Development
KREP	Kenya Rural Enterprise Programme
KTDC	Kenya Tourist Development Corporation
KWFT	Kenya Women's Finance Trust
MCI	Micro-credit Institution
MEC	Market Enterprise Centre
MFI	MicroFinance Institution
MGR	Merry Go Round
NCCK	National Council Of Churches of Kenya
NGO	Non Governmental Organization
FNGO	Financial Non Governmental Organization
SACCO	Savings and Credit Cooperatives Society
WEDCO	Women Economic Development Company (CARE Project)

Active Clients	Clients of an MCI group who attend meeting and are saving into the collateral Account
Active Borrowers	Clients of an MCI who have outstanding loans
Enterprise Group [EG]	Group of five PRIDE clients who cross-guarantee one another's loans
Market Enterprise Center [MEC]	PRIDE's meeting place for several Enterprise Groups in one area
Itega	Kikuyu word rotating savings and credit associations
Kiwa	KREP's Centre (40-50 members)
Watano	Group of five KREP clients who cross-guarantee one another's loan

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1. INTRODUCTION

1.1 Background of the Study

From the middle of the 1980s, micro-enterprises have commanded public attention and increasingly public support in the form of micro-credit schemes, programs, institutions as well as non financial services. Today, there are still several micro business finance schemes in Kenya of which half a dozen or so have evolved into serious contenders to become permanent providers of micro-finance services. One, the Kenya Rural Enterprise Program is crossing the Rubicon to become a Micro-finance bank providing all financial services to its customers. These institutions have invested in the development of programs, systems and bureaucracies designed exclusively for credit administration. In the words of one credit officer who was not happy with group members who had not borrowed for several months, "We are a credit institution. We are not a savings and credit institution". This consultant had never heard savings denounced by "Micro-finance" institutions in such emphatic terms … they are truly "Micro-credit" organisations.

All micro-credit schemes started as poverty focused projects with the stated objective to assist poor people [the original catchwords were in fact, "the poorest of the poor"] to secure access to enterprise finance. Experience has compelled increasing acceptance that enterprise credit alone is not the single and perhaps, not even the most important factor that prevents poor people from engaging in viable enterprises. Business finance is for persons with other personal resources including aptitude, passion and belief in business and self-employment. Credit is thus one way of securing a lumpsum of money that micro-credit institutions make available to the poor and not so poor who are endowed with entrepreneurial resources for only one purpose. Clients as well as non-clients of these institutions have therefore devised other ways of creating and obtaining lumpsums for their other legitimate life-cycle needs, including school fees, weddings, ceremonial and festive occasions, health services, acquisition and replacement of basic household assets etc. ignored by micro-credit institutions.

The purpose of this study is to increase the knowledge and understanding of how poor people in Kenya save to meet their various lumpsum needs, how they use different savings services and systems and the impact of those systems on their households' financial, social and economic management. The study has been commissioned by ***MicroSave*** whose brief is to promote the savings agenda for poor people in Africa.

The Kenyan study was undertaken by Harry Mugwanga under the leadership of Professor David Hulme of the University of Manchester. Mr. Mugwanga is a development economist with executive level managerial experience in both development and commercial banking. As CEO of a new commercial financial institution founded by a Kenyan Church with participation from wealthy merchants, he had attempted to implement donor funded micro-finance services, which caused considerable stress to the institution's up-market geared philosophy and systems. He left the job in 1993 to become a full time consultant on various aspects of micro-finance services.

The study was undertaken between April 26 and May 21, 1999 and involved five MCIs namely KREP, KWFT, PRIDE, NCCK and WEDCO. Most of the general institutional information came from their latest available published reports where these were accessible to the consultants. Where it was possible to interview a CEO or a Senior Manager at the Head Office, the consultants obtained a more dynamic background to the information contained in their reports. This Report is based substantially on information generated through several focus group discussions and interviews with field staff, clients and non clients of the MCIs in selected branches. Interviews with officials and original members of old groups which have lost most founder members provided rich insight on drop outs and the impact of this on their [drop outs] participation in savings systems.

Many people have contributed to the achievements of this study. Field staff of the MCIs gave invaluable time to connect the consultant with their clients amidst their very tight work schedules. The research team always felt welcome amongst the clients who shared their experiences with us freely in their

meetings and business places. The non-members whom we interviewed deserve special mention for their cooperation with a study that had no immediate value to them. Finally, the Team Leader, Professor David Hulme assisted with access to the growing mass of literature on the subject and with the organisation of the Report. I thank you all and take all blame for any shortcomings, errors of fact and interpretation that may be found in this Report.

1.2 Savings and MCI Clients

All the MCIs included in this survey have compulsory, regular savings which members make as long as they remain members of the Programme. In all but one institution studied, such savings are deposited into a commercial bank account of the client's group in which the MCI is a joint and mandatory signatory. In the one institution, the group savings are held in its own bank account and were therefore (illegally) accessible to the institution to finance its operations when donor funding was not forthcoming.

Compulsory savings can only be withdrawn when a member is leaving the Programme and may be one reason why some older members who do not need further loans opt to drop out of the institution. These savings are therefore as, if not more, illiquid than ordinary shares in a company as they can only be converted into cash when one is leaving a group.

There were suggestions in both KREP and KWFT that many group members were saving higher than the mandatory amount; as much as Ksh. 2,000 in one deposit by a KREP group member. But both institutions have not laid down different procedures for withdrawing such excess savings that would be easier than withdrawing the compulsory portion. KREP explained the procedure for withdrawing excess savings as follows:

- The client writes to the group requesting withdrawal
- The Treasurer is assigned to up-date the group on the account of the person
- The Treasurer reports to the group at its next meeting [one week later]
- If withdrawal is approved, the Treasurer completes a transfer form to withdraw money from the group’s account.
- The Transfer form is forwarded to KREP together with the client's group passbook
- The Credit Officer writes a note to the Area Manager recommending the transaction
- The Manager's approval starts the disbursement process
- Accounts Section at the Area Office level writes a cheque [open]
- Cheque signed by Manager; the group Chairman and Treasurer at the group meeting

The process entails the necessary controls and transparency but requires a minimum of three to four meetings (3 to 4 weeks) to complete from requesting withdrawal to receiving an open cheque. Why do members put their extra savings into such a system?

In an earlier review of one of the institutions, a client revealed that she used to save more in the group account as it was much safer from herself and her husband than savings in her own account. During this study, Mrs. T indicated that she preferred the KREP group account because she is the only one who ultimately controls its transactions and the long process ensured that she or her husband would prefer other solutions to urgent need for lumpsums to withdrawal from it. The compulsory part of the saving was therefore a condition for participating in the Programme, but can also be viewed positively as the programme's asset building activity which assists assetless people to improve their asset base. This is perhaps the most universal impact of the institutions on the financial status of their client households. But, the Account is also providing a safe deposit facility which the members must require even if they do not want a loan immediately.

1.3 Lumpsums For MCI Clients

Life-cycle need for lumpsums is met by poor people in a variety of ways. The institutions which facilitate lumpsums for poor people are discussed later in this report. The MCIs which were the special focus of this study facilitate lumpsums in four important ways:

i. Loans provide lumpsums to members mainly for investment purposes. But there is also compelling evidence indicating that a significant proportion of the loans is used for other lumpsum needs. The extent of diversion varies from one institution to another by gender and by location and a more focused study diversions is necessary to quantify and attribute the magnitudes to particular factors. Received evidence however suggests that 25 to 30% of KREP and KWFT loans are used for other lumpsums needs other than investment in enterprises. Activities of these institutions are concentrated in Nairobi, Kiambu and the Mount Kenya region which covers Nyeri, Kirinyaga, Embu and Meru and new districts in the region. In a previous review, the author argued that such diversions were not necessarily bad if borrowers preferred a loan to disposal of their business assets to meet regular lumpsum needs.

   In Western Kenya where WEDCO is the largest MCI, the rate of diversion is much higher, and is possibly above 50%. Besides the more acceptable reasons to protect business assets, the WEDCO methodology is not as tightly controlled at the individual borrower level. The methodology accepts up to 25% members of group 'banks' who are in full time employment. In practice there are groups [the consultant encountered four in only two days] consisting wholly of employed people. Most of these are hospital nurses and school teachers, a few of whom are engaged in casual businesses to supplement their income. A much smaller number of WEDCO clients own and run serious businesses and are in fact considering retiring from their jobs to concentrate on business. Those who have no businesses but are members of the 'banks' borrow for other lumpsum needs, mainly school fees, and repay from their salaries. The loans assist them in the same way as ROSCAs except that in this case, the lumpsum is coming from outside … and up-front. It suggests a very legitimate credit product linked to small regular savings that is being met by MCIs albeit through round-about means.

ii. Both KREP and KWFT have membership of merry-go-round (ROSCAs) as a requirement for their members. But all MCIs studied have stimulated merry-go-round activities between their members. The study also encountered multiple membership of merry-go-rounds among MCI clients more often than among non -clients suggesting that MCIs stimulate interest in such systems to meet various lumpsum needs.

iii. All the MCIs studied encouraged their members to operate bank accounts for processing their loan cheques. Many clients are using these accounts very actively and a significant number of them (Table III) indicated that if they were faced with a sudden need for a lumpsum of Ksh. 5,000 to 15,000, they would withdraw it from their bank accounts or request an overdraft from their bankers. Clients without such contingent arrangements fall back on husbands or loans from friends and instant *harambees* all driven by the principle of reciprocity.

iv. The use of client group accounts for safe custody of savings by members has been discussed above. Interested clients, mostly women have taken advantage of these accounts to build lumpsums for investment, asset acquisition and to meet predictable lumpsum needs such as weddings and school fees.

In urban areas and for people engaged in micro-enterprises merry-go-rounds have emerged as the main system for dealing with recurrent liquidity management issues. And for the employed poor, supplier credit extended by neighbourhood traders to regular customers substitute cash between wage dates while surplus cash is invested in social networks as loans or donations. These reciprocate.

Savings avenues available to poor people especially in rural areas tend to be illiquid. As we have seen, savings in a group account can be more illiquid than investing in livestock or any other disposable asset. Thus, when rural folk have excess cash as a result of say receipt of dowry or sale of harvest, the temptation is to purchase livestock. These, unfortunately, are indivisible and cannot be disposed of to meet lumpsum requirements which do not warrant disposal of such an asset. Managing income presents even more poverty serious challenges to poor people. As one development practitioner observed "*poverty is expensive*". The common practice is to dispose of harvests cheaply, buy livestock when they are very expensive because everyone has food, sell during the peak cash demand or food stress period when livestock are very cheap because more people are selling to buy expensive food. This vicious circle can only be broken if people were able to save in kind during harvest, access credit against such savings and sell to liquidate credit when food prices are high.

1.4 Savings and Micro Enterprises

Micro enterprises require savings services for growth and for their liquidity management. These needs are being met by MCIs and in their linkage with commercial banking institutions. Compulsory savings imposed by MCIs enable micro-enterprises to build up assets for access to larger credit for growth or for future equity for their businesses. Furthermore, the requirement that MCI clients operate bank accounts provides a facility for storing liquidity. And as we have noted above, many MCI clients have established sufficiently strong relationship with the banks to warrant overdrafts when in urgent need for cash.

1.5 The Financial System and The Regulatory and Supervisory Environment

A historically significant milestone in the evolution of Kenya's financial system was the abolition of the East African Currency Board which had since 1919 managed a common East African currency. The main features of Kenya's financial system during the period prior to the break up of the Board in 1965 were the operation of a sterling based East African shilling and a banking system consisting of branches of London based banks with main interest in trade, plantation agriculture, imports and exports. The creation of the Central Bank of Kenya in 1965 transferred several functions from the Board to the Bank such as lender to commercial banks during peak periods of demand for credit, lender of last resort to commercial banks facing temporary liquidity shortages, holding reserve balances for commercial banks and influencing domestic interest rates. The Banking Act which established the Central Bank of Kenya also conferred upon it regulatory and supervisory authority over financial institutions. These include control of the growth of the banking industry implemented through a licensing system, monitoring the quantity and quality of the institutions assets and liabilities, imposition of minimum reserve ratios and control over network expansion.

The Banking Act did not change much up to the mid 1980s when several development in the banking industry started to challenge its regulatory capacity. The emergence of several indigenously owned financial institutions unrestrained by international reputation provoked a series of amendments essentially intended to limit entry into the banking industry. Thus the required minimum capital for a bank increased from Ksh. 5 million before 1982 to Ksh. 500 million in 1999. At the same time, attempts to introduce more stringent reporting requirement and adoption of internationally used supervision norms and practices were roundly frustrated by the emergence of a new animal popularly known as "political banks" which, besides holding a banking license, operated outside the legal, regulatory and supervisory system and disregarded good practices with impunity.

During the period of controlled interest rates, which ended in 1991, Non Bank Financial Institutions (NBFIs) which were also licensed, regulated and supervised by the Central Bank were allowed to charge higher interest rates than commercial banks. Consequently, nearly all banks created NBFI affiliates to deliver some and in most cases, the bulk of their credit. Thus in 1993 there were about 36 commercial banks and nearly 60 NBFIs. A Central Bank directive issued to the banking industry in 1993 introduced the idea of universal banking, subjecting both commercial banks and NBFI to the same regulatory requirements. Apart from lower minimum capital (then Ksh. 37.5 million), both categories of finance institutions would soon be required to maintain the same cash reserves with the Central Bank and there would of course be no more interest rate advantage to NBFIs. NBFIs were therefore encouraged to convert into banks to take full advantage of the services which banks can offer including issuing own cheques. Today, there are only 17 operating NFBIs and the number of commercial banks has increased to 56 including the newly licensed Majestic, Mesacom and KREP Banks.

Kenya's banking industry is characterised by a high concentration of deposits in five commercial banks, which between them hold about 60% of total deposits and about the same level of total loans and advances. This concentration increased from the early nineties following the collapse of a large number of new institutions and may only be reversed by the well-publicised decision by the large banks to increase minimum deposits in 1999. At December 1997, seven of the largest banks accounted for 77% of the 512 outlets throughout the country. KCB, BBK and SCB with 180, 87 and 36 outlets respectively controlled 59% of the outlets. These too may change slightly if KCB and NBK close down as many branches as they have threatened to do. The rest of the banks tend to serve special interests, sectors and communities with a large proportion owned, controlled and geared towards specific Asian communities. The KREP Bank scheduled to open in July 1999 will be first commercial bank with a deliberate focus on the provision of banking services to small savers and borrowers.

Besides financial institutions which are licensed and regulated under the Banking Act, Kenya boasts the most diversified financial system in the East African region. It has the largest stock exchange with 66 participating companies, several insurance companies, building societies, investment and mortgage companies, remnants of specialised development finance institutions (ICDC, KIE, AFC, KTDC, HFCK, IDB, DFBK) and a host of hire and lease purchase institutions. Other institutions which adorn this landscape and which are closer to the purpose of this study (i.e. MFIs and MCIs, FSAs, SACCOs and Kenya Post Office Savings Bank) are discussed in more detail in the next chapter.

1.6 Regulation and Supervision

The overall objective of regulation and supervision by the Central Bank is to ensure orderly growth, stability and integrity of the financial system. Regulation refers to prudential guidelines and directives issued by the regulatory authority (Central Bank of Kenya) to the institutions it is mandated to regulate and are intended to define the standards of conduct considered necessary to promote best practices and to protect the industry from opportunistic and other practices which are likely to erode public confidence in it. Supervision refers to systems and measures designed to monitor and enforce compliance with regulatory provisions.

Financial institutions which accept deposits/savings from the general public and convert these into their risk assets are regulated by the Central Bank of Kenya. Currently, these include commercial banks, non bank financial institutions which include investment and mortgage companies and building societies. Membership institutions such as SACCOs are regulated the Ministry of Cooperatives under the Cooperatives Act and their By-laws. Supervision is entrusted to members, their governance structures and apex unions. Under The Cooperatives Act adopted in 1997, the government plays an arm’s length role in the supervision of cooperatives.

1.7 From Microcredit To Microfinance Institutions

The emergence of institutions capable of providing micro-finance services (public savings, credit, payment and transfer services etc.) has been hampered by the nature of the institutions which have pioneered micro-credit activities in Kenya. Potential micro-finance institutions have been set up with assistance from external donors to channel financial assistance to micro enterprises denied access to credit from conventional banking institutions. Their managerial capacity (structures, systems and bureaucracies) have developed in the area of credit administration with reporting obligations to the agencies which have invested in them. Managing savings from the public or even a captive target is obviously a different challenge. People who receive assistance from these institutions are sometimes referred to as members but none with the limited exception of KWFT have a membership system that puts some measure of supervisory mandate on the members. Lack of financial ownership and accountability systems is the main obstacle to the evolution of micro-credit into full micro-finance institutions in Kenya. There are ongoing consultations between the industry and the Central Bank and, hopefully, a solution will be found in the future that will enable micro-credit institutions to acquire the abilities to accept and manage voluntary and liquid savings without having to take the only route that was open to KREP - to convert into a commercial bank under the same regulatory and supervisory regime as conventional banks.

2.0 THE SERVICE PROVIDERS

In the context of the objectives of this report, there are three categories of financial service providers warranting more detailed discussion. These have been set up to or are in a position to provide savings services to poorer people in Kenya. They may be classified into informal institutions, MFIs, Kenya Post Office Savings Bank and the commercial banks.

2.1 Informal Institutions

Informal service providers include several variants of monetised rotating savings and credit associations or merry- go-rounds, funeral funds and *harambees*. They have roots in traditional mutual support systems and have vernacular translations which communicate their meaning and socio-economic relevance. These give them a lot of energy and explain their prevalence**.** Whether *chikola* in Giriama, *itega* or *kwohania* in Kikuyu or *saga* in Luo, they mean collective approach to solving individual problems. Once practised in kind such as planting or weeding each others *shamba* [garden] in turns, these systems have been monetised and provide savings and loans services to their members.

2.1.1 Rotating Savings and Credit Associations (ROSCAs)

The typical rotating savings and credit institutions encountered during the study included the following versions:

- Regular daily, weekly or monthly contribution given to one or two members determined by lottery sequence. The sequence is determined by the one or two winners picking the lucky number(s) and who do not participate in the next lottery until all members have had their chances. This may determine the subsequent sequence or members may decide to repeat the same procedure every round. The first winner is a borrower who repays the loan in her subsequent contributions until all have won while the last winner is essentially collecting her savings invested in the other members. There is no provision for the time value of money and no interest in paid on the loan or earned on the savings.
- Members agree on a share value of say Ksh. 200 to be paid weekly, bi-weekly or monthly with the option that a member may buy multiple shares of Ksh. 400, 600 etc. A member who has bought three shares (Ksh. 600) takes the lottery three times.

Multiple Membership of Merry-Go-Rounds

David has a hotel in Juja and is also involved in saw milling using a power saw. David is a member of two *itegas* (merry-go-rounds). In one where there are 52 people each member contributes Ksh. 20 daily. David buys three shares (Ksh. 60) and therefore gets the prize three times each round. In another merry-go-round there are ten people and one member may decide to buy more than one share i.e. contribute as if he were two or more people. Each person contributes Ksh. 1,000 p.m. but David buys two shares (Ksh. 1,000 x 2) and therefore wins Ksh. 10,000 (Ksh.1,000 x 10) twice within a year.

2.1.2 Accumulating Savings and Credit Associations (ASCAs)

There are several versions of ASCAs in common practice:

- The most common version of ASCA involves regular savings with an agreed minimum amount for every member but allowing higher amounts to be saved by members who wish to. Some members borrow, others do not. At the end of a cycle, which may be a target date agreed by the members (usually end of year), the ASCA is wound-up. The savings accumulated are returned to the members with a share of the interest earned divided equally or according to their borrowing in which case interest paid by borrowers become part of their saving.
- Members' weekly, monthly contributions are allocated to a member or members who need the cash as a loan. At the end of the year, total savings and interest is distributed equally. Thus those who save but do not borrow do not get all the earnings of their savings and borrowers get some of the interest they paid back in the form of a dividend.
- Regular weekly, by weekly or monthly contributions are made and each member takes back as a loan to be repaid at the following meeting with interest as well as the contribution to the following week, fortnight or month (see for example, the Anchor Stars Self Help Group below). The money must be brought physically to the meeting. This goes on for the agreed period at the end of which each member takes her savings and interest plus the benefit of fines levied during the period for offences against the system such as lateness or failure to attend a meeting. The consultant sought to know how such a loan benefited the member/borrower and found that this was the nearest imitation of a current bank account. When the saving had grown, some members were able to invest the savings "withdrawn" in quick selling stocks like charcoal and make a profit on it. Final withdrawal during a festive period provided funds to enjoy during such periods.

Anchor Stars' ASCA – Building A Capital Fund

Anchor Stars SHG was formed in July 1998 by twenty five people and still has twenty five members. They meet every two weeks alternately for the purposes of the ASCA and for all business including loan repayment.

At the previous meeting, members had taken Ksh. 900 each from the ASCA, which they returned at this meeting with 10% interest i.e. a total of Ksh. 990. Then every member paid the Ksh. 200 into the ASCA as an additional contribution for two weeks. At the end of the meeting the total fund (Ksh. 990 plus 200 per member) was re-loaned to members. This way members are saving as well as having access to their money for business. At the end of the year they plan to break the cycle, give each member a lumpsum for Christmas festivities … and then start again. Last year, they distributed Ksh. 10,000 to each member at Christmas.

The fund available for distribution is augmented by fines against lateness, absence, making noise in the meeting, forgetting to bring passbook and any other breach of the Bylaws of the Group. A member who has a daughter who has been bedridden for 18 years had taken her daughter to a faith healer and could not attend. After very heated debate, it was resolved that she must still pay the fine of Ksh. 100 - for failing to turn up at the meeting. It was also agreed that the Bylaws need to be reviewed as cases of this nature should be exempted from fines.

It is not uncommon to meet one person who participates in more than one ROSCA or a ROSCA and an ASCA. While ROSCAs are more popular and durable amongst people who are not so poor and have regular income, ASCAs are on the other hand more accessible to poorer people because of the flexibility on minimum savings and regularity.

Spreading the Risks and Times of Pay-out

Benta is a member and secretary of Osiro Dak WG. She is a nurse and most other members of her group are nurses like her. They are involved in business to supplement their meagre salaries. Benta reckons that she makes twice as much from her business of selling second hand clothes as she does from her salary. Benta participates in a merry–go-round and two ASCAs:

<u>Merry-go-round</u>
5 members who contribute Ksh. 200 each every week. Every five weeks, Benta receives Ksh. 1,000.

<u>ASCA 1</u>
12 members who contribute Ksh. 525 per month distributed as follows:

- Ksh. 100 left for the member hosting the meeting
- Ksh. 150 taken to the host in the form of utensils
- Ksh. 50 put in the reserve fund
- Ksh. 225 banked and can be loaned to members

<u>ASCA 2</u>
9 members who contribute Ksh. 320 per month distributed this way:

- Ksh. 100 for the host
- Ksh. 100 for emergency fund
- Ksh. 120 saved, borrowed and given back at Christmas.

These informal financial service systems are savings-led and do not work as well when external capital is introduced. Introduction of such capital tends make the lumpsums too big in relation to the members capacity to repay thus distressing the system as the Chairman's role is changed significantly into a debt collector. For hawkers, food vendors and other micro-enterprises, external capital changes the rhythm of de-capitalisation and re-capitalisation that ROSCAs assist to manage. The disruption is especially serious when external capital cannot be absorbed into the enterprise at once leading to diversion of some of the funds to other uses although the loan still has to be repaid by the same enterprise.

2.1.3 Social Funds

Most groups in Kenya are started with a welfare objective. But even when groups are formed directly for the purpose of accessing financial services as in the case of *Juhudi*[1] groups, close friendships develop which warrant involvement in each other's misfortunes and increasingly normal household events such as weddings. Thus, in several group discussions and case studies the consultants encountered regular contributions by group members for contingencies such as serious sickness or death of spouse or child of a member (see for example Dagoreti Amani Self Help Group). They are known by different names i.e. emergency fund, "*agulu*" (literally the pot in Luo) or just the "welfare account".

In Times of Trouble …

Dagoreti Amani SHG was started in 1993 with 30 members. It now has 27 members, of whom 16 are founder members. The meeting had 16 members and the 11 who failed to show up would pay a fine of Ksh. 200 each. The collections at the meeting included:

- Loan repayment according to the size of the loan
- Mandatory savings of Ksh. 200 per week
- Emergency savings of Ksh. 200 per week
- Merry-go-round of Ksh. 200 per week that is distributed through a weekly lottery.

Amani members have acquired a piece of land in Nairobi. They withdrew Ksh. 100,000 from their Emergency savings to pay the land purchase deposit, and in doing so discovered that withdrawal of any savings is a long process that may take up to three weeks.

Emergency savings are intended for support to members in the event of bereavement. A donation of Ksh. 25,000 is made to a member who has lost a spouse or child and Ksh. 6,000 in the event of loss of other relatives (e.g. parents).

Social funds generated by groups working with microcredit schemes and institutions benefit non poor and not so poor who work with these organisations. But members of ROSCAS and ASCAs also have them - they are especially common in the ASCAs used by poorer people.

2.1.4 *Harambee*

Harambee literally means "effort pooling" and has its traditional root as a positive exclamation to people lifting or pulling a heavy object together. They are expected to put in their maximum energy with the exclamation (haraaambeeee!). It was introduced into the development arena by the founding President of the Republic as a form of popular philanthropy to raise funds for the development of community assets (schools, health centers, churches, local bridges, cattle dips etc.). The most common *harambees* today are for education bursaries and to send children abroad for further studies. In the last twenty years, *harambee* has been abused and sometimes transformed into a merry-go-round for personal, and household finances such as birthday parties, weddings, hospital bills, funeral expenses and overseas education. An extreme example of abuse of *harambee* is where relatives of wealthy families who have died in one part of the country (e.g. Kisumu) are transported by air to another part of the country (usually Nairobi) to raise funds ostensibly to transport the body to Kisumu by road for burial. Ironically, the wealthier the family, the more funds are raised for birthdays, weddings, education and funerals of family members. This is another feature of *harambee* which likens the system to a merry-go-round: they are reciprocal so that each member receives according to how much he contributes to others. For poor and poorer people, *harambees* are limited to painful events such as funerals, or to get them out of trouble with the law. The quantitative bias of *harambee* towards wealthier people is evident even in public project as citizens seeking political attention and protection contribute generously to *harambee* projects associated with wealthy and powerful people.

2.1.5 Other Devices

There are a number of other less visible financial service devices used by poor people and the not so poor to secure lumpsums when required. We encountered stories people who buy popular assets such as

[1] *Juhudi* is a swahili word meaning 'effort'. One of KREP's group credit products is known as *juhudi* and is the closest adaptation of the Grameen Bank approach.

radios and dispose of them when they require lumpsums. In Luo, *singo,* which means handing over an assets such as a goat or a bicycle to someone for cash to be retrieved upon return of the cash, is a very commonly used in villages and is a traditional form of pawn-broking. Urban moneylenders use the same method.

When poor people have lumpsums which may be from dowry or sale of livestock, it is normal to store it with a local trusted person, often the most successful trader, who acts as a money-guard.

As these devices can be very costly, their use is most common among the poor.

2.2 Semi Formal Institutions

2.2.1 MicroFinance Institutions

The category MFIs refers to a variety of institutions involved in micro-credit, micro-savings and both. They include the Kenya Post Office Savings Bank, financial NGOs (FNGOs), SACCOs, FSAs or village banks. This category applies to them collectively but individually, it may be more accurate to refer to them by what they do. Thus, the Kenya Post Office Savings Bank is a micro-savings institution and KWFT is a micro-credit institution. The study focused on the FNGOs, and the findings on the five institutions covered in the survey are summarised in the matrix showing details of the MCIs studied (Appendix III).

It was quite obvious during the survey that the majority of clients of microcredit institutions are non poor and not so poor people. The bias towards non poor and not so poor is more pronounced among clients recruited into enterprise groups formed to access credit such as *juhudi*. The same is to a large extent true with pre-existing groups initially formed for social welfare activities. When microcredit institutions try to work with them, they are normally advised to form sub groups of members with businesses who tend to be the not so poor.

2.2.2 Financial Service Associations

Financial Service Associations (FSAs) are the latest arrival in the Micro-finance institutions' landscape. Following encouraging results in the IFAD sponsored experiments in Guinea, Congo and South Africa. FSAs are stimulating a major paradigm shift in Kenya where the Grameen Bank model had acquired unjustified orthodoxy. Unlike the now familiar group based lending models, FSAs are user owned, funded and managed.

KREP is spearheading the implementation of FSAs and have established 13 in the Voi/ Wundanyi area in a partnership with PLAN International; Kilifi, Migori, Machakos, Garissa, Bungoma, Suba, and Marsabit Districts.

Received experience indicate that FSAs are more rural friendly than the Grameen Bank model in rural Kenya and are more effective in introducing banking concepts and procedures in communities. As they provide all basic banking transactions, FSAs are more independent of commercial banks and can be adequate substitutes for banks in remote areas.

FSAs face more serious regulation and supervision problems than SACCOs. In the case of SACCOs, there is at least a legal framework that gives them a strong legal status with appropriate sanctions. FSAs are currently legalised as Self Help Groups under the Ministry of Culture and Social Services. The Ministry has no regulatory or supervisory capacity for organisations involved in financial services on such a serious scale. Organisations that are promoting them such as KREP must therefore be prepared to assist them in developing self-regulation and to offer external supervision in the foreseeable future.

2.3 Formal Institutions

2.3.1 Kenya Post Office Savings Bank

The Kenya Post Office Savings Bank with reported average savings balances of Ksh. 3,000 can be considered as the largest micro-savings organisation in the country. It has the most extensive network comprising 5 Regional Centers, 10 branches, 45 separate Kenya Post Office Savings Bank counters installed in post offices and service agencies through 500 post offices. It claims 1.3 million accounts but a study by Andre Oertel and Andres Thiele (May 1998)[2] found that only 600,000 customers had any transaction in the past 12 months preceding February 1998. Although the study also found that 20% of the customers (260,000) held 70% of the deposits, the average balance was still (Ksh. 10,500) just above the minimum required to open a savings account in Barclays Bank of Kenya.

Despite its apparent achievements, Kenya Post Office Savings Bank services are used only by very conservative savers who do not expect many counter services including the possibility of a loan. The bank's agencies (Post Offices) located in rural market towns rely solely on the cash received by the host post office on any particular day to service withdrawals. This, together with the conservative maximum withdrawal amounts (Ksh. 300 per day), limits how much and how often one can withdraw from the account and makes Kenya Post Office Savings Bank services rather inappropriate for the more active savers and especially business people however small. Because of their convenient location and extensive network, customers of Kenya Post Office Savings Bank include a wide cross-section of people from low wage earners, *jua kali* artisans, retirees, youth, women and market traders. These are generally in the category of the non poor and poor but not the poorest.

2.3.2 Savings and Credit Cooperative Societies

The institutions which have had the most visible impact on the lives of many Kenyans are the savings and credit cooperative societies. These have enabled many employed Kenyans to participate in the ownership of high-rise buildings in major cities especially Nairobi. This has at times been achieved at the expense of their primary objective: to give their members access to a convenient savings system and affordable credit.

We encountered only a few people during the survey who were members of SACCOs and practically none in Nairobi, Thika and the Mount Kenya region. Members of KREP, KWFT, PRIDE and NCCK client groups in those areas are generally full time business persons and their relationship with these institutions meets the same needs as a SACCOs. The position is slightly different in Western Kenya where a significant number of civil servants [mainly teachers and nurses] are members of WEDCO client groups as well as their employer-based SACCOs.

The need for a narrowly defined concept of a common bond has tended to limit SACCOs to employees of the same organisation or people involved in the same economic activity. Thus in rural areas, apart from the teachers' SACCOs, others have been linked to major cash crops like tea, coffee, sugar cane and their production and marketing systems.

It has been reported[3] that there were just over 100 rural SACCOs in operation in mid 1998 serving nearly one million clients mostly in the cash crop growing areas of Central and Eastern Provinces as well as parts of Western and Nyanza. There is, however, growing interest in SACCOs as the only legal framework besides the Banking Act that allows the receipt of deposits including from the general public and their conversion into loans for members. Community (church, village, clan, market town) based SACCOs serving people in varied occupations are therefore emerging in many parts of Kenya.

The carrying capacity of a SACCOs is much higher than that of a solidarity group, ROSCA or any other informal financial service association. This makes it possible to federate such groups into SACCOs as in the case of Union Regionale des Casses Populaires du Sud Ouest in Bukina Faso. Similar arrangements have been implemented by ActionAid sponsored savings and credit groups in the Kibwezi area of Makueni District and in Bondo where saga-save groups have been federated into a community based SACCOs. Such arrangements enable SACCOs to reach poorer people and more women than is generally observed. Membership of the SACCOs remains individual but through the village bank, group or associations whose members are not predetermined by one economic activity.

[2] Andre Oertel and Andreas Thiele ' Investigataion of the Potential of Financial Services to Small and Micro Enterprises through the Formal Sector'; International Project Consultant GmBH 1998
[3] 'A Report on Status of Rural Savings and Credit Cooperatives in Kenya', DFID et al

The Cooperatives Act of 1997 gave cooperatives greater autonomy with the main responsibility for regulation and supervision vested in the members. The absence of a competent national or regional regulatory and supervisory framework and authority leaves SACCOs highly vulnerable to mismanagement and corruption. In the Lake Victoria region districts of Kenya, a new private sector organization (Saga Thrift and Enterprise Promotion Limited) is attempting to fill this gap by supplying technical and supervisory services to client Societies at a fee. The services which also include access to financial resources during peak demand for loans to members are intended to enhance the image of client SACCOs as trustworthy financial institutions. Compliance with best practices depends entirely on commercial incentives. Lack of legally enforceable supervisory system is the greatest challenge facing SACCOs.

2.3.3 Commercial Banks

Some commercial banks including Barclays, Kenya Commercial and Victoria Finance Company (now Victoria Commercial Bank) have attempted to implement special service schemes for their poorer customers. In all cases, the focus of the schemes has been on credit to smaller enterprises whose importance to the economy had captured the national psyche and donor interest from the middle of the 1980s. There has at the same time been a general tendency to withdraw savings services from poorer people and rural areas culminating in the current trend towards higher minimum balances to open and maintain bank accounts. Barclays' market town agencies of 1950s and mobile service units, which were part of the major banks' service structures, have disappeared. For some observers this trend is not entirely regretted. Because of handicaps and obstacles which excluded the provision of credit to poor people and the peasant economy, savings mobilisation from poor people and rural areas only aggravated the transfer of resources to wealthier people and to urban areas. Others believe that savings facilities (irrespective of opportunities for loans) are an essential and valued service for poor people.

From the users' perspective, there are several issues limiting the use of commercial bank savings services by poor people, many of which have been discussed extensively in connection with credit. Issues associated with lack of counter services or reciprocity, products, convenience, access, liquidity, attitudes, transaction costs, returns and risks may be too complex to be discussed in this report exhaustively. But some of the information that has become available as a result of this study indicate ways in which poorer people deal with their lumpsum and financial management problems and throw additional light on some of the issues.

First, reciprocal services. For the enlightened customer, the decision to open a bank account is followed by the choice of the bank. Although peer pressure and social networks play a very significant role in the choice of a bank, only a few people will save with the same bank throughout their lives even if they get no other services from it. Business people in particular go to banks which are likely to support their business in some way. In the past at least, several enterprises, client groups and individuals associated with PRIDE and KWFT operated accounts with Barclays Bank. The Bank afforded them special attention, gave them recognition and treated them well on account of the relationship with their sponsoring institutions. But for the poor in general, banks have little to give back hence, the other systems which they have devised to give value to their savings. Regular savings in a merry-go-round earn respect of friends and their financial support when needed.

Banks have in general offered only the traditional, illiquid savings account to poor people. Withdrawals could be effected from such accounts only once a week and only up to a limited amount without prior notice. This is inappropriate for business people however small. Enterprise banking transactions are determined by the market including sales performance and purchase opportunities and requirements and can be extremely unpredictable. Accounts from which withdrawals could be made only at predetermined times were inconvenient to the enterprising poor. Indeed, although collateral has been recognised as an obstacle to the flow of bank credit to micro and small enterprises, it should be remembered that a lot of bank credit decisions are influenced by track record and account histories. Savings products not geared to the needs of micro and small enterprises conducted by poor people, kept them away from the commercial banks and thus denied them the opportunity to build up account histories and credit worthiness.

The location of most banking outlets require poor folk to travel, sometimes long and costly distances from their neighbourhoods to save. The savings services devised by poor people are usually conducted within their neighbourhoods. The focus groups encountered during this survey met in a neighbourhood restaurant, service point and commonly in a member's house. These venues as well as the scheduled times were convenient and accessible to the members, reduced their transaction costs and are free from the anxiety and embarrassment which poor, especially illiterate people encounter in formal/semi-formal sector environments which assume literacy.

There are several risks which poor people face in their savings relationship with commercial banks. These may be classified as transaction, value related and loss risks. Transaction risks arise because of poor information and inadequate familiarity with bank transaction conditions, especially when changes have been made say on minimum balances, service or transaction charges. These often result in withdrawal requests being turned down because the balance had fallen below the minimum required. Groups and associations of poor people have broken up because the officials were unable to explain such incidents to their members. Value related risks arise because interest rates paid on savings accounts have remained below the inflation rate for several years in Kenya. Investment in real assets including livestock can preserve (and indeed increase) the value of poor peoples' savings much better than bank accounts – but at a higher risk. Lastly, poor people risk losing all their savings to a bank. Few individual poor people can afford the minimum balances now demanded by banks. Charges (now at Ksh. 300 per month for balances below Ksh. 10,000 for Barclays Bank) imposed on balances below the required minimum can wipe out all savings. On the other hand, accounts maintained by groups face this and another risk. The majority of group account holders never get such information fast enough and even when they do, they take a lot of time to respond. By the time they do, several months may have elapsed and several charges already debited to their account. But worse, are circumstances which result in group accounts being abandoned to banks due to any one or more of the following:

- disagreement in groups
- departure of a key signatory
- loss of interest in group activities
- death of a signatory
- officials are net borrowers and have no interest in the bank balances

These have resulted in savings accounts being dormant for several years before being permanently abandoned i.e. lost.

3.0 THE SERVICE USERS

3.1 Socio Economic Status

The overall observation is that Kenyan MCIs have generally "abandoned" the poor. KREP's own "back to basics" strategy is partly a recognition of this fact. The socio-economic status of MCI clients has been obscured by the service locations especially in Nairobi where concentrating activities in low income neighbourhoods and slum areas like Mathare Valley, Kawangware, Kibera and the Eastlands has been equated with poverty focus. It is instructive to note that when the leading MCIs have gone out of Nairobi for a rural dimension, they have all gone to the wealthy Mt Kenya Region where competition for urban based traders is becoming quite intense.

According to the Welfare Monitoring Survey of 1994, the incidence of absolute poverty in Kenya was 47% rural and 29% urban and is associated in Kenya with the following social categories:[4]

- the landless
- the handicapped
- female headed households
- households headed by people without formal education
- pastoralists in drought prone ASAL districts

[4] ' National Poverty Eradication Plan 1999 -2015'; Republic Of Kenya, Office of the President, 1999

- unskilled and semi-skilled casual workers
- AIDS orphans
- street children and beggars

A number of observations may be made which validate the assertion that Kenya's leading MCIs are not working with people in these categories. First, the institutions' service outlets are concentrated in the better off districts as evident from the Table below:

Table I

Institution	**Presence In 15 Least Poor Districts**	**Presence In 15 Poorest Districts**
KREP	7	4
KWFT	8	1
NCCK/SBDO	7	1
WEDCO	2	0
FAULU	6	0

NOTE: KREP's presence in three of the 15 poorest districts (Marsabit, Machakos and Kilifi) is relatively recent through the experimental FSAs. WEDCO is only active in Nyanza and Western Province districts which tend to be in the middle of the poverty ranking out of the 48 districts listed.

The second observation was made during the survey. The KREP client groups met in Kawangware were evidently wealthier than other residents of the area, a semi-slum area inhabited by a mixture of poor, not so poor and wealthy people. Some of the clients had their own vehicles. The same was observed in Nyeri.

Thirdly, the pressure for larger loans is very strong in Nyeri where KREP's "back to basics" strategy had reportedly led to loss of some clients to Faulu[5]. KREP's "back to basics" strategy is intended to link first loans to the national per capita income and to limit growth in loans sizes to 25%. The clients in Nyeri felt that such a strategy will result in very high client drop outs in the area, possibly suggesting that the people KREP had been dealing with were relatively wealthier than the average Kenyan.

3.2 Occupation

The users of various savings services were accessed by this study mainly through selected MCIs. We were able to talk to a handful of casual quarry workers in Thika and a few non-clients of MCIs in Nyeri, Karatina and Kisumu. In virtually all cases such people were visibly poorer than people in the MCIs' client groups. The number was however too small even to suggest conclusions about the savings habits of poor people who are not being reached by the institutions. It is nevertheless possible to make a general observation that institutions set up primarily to deliver business finance exclude very poor people from savings services which their beneficiaries get indirectly such as participation in client based merry-go-rounds and the safer group deposit facilities supervised by the institutions.

As clients of MCIs, the occupation and gender of the users studied were inevitably biased by the MCI's service policies and methodologies. Most, perhaps over 80% were full time micro and small scale business persons because KREP, KWFT and PRIDE target such people exclusively. A few employed people, mainly civil servants, would probably be found among all MCI clients. Only WEDCO accepts a limited number of employed people as a policy but, in reality, the number may be significantly higher than the permitted level.

A total of 41 different enterprises were mentioned by the users ranging from grocery shops with the highest frequency (32) to operating a telephone bureau (1). In between were hair saloons (13), eating houses, boutiques, tailoring, second hand clothes, cereals (11 each), butcheries, bookshops, beauty accessories, matatus (passenger transport), green grocers (4 each), electronics and electrical accessories (3), nursery schools, laundries, estate agents (2 each). Interesting enough, there were only one each of

[5] The Chairman of Ug Self Help Group lamented that his brother who joined Faulu in late 1997 borrowed KSh. 300,000 and will soon borrow Ksh. 600,000 while he had just qualified for a loan of Ksh. 280,000 since joining KREP in 1995.

the traditional areas associated with poorer people such as charcoal vendors, food kiosks, shoe-shines. In the Karatina area, there were a number of users with more than one business run by the spouses separately.

3.3 Gender

The gender composition of microcredit institution's clients was heavily tilted towards women. This is because KWFT targets women only and WEDCO is working mostly with women while PRIDE, KREP and NCCK report majority female clients.

3.4 Age

A member of Anchor SHG did not attend their meeting in Nyeri because of maternity obligations. The Chairman observed that this was rather unusual because she thought members were past child-bearing age. From observation, all the Anchor SHG present were in their late 30s, mostly 40s and possibly early 50s. In Thika , (PRIDE) male members were generally in their 30s and a few in their 40s. Men, more exposed by unemployment enter alternative occupations including involvement in micro-enterprises earlier than women.

4.0 IMPACT ON INSTITUTIONS AND USERS

4.1 Difficulties in Assessing Impact

The activities of the MCIs have stimulated savings activities far beyond their immediate intentions and direct interests in credit and related issues. They have therefore not instituted any measures to monitor the savings activities that are taking place in groups, between members and at individual members accounts. All the institutions encourage and in some cases require individual clients to open and maintain individual bank accounts for clearing their loan cheques. These accounts must hold the minimum balances required by the commercial banks to remain open for subsequent loan disbursements. The institutions have no record of the clients who have opened such accounts as some endorse their cheques to friends for encashment and how many use them actively for their normal business transactions and savings activities. WEDCO on the other hand takes a lumpsum equity investment upfront from its client groups who are obliged to make regular savings payments into their groups' accounts to be able to increase their equity for a subsequent loan. However, WEDCO does not have information on the accounts until when the groups turn up with additional equity, presumably withdrawn from savings built up in their group accounts. Likewise, the informal savings activities are very scantily recorded. It is therefore difficult to link them quantitatively with specific achievements or progress at the participants' level.

Our assessment and conclusions on the impact of savings on the institutions and the users are therefore qualitative and largely speculative. But they are real and substantive as evidenced by the testimonies given by the participants whom we were able to observe and interview as focus groups and individually.

4.2 Impact On Institutions

It is necessary to remind the reader that the institutions studied in Kenya are all NGOs and have neither the legal mandate nor the organisational capacity to mobilise savings. The savings activities that are taking place are primarily intended to strengthen their positions as lenders. They therefore consider savings important for these reasons:

4.2.1 Character Assessment

Ability to sustain regular savings for a period of 7 to 11 weeks before receiving a loan gives the institution some idea of the potential borrowers character and ability to honour financial commitment. The most obvious loan gamblers are weeded out at this stage.

4.2.2 Collateral

Regular (in most cases weekly) compulsory savings monetise the value of group guarantees and gradually enhance the incentive to repay loans. After a period of five years, weekly savings of Ksh. 50/100/200 amount to Ksh. 13,000, 26,000 and 52,000 respectively. The growing balances cover the outstanding loans portfolio substantially and, an increasing number of individual loans are over 100% covered by savings balances. Table II below gives the relative positions of four MCIs observed in Kenya as per their latest reports:

Table II

Institution	**Loans Outstanding Ksh.**	**Collateral Savings Held Ksh.**	**Collateral Savings/Loans Outstanding %**
Faulu	140,786,064	91,335,840	64.9
KWFT	99,958,380	66,142,881	66.2
KREP	268,452, 302	86,715,915	32.1
WEDCO	64,156,354	24,954,000	38.9

Source: Quarterly Reports

All the MCIs have an interest in the growth of the collateral savings and are obviously delighted when clients save more than the mandatory amount as frequently claimed. Higher savings mean that the institution will be able to disburse larger loans in future. There is therefore widespread institutional ambivalence towards withdrawal of excess savings in the collateral accounts. The potential conflict between institutional growth and client interests can generate instability as clients decide to leave and use own accumulated savings for further investment in their enterprises.

4.2.3 Group Cohesion

KREP and KWFT require all client groups to have a merry-go-round and encourage them to develop social funds especially for emergency. We did not observe the same institutional approach in PRIDE, WEDCO, and NCCK, but some, perhaps many, of their groups have them. Merry-go-round activities between members of a client group increases their cohesion and peer value and the institutions' objectives are met as clients work to meet their own.

4.3 Impact On Users

This study revealed that MCI clients are pursuing multiple savings activities. All must participate in the compulsory savings which in all the cases except PRIDE are held in Group Bank Accounts where it seems some clients are depositing or keeping more than the mandatory amounts. Most have individual bank accounts and all women are participating in one or more merry-go-round. Some and not an insignificant number have fixed term deposits in commercial banks. We encountered at least one MCI client who had saved in the form of quoted shares. Each of these forms of saving are important to the users in a different way.

4.3.1 Merry-Go-Rounds

Merry-go-rounds provide regular lumpsums for recurrent household requirements as well as for recurrent reinvestment especially in micro-enterprises. At household level, merry-go-rounds enable participants to bulk purchase groceries, acquire or replace essential household items e.g. utensils, meet predictable lumpsum obligations such as school fees and honour other lumpsum obligations including loan repayments. At enterprise level one member of Crescent SHG in Kawangware confirmed that she started her vegetable kiosk business with capital received from a merry-go-round. Subsequent cycles of the merry-go-round have enabled her to restock her business every two weeks. This system of financing such small enterprises appeared more enterprise-friendly than the once a year lumpsum loans from MCIs.

A Multitude of Needs and Merry-Go-Rounds to Match

Judith joined Jikaze MEC in 1998 and has received two loans of Ksh. 10,000 and Ksh. 20,000. Her weekly commitments within the Programme include savings of Ksh. 100 and loan repayment. She had paid Ksh. 540 to the Loan Insurance Fund for the Ksh. 20,000 loan. They have a weekly Pole [Swahili word commonly used to express sympathy] contribution of Ksh. 20 per member per week and Ksh. 50 is contributed to a member who is bereaved. Besides, Judith is a member of five MGRs:
50 people who contribute Ksh. 400 daily for investment in business
66 people who contribute Ksh. 100 daily

30 people who contribute Ksh. 30 daily
10 people who contribute Ksh. 1,600 monthly. Lottery is shared by two people each month
40 people who contribute Ksh. 20 daily

There is high frequency of multiple membership in these MGRs and each of them is focused on a particular lumpsum need. The third and fifth MGRs are intended for household purchases while the first, second and fourth MGRs are for restocking and school fees.

4.3.2 Regular Compulsory Savings

Regular compulsory savings have indirectly habituated the practice of savings as evidenced by the fact that members of client groups have instituted other regular savings activities of their own such as the merry-go-rounds and the social funds. Directly, such savings have improved the asset base and equity capacity of MCI clients.

4.3.3 Group Bank Accounts

Group Bank Accounts controlled by MCIs (primarily with interest in the collateral value of the savings) provide other benefits to their clients. The fact that these savings are relatively illiquid compels savers to look elsewhere for cash required to meet immediate obligations. Women in particular benefit from the arms-length attributed to savings controlled by the MCI. Mrs. T observed that her husband would not have allowed her to operate her own account and a joint account could not have accumulated savings of such amount (nearly Ksh. 50,000). Mrs. T felt empowered by her substantial savings and has noticed that her husband respects her more.

Jane: Saving Hard … Away from her Husband

Jane, a high school graduate is married and about 40 years old. She joined Crescent Group in 1993 in the place of her husband who had joined but could not continue because the weekly meetings conflicted with his employment. She started with stock of Ksh. 17,000, which grew to Ksh. 90,000. She had by this time taken two loans of Ksh. 80,000.

Jane was taken ill and spent three months in hospital and three months at home during which she employed a young man to look after the shop. It was run down until she found herself left with a loan balance of Ksh. 45,000 but without stocks. Her first option was to set off the loan balance against her savings of Ksh. 35,000 but she decided against this and started to trade in potatoes again. She managed to repay the loan balance and to return to KREP for another loan of Ksh. 30,000, which she has repaid and remains with a balance of Ksh. 6,000 to clear. Jane estimates her current grocery shop stock at Ksh. 60,000 and is very proud of her business which enables her to make a contribution to her household budget throughout the month. This earns her a lot of respect from her husband.

Jane is not a member of merry-go-round because some people receive their prize and then stop contributing. But she has an account with the Kenya Post Office Savings Bank and the National Bank of Kenya. She likes her savings in KREP most because her husband cannot interfere and she is the only person who can make a decision on the money. She has a balance of Ksh. 36,000 after deducting the Ksh. 14,377 paid for the defaulter. She is looking forward to when she can work with KREP as an individual.

4.3.4 Own Bank Accounts

During focus group discussions, participants were asked how they would deal with a sudden need to find a lumpsum of Ksh. 15,000 in a case where the group appeared relatively affluent and Ksh. 5,000 in another case in Nyeri. The responses of the total of 42 participants, all women are summarised in the Table below.

Table III

Indicated Source	Number Of Participants	%
Borrow from friends/merry-go-round	17	40.5
Bank Savings	16	38.0
Bank Overdraft	3	7.0
Parents	2	4.8
Husband	1	2.4
Debtors	1	2.4
Sell Kenya Airways Shares	1	2.4
Sell Assets	1	2.4

Although the total sample is small, the indications were clearly that in Nyeri bank savings would be the second most likely source for such size of lumpsums. The response was different in poorer and less commercially driven groups. In Kakamega for instance, in the small WEDCO focus group of nine women, only one person mentioned bank overdraft as a possible solution and none suggested bank savings. Most said that they would dispose of an asset, mainly livestock.

4.3.5 Set Offs

MCIs which regularly set-off unpaid loans against savings encourage their clients to view the compulsory savings as indirect loan repayment. During a meeting of NCCK's Mathari Wendani SHG just outside Nyeri Town, it was reported that 8 of the 27 members who were having repayment problems had requested that their loan balances be set of against their savings so that they could have lower balances to service. Similar tendencies had also been observed in Thika (PRIDE).

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Summary Analysis

As is now generally appreciated, the leading micro-credit institutions in Kenya have shifted their operational focus from poverty to enterprise and poverty alleviation to business finance. They are therefore working increasingly with the not so poor and, in some cases, visibly wealthy people in the Kenyan context. These clients provide opportunity for larger and more profitable loans and assist the credit officers to achieve their targets.

Although MCIs are not mandated to accept savings, their activities have stimulated savings services which have become available to clients through their individual and group accounts. Unfortunately, poor people are excluded from such indirect benefits which result from being clients of the institutions.

Because of their ability to operate in less economically prosperous rural areas, the Financial Service Associations currently being promoted by KREP offer a ray of hope to poorer regions and districts. Financial Service Associations and SACCOs provide more promising possibilities for rural financial services in Kenya than the Grameen approach that has effectively confined Kenyan MCIs to urban trading activities. SACCOs have been associated with relatively wealthier people i.e. employees of large corporations and producers of main cash crops. These environments ensured self-regulation and supervision. SACCOs established outside such environments will require external regulation and supervision to function successfully.

Although Financial Service Associations have shown greater flexibility on location and have been launched in very remote and poor districts, the emerging evidence suggests that users are not the poor and poorest in those communities. Moreover, like SACCOs without compelling economic bond between members, self-regulation is unlikely to adequately guarantee compliance with sound practices.

5.2 Recommendations

There should be deliberate effort on the investors (Donors) in MCIs to encourage them to view savings as a more universally essential financial service than credit.

Efforts should be made to assist MCIs to acquire and develop the capacity to administer savings. This is not just about legality. It is about developing programmes, systems, and bureaucracies that can effectively deliver savings services.

MCIs should view savings as a service that poor people need more and are willing to pay for.

Clients whose enterprises are saturated with credit or need a rest should be encouraged to continue savings and be charged appropriately for the service.

Informal financial service devices, especially Accumulating Savings and Credit Associations, work in ways which incorporate the circumstances of poorer people in a given community. A very low minimum saving instalment that can be made in advance and if necessary in arrears, and opportunities to borrow small lumpsums when in need (for whatever purpose accepted by the group) are saving and borrowing conditions which are closer to the socio-economic conditions of poor people.

An appropriate legal framework that envisages a role for private institutions in the regulation and supervision of SACCOs, FSAs and ASCAs based on commercial incentives such as access to external capital during peak demand for credit will contribute immensely to the development of this sub-sector. State regulation and supervision is on the other hand more likely to diminish these organisation’s energy without guaranteeing greater efficiency, transparency or facilitating innovation in their operations.

APPENDICES

Appendix 1 Selected Case Studies and Focus Group Discussions

FGD I Anchor Stars SHG, KWFT Near

Anchor Stars SHG was formed in July 1998 by twenty five people and still has twenty five members. They meet every two weeks alternately for the purposes of the ASCA and for all business including loan repayment.

At the previous meeting, members had taken Ksh. 900 each from the ASCA, which they returned at this meeting with 10% interest i.e. a total of Ksh. 990. Then every member paid the Ksh. 200 into the ASCA as an additional contribution for the two weeks. At the end the amount [Ksh. 990 plus 200] was re-loaned to members. This way members are saving as well as having access to their money for business. At the end of the year they plan to break the cycle, give each member a lumpsum for Christmas festivities … and then start again. Last year, they distributed Ksh. 10,000 to each member at Christmas.

The fund available for distribution is augmented by fines against lateness, absence, making noise in the meeting, forgetting to bring passbook and any other breach of the Bylaws of the Group. A member who has a daughter who has been bedridden for 18 years had taken her daughter to a faith healer and could not attend. After very heated debate, it was resolved that she must still pay the fine of Ksh. 100 - for failing to turn up at the meeting. It was also agreed that the Bylaws need to be reviewed as cases of this nature should be exempted from fines.

Three members of the group had not applied for any loan from KWFT. This disappointed the BDO who stated emphatically that KWFT groups are credit not savings groups and that any member who was not borrowing was a burden to the groups. "We are not a savings institution. We are a credit institution. That is why only people with business are allowed to join the groups. You must borrow. Take a small loan when business is low." If the three do not borrow by July 1999, they would be requested to leave the group.

One of the offending members [Ester] sells charcoal and is planning to purchase a pick up to collect charcoal from the forest. Since KWFT does not finance vehicles, she plans to buy the pick up from her business savings then borrow from KWFT for purchase of charcoal in large quantities. If she does not borrow by July, she may be expelled from the group.

Asked how they would deal with a situation which requires Ksh. 15,000 within the next 24 hours; the group members responded as follows:

- 8 said they would seek help from their friends
- 5 responded that they would use their bank savings
- 4 said they would go to their bank for an overdraft
- 1 would go to her lorry account
- 1 would plead for the ASCA to assist her

CS I DKG

David has a hotel in Juja and is also involved in saw milling using a power saw. He joined MEC No 10 in 1996 but left in December 1997. David's business had got into problems which forced him to fall into arrears. He was told to fill an exit form which he did and got Ksh. 10,000 from his savings after setting off the loan balance against his savings. It was a difficult time for the business and ideal for using own funds. He returned to the MEC in March 1999 and will apply for a loan of Ksh. 8,000 after 8 weeks.

David is a member of two *itegas* (merry-go-rounds). In one where there are 52 people each member contributes Ksh. 20 daily. David buys three shares (Ksh. 60) and therefore gets the prize three times each round. In another merry-go-round there are ten people and one member may decide to buy more than one share i.e. contribute as if he were two or more people. Each person contributes Ksh. 1,000 p.m. but David buys two shares (1000 x 2) and therefore wins Ksh. 1,000 x 10 twice within a year.

FCD II Dagoreti Amani SHG

Dagoreti Amani SHG was started in 1993 with 30 members. It now has 27 members, of whom 16 are founder members. The meeting had 16 members and the 11 who failed to show up would pay a fine of Ksh. 200 each. The collections at the meeting included:

- Loan repayment according to the size of the loan
- Mandatory savings of Ksh. 200 per week
- Emergency savings of Ksh. 200 per week
- Merry-go-round of Ksh. 200 per week that is distributed through a weekly lottery.

Seven of the members present had bank accounts in five different banks (Barclays, Cooperative, Standard Chartered and Kenya Commercial Banks) as well as the East African Building Society. The Bank accounts are mostly current. More than 50% of the Group's members participate in other merry-go-rounds and four said they are members of two other merry-go-rounds in addition to the Group one.

Amani members have acquired a piece of land in Nairobi. They withdrew Ksh. 100,000 from their Emergency savings to pay the land purchase deposit, and in doing so discovered that withdrawal of any savings is a long process that may take up to three weeks.

Emergency savings are intended for support to members in the event of bereavement. A donation of Ksh. 25,000 is made to a member who has lost a spouse or child and Ksh. 6,000 in the event of loss of other relatives (e.g. parents).

FGD III Abundant Faith S .H.G.
The SHG started in October 1998. They were originally 30 but only 27 qualified for intake into the KWFT Programme. All are in their first loans and this was their merry-go-round day. Asked to indicate what they would do if they had to find Ksh. 15,000 within 24 hours everyone looked lost. The challenge figure was reduced to Ksh. 5,000 and the responses were as follows:

- 10 would withdraw their own savings
- 5 would approach friends for assistance, possibly in the form of a loan
- 1 would sell her Kenya Airways shares
- 1 would sell one of her assets
- 1 would call on all her debtors to pay up
- 2 would go to their parents
- 1 would ask her husband to assist

CS II JWT
Jane, a high school graduate is married and about 40 years old. She joined Crescent Group in 1993 in the place of her husband who had joined but could not continue because the weekly meetings conflicted with his employment . She started with stock of Ksh. 17,000 which grew to Ksh. 90,000. She had by this time taken two loans of Ksh. 80,000 - each one of which she used to buy a pick up.

Jane was taken ill and spent three months in hospital and three months at home during which she employed a young man to look after the shop. It was run down until she found herself left with a loan balance of Ksh. 45,000 but without stocks. Her first option was to set off the loan balance against her savings of Ksh. 35,000 but she decided against this and started to trade in potatoes again. She managed to repay the loan balance and to return to KREP for another loan of Ksh. 30,000 which she has repaid and remains with a balance of Ksh. 6,000 to clear. Jane estimates her current grocery shop stock at Ksh. 60,000 and is very proud of her business which enables her to make a contribution to her household budget throughout the month. This earns her a lot of respect from her husband.

Jane says that the main reason for leaving the *Kiwa* is paying other people's loans. She herself felt like leaving Crescent when she lost Ksh. 14,377 from her savings to pay for a member who borrowed Ksh. 250,000 and failed to repay Ksh. 225,000. The two members remaining in his *Watano* had to pay Ksh.

22,500 each and the other *Kiwa* members had to pay Ksh. 14,377 each. Other people are reluctant to join any group after they have heard this .

Jane is not a member of merry-go-round because some people receive their prize and then stop contributing. But she has an account with the Kenya Post Office Savings Bank and the National Bank of Kenya. She likes her savings in KREP most because her husband cannot interfere and she is the only person who can make a decision on the money. She has a balance of Ksh. 36,000 after deducting the Ksh. 14,377 paid for the defaulter. She is looking forward to when she can work with KREP as an individual.

CS III MW

Mary is a founder member of Kariko Self Help Group from its formation in 1997. Mary runs a well stocked boutique (stock of about Ksh. 200,000) and owns a Toyota saloon car (used) with the latest registration. Her husband Mr. W. is a member of another KREP *Kiwa* and looks after their passenger transport business (two *matatus*).

Mary is a member of her *Kiwa* ASCA where they save Ksh. 100 per week. Initially funds were allocated on a weekly basis to members who returned it after one week with interest at 5%. The money was allocated by ballot to the members who expressed need to borrow.

With accumulated capital of over Ksh. 300,000, the ASCA can now allocate up to Ksh. 30,000 to several members each according to her requirement. Borrowers return the whole amount within one month with interest at 5%.

Mary has Ksh. 34,000 in the ASCA. She also has a current account with a commercial bank.

FGD IV United Self Help Group

United SHG was formed in 1993 and started with 30 members, but now it has 15 members of whom 8 were among the original founders of the *Kiwa*. Among the 15 members are 4 women and 11 men. All the four women are original members. United has a male Chairman, female secretary and treasurer. They also have a “discipline master”.

The meeting was scheduled for 12 noon and was called to order at 12.05. People arriving after the opening prayers have to pay a fine of Ksh. 200. Well kept minutes of the previous meeting were read confirming what each *Watano* had paid the previous week and was promptly followed by the day's collections of loan repayment, emergency savings, merry-go-round and the mandatory savings. The meeting had completed its main business by 12.45 p.m. but, two “any other business” issues remained.

Firstly, the Treasurer who was the only member not at the meeting had sent a letter pleading for leave of absence for a period of three months during which he would continue to meet all his financial obligations to the *Kiwa*. Members could not make a decision on the request, which had not been forseen when the Group drew up its constitution. The CO advised the meeting that there is nothing like leave of absence from the *Kiwas*.

Apparently the Treasurer had acquired a Tipper Lorry with a purchase commitment of Ksh. 150,000 per month and needed time to manage the lorry, - he may move with it personally. The request was referred to the *Watano* to obtain more information from the treasurer in person before a decision could be made. Another member may be compelled to leave the *Kiwa*.

Secondly, every member of United was expected to bring a new member to rebuild the *Kiwa* back to 30. Members reported inability to find willing candidates because of the loan sizes.

CS IV K The Shoeshine and his Kenya Post Office Savings Bank Account.

Karimi is a shoeshine in Nyeri town who has his own small stand by the roadside. Karimi has and continues to benefit from the Faulu loan Programme. He started two years ago and is about to complete his second loan and plans to move to his third loan soon. Karimi used his second loan of Ksh. 10,000 to buy a dairy cow. The money he earns from milk is saved in a Kenya Post Office Savings Bank account. He pays the Faulu loan (Ksh. 570 per week) using his shoeshine income. Karimi plans to use his third loan plus his savings to buy a small agricultural piece of land.

Karimi's wife has a small business, which takes care of the family's domestic needs. Without the loan from Faulu, it would have been difficult to save enough to buy a cow. He is very anxious about Faulu's plans to form a company and invite people to buy shares. He believes that wealthy powerful and corrupt people will take over the institution and like other banks, it will collapse with poor people's money.

Karimi saves with Kenya Post Office Savings Bank because it is convenient as he can withdraw his money anywhere in the country using his passbook.

CS V JMI Karatina

James was found making wooden boxes for transporting tomatoes to distant markets like Mombasa. He is paid six shillings for every box that he makes and can make up to 40 to 50 boxes a day if he starts early (6 am) and works up to six in the evening. But this is only possible when there are tomatoes requiring boxes.

James had worked earlier with a DFI as a plumber and with a civil engineering firm as a welder. The latter affected his eyesight. Now about 60 years old James subsists on his small coffee farm of around 160 trees, and whatever he and his wife earn from casual jobs around Karatina. His wife assists a wealthier neighbour with pig feeding.

James has a daughter in high school where he has to pay Ksh. 25,000 per year. Although he has accounts with the National Bank of Kenya which has been dormant for several years, and another with Cooperative Bank, he does not use them regularly to store savings for school fees. He pays fees every time a lumpsum comes into his or his wife's hands. James is also planning to join the Coffee SACCOs for processing his coffee payments.

CS VI Jane, Karatina

Jane is a founder member of Kwigina Self Help Group founded in 1994. The Group started with 30 members and now they are 25 including three new members. Eight members have left the Group . They have an ASCA in their group but do not distribute the money they contribute weekly. The money is used to pay the loan of an absent member or is paid into a bank .

Jane has an account with Equity Building Society which she uses mainly to clear KWFT loan cheques. Her business takings are banked in their joint account with the husband at NBK.

Jane's Group members have on their own decided to meet weekly. They feel that weekly meetings keep them in touch with one another for mutual assistance when necessary, and that monthly meetings would not enable them to respond to each others needs promptly.

CS VII M T

Maina is one of the newest members of Muungano which started in 1993 with 30
members. MEC 2 now has 16 members including 5 original members. Ten members were present at the meeting where we found Maina.

Maina joined the MEC in 1998 and has got his first loan of Ksh. 10,000 and is now waiting for the second loan. There is no MGR for the MEC but he is a member of an MGR of 20 people who contributes Ksh. 50 each daily which they allocate to one member of the MGR by ballot among members who have not received the lottery during the current round.

Maina knows that when he has a problem requiring a lumpsum urgently, he can organize a harambee with his friends or approach one friend for an advance if the lumpsum is not too big.

CS VIII JNM

Judith joined Jikaze MEC in 1998 and has received two loans of Ksh. 10,000 and Ksh. 20,000. Her weekly commitments within the Programme include savings of Ksh. 100 and loan repayment. She had paid Ksh. 540 to the Loan Insurance Fund for the Ksh. 20,000 loan. They have a weekly Pole [Swahili word commonly used to express sympathy] contribution of Ksh. 20 per member per week and Ksh. 50 is contributed to a member who is bereaved. Besides, Judith is a member of five MGRs:

50 people who contribute Ksh. 400 daily for investment in business
66 people who contribute Ksh. 100 daily
30 people who contribute Ksh. 30 daily
10 people who contribute Ksh. 1,600 monthly. Lottery is shared by two people each month
40 people who contribute Ksh. 20 daily

There is high frequency of multiple membership in these MGRs and each of them is focused on a particular lumpsum need. The third and fifth MGRs are intended for household purchases while the first, second and fourth MGRs are for restocking and school fees.

CS IX Gregory.

Gregory aged about 35 remained in school up to the 8th grade. He owns a tin walled food kiosk [Good Hope Hotel] in the Riruta Satellite shopping center and joined Crescent SHG in December 1998. He started his business in 1989 but had resisted joining any loan Programme because of fear after hearing what had happened to friends who were unable to repay their loans. In particular he feared having to guarantee loans of other people .

Gregory has received his first loan of Ksh. 5,000. He has no bank account but saves in the Juhudi scheme and in one merry-go-round with 18 other friends where they pay Ksh. 200 per week and receives a lumpsum of Ksh. 3,600 every 19th day which he invests in the business. The MGR is 12 months old.

Gregory felt that men are very strong in the MGRs because they provide the money which their wives contribute. He hopes that *Juhudi* will implement another savings product that can be withdrawn easily even if no interest is paid on it.

CS X Wilfreda

Wilfreda started her grocery business behind Riruta Satellite shopping Center in 1990. She heard about *Juhudi* in April 1998 and joined Crescent SHG in December 1998. She has repaid her first loan of Ksh. 5,000 and is on her second loan of Ksh. 15,000.

Wilfreda has been a member of a MGR for a long time. She is currently a member of two MGRs:
- 30 people who contribute Ksh. 500 each twice a month. Two people take the lottery each month. She gets Ksh. 15,000 every 16th meeting, which she reinvests in the business.
- 12 people who contribute Ksh. 200 per week . She gets 2,400 every 13th meeting.

CS XI Mama Njeri

Mama Njeri is a green grocer trading about 300 meters from KREP Office in Kawangware. She has heard about *Juhudi* but has not joined. She has also heard about KWFT and Faulu but has not joined them.

Mama Njeri is a member of two MGRs:
- 30 people who contribute Ksh. 200 per month
- 15 people who contribute Ksh. 500 per month.

Mama Njeri felt that these were enough for her vegetables business

CS XII A N .

Anne sells beauty accessories from a kiosk in the Riruta Satellite Shopping Center. She is a member of Makena Vision SHG and is its secretary.

Anne is a member of five MGRs:
12 people of Ksh. 1000- per week
12 people who contribute Ksh. 1,000- per month
18 people who contribute Ksh. 300 weekly
12 people who contribute Ksh. 100 daily
16 people who contribute Ksh. 400 daily, of which Ksh. 300 is distributed through a lottery and Ksh. 100 taken to the group's bank account.

Anne also has an account with Kenya Commercial Bank. Anne is looking forward to the KREP bank especially if it will consider individual loans.

FGD V. Pap Gori WG WEDCO Siaya
Pap Gori WG is a typical rural group. It started in 1986 with 15 members . This increased to 35 by 1990 but has now declined to about 25, of whom only 18 are active. Current membership is not exact because no one has been expelled or wrote to say that she is no longer a member and none would be turned away if they showed up at a meeting. Many just do not come to meetings either because they had not received a loan or because they have repayment problems. They received a loan of Ksh. 102,000 in 1997.

Members are involved in such businesses as second hand clothing, market stalls, selling buns, cereals trade, livestock trade, fish hawkers, tailoring and kiosks.

Pap Gori WG have an ASCA, built on the basis of weekly savings of Ksh. 5 to 15, from which members can borrow. The savings and interest earned is distributed just before Christmas. They have a weekly merry–go-round in which 19 of the members participate. They also practice merry–go-round in kind:
- Working each others gardens [some members] at no fee, only a meal
- Weeding at Ksh. 50 per member which is credited to the savings.

The Group has other financial support activities such as :
- 10 members have decided to each contribute Ksh. 80 weekly in order to purchase improved charcoal burners. They have so far bought burners for four members.
- Major contributions such as buying a coffin when a member dies and Ksh. 50 each if a member's spouse or child is dead
- Pay all or significant contribution to clear hospital bills
- Ksh. 20 each if a member is facing any problem which requires a small lumpsum e.g. school requirement

CS XIII Benta
Benta is a member and secretary of Osiro Dak WG. She is a nurse and most other members of her group are nurses like her including Nyambura. They are involved in business to supplement their meagre salaries. Benta reckons that she makes twice as much from her business of selling second hand clothes than from her salary.

Benta participates in a merry–go-rounds and two ASCAs:-

<u>Merry-go-round</u>
5 members who contribute Ksh. 200 each every week

<u>ASCA 1</u>
12 members who contribute Ksh. 525 per month distributed as follows:
- Ksh. 100 left for the member hosting the meeting
- Ksh. 150 taken to the host in the form of utensils
- Ksh. 50 put in the reserve fund
- Ksh. 225 banked and can be loaned to members

<u>ASCA 2</u>
9 members who contribute Ksh. 320 per month distributed this way:
- Ksh. 100 for the host
- Ksh. 100 for emergency fund
- Ksh. 120 saved, borrowed and given back at Christmas.

FGD VI Misala Women Group WEDCO Bondo
The group started in 1983 with between 10 and 20 members; this increased to 26 in 1985 but is now only 10 - a total of 16 having dropped out.
The group tried various group savings activities which collapsed because of lack of transparency.

FGD VII COPPER WG WEDCO, Kisumu May 12 199
This groups was formed in 1995 with 32 members as a welfare organisation of whom only 10 decided to and were able to join the WEDCO enterprise group and got their first loan of Ksh. 135,000 in December 1998. Seven members were at the meeting. Group members are involved in the following enterprises:
- Sale of new clothes
- Food kiosk
- New clothing materials
- Sale of new clothes
- Clothing materials
- Clothing materials
- Clothing materials

Except for Teresa, this could be referred to as the Shah Group because of their textile businesses. Rosa is only a member of the Copper Group merry-go-round. All the other members are members of at least two other merry-go-rounds/ASCAs and Eunice is a member of four:

<u>ASCA</u>
- one with 28 members who contribute Ksh. 180 per week for emergencies which can wait e.g. funerals which normally take about two weeks in this area. If the emergency cannot wait then they sit and contribute Ksh. 200 per member instantly. At the end of a given year, the unused funds in the bank are divided amongst the group members. Last year they shared Ksh. 5,080 each.

<u>Merry-go-rounds 1-3</u>
- 8 members at Ksh. 500 on 3rd and 18th of the month and given to one member
- 12 members at Ksh. 500 on 15th and 30th and given to the member hosting the meeting
- the Copper Group merry-go-round of 10 members at Ksh. 3,000 per member every Monday which is then given to one member on the basis of lottery.

Six members of the Copper Group have bank accounts in Standard Bank (2) National Bank of Kenya (1) KCB (2) and HFCK (1). One has both a savings and fixed deposit account with KCB. The group concurred that Standard Bank treated small savers best and the KCB and NBK treat small account holders badly. They reasoned that the two formerly government owned banks handled many civil servants salary accounts and are very congested at the end of month and extend their attitude to teachers to all small account holders.

FGD VIII CS Siajabu WG WEDCO KISUMU
Discussion with Mwanaisha, The Chairman
The Siajabu Women group started in 1986 as Mlachake WG with 138 members all from around Jubilee Market in Kisumu Municipality. It was essentially a funeral group established to assist bereaved members financially.

They met WEDCO in 1996 when their number had come down to 85 and received a loan of Ksh. 300,000. Eight members got loans first and paid well. The second round started to show problems and by the time they came to the third loan they were very weak characterised by poor repayment, suspicion, frequent quarrels, poor attendance of meetings etc. The five male members were generally uncooperative especially two who had the Chair Lady "in their pocket". But they managed to repay CARE by using their shares, their Ksh. 20 per week savings and a bit of *harambee*.

Thirty five members of the group wanted to continue and called the CARE CO to train them but it still proved difficult to move forward. Five members decided to break out of Mlachake WG and found five new friends to form the Siajabu WG in July 1998. They received a loan of Ksh. 150,000 in August 1998.

Siajabu WG started by establishing an emergency account of Ksh. 10,000 (i.e. Ksh. 1000 from each member) and continue to contribute Ksh. 50 per month every month. For funerals, they hold *harambee* at which each member is expected to bring Ksh. 500.

In the event of any other emergency, a member can borrow from the emergency fund.

FGD IX Vuta Tuvute WG, WEDCO Kakamega
Interview with the Secretary and the Chairman in their shops

The Vuta Tuvute group was started in 1998 by ten women, and now has 9 members. One member had no shares and could not be included in the list to WEDCO. The members contributed equity of Ksh. 54,000 and borrowed Ksh. 251,000 in November 1998. Most members have bank accounts but the Secretary, Lydia herself is a member of 4 MGRs including one with Vuta Tuvute members. The Chairman, was extremely forthright. She would prefer an individual loan and; in the group she would like to remain with only five of the members. They have been paying for one member for four weeks. She has decided to close her Standard Bank account because of new minimum balance requirement and will keep her savings in a tin somewhere.

Appendix II Staff of MCIs Interviewed

Aleke Dondo	General Manager KREP
Halima Juma	KREP CO
Beatrice...	KREP Kawangware
Willy Kariuki..	NCCK Regional Coordinator, Nyeri
Winnie Kabebe..	NCCK CO Nyeri
Ben Nobala..	WEDCO CEO
James Kiama..	WEDCO Chief Accountant
Vincent Opiyo	WEDCO CO, Bondo
Emily Otidi	WEDCO, CO Siaya
Nelson Ondieki	WEDCO CO Kakamega
Victoria Muchilwa.	WEDCO CO Kakamega
Penina Mwangi.	KWFT Regional Manager, Mt Kenya
Martha Murage.	KWFT [Senior BDO]
George Odhiambo	PRIDE Kenya, Branch Manager Thika

Appendix III: MCI Details

KENYA	KREP	KWFT	NCCK / SBDO	PRIDE	WEDCO.
Institutional Status	NGO	NGO	NGO	NGO	A project of CARE International.
Target group of clients	Micro, medium and small Enterprises	Female micro and small enterprise owners.			Women with enterprises
Year started	1984	1981	Started micro-lending activities in the 1970s.	1988.	1996 as WEDCO. 1983 as CARE
Institutional model	Juhudi an adaptation of Grameen,. Chikola an extension of ROSCAS and individual loans.	Aim for at least 20; 15 to 25 range. Have watanos of 3 to 7, main is 5; Monthly meetings at KWFT office or rented rooms(Modified grameen bank). Used to be weekly.	Group of 30; watanos of 5 meet weekly (no exceptions) ; any convenient place for members to meet.		Unrestricted groups; aim for average 25 members. Current average closer to 10.
Staff numbers	56 credit officers out of staff of 143. KREP involved in other activities besides credit	51 BDOs	*****		Total 49 Credit Officers 39
Current number of clients (or members)	13,201 clients at the end of March 1999.	523 groups wit 11,621 active clients at the end of March 1999.		6000 clients.	411 groups with 5000-6000 clients.
Current number of borrowers	9,889 borrowers at the end of March 1999.	8,149 borrowers at the end of March 1999.			****
Current number of savers	13,201 savers (Collateral savings)	11,621 savers. (Collateral savings)			N.A
Ratio credit officers to clients, to savers, to borrowers	1:236:177	1:227:160			
Value of savings held	86,million	66,million			24 million

KENYA	KREP	KWFT	NCCK / SBDO	PRIDE	WEDCO.
Value of loans out-standing	268 million	94 million			64 million
Level of self-sufficiency	100% operational and Financial self-sufficiency.	75 % operational self-sufficiency and 69% financial self-sufficiency.			57.5% operational self sufficiency and 44% financial self sufficiency
Profit/loss last accounts period	Profit Ksh 10.2 million	Loss Ksh I.7 million			
Drop-outs rates with years	1997 - 1208 1998 - 2827	1997/8 - 593 1998/9 - 1712			Unknown at individual level. Have figures at group level but not readily available.
Reported arrears rate	Portfolio at risk from 1 day 10%				
Interest rates on loans	Juhudi 18.85% p.a flat rate; Chikola 20% p.a flat rate; Loan application fee 1%; Loan insurance fund 0.5%; Membership fee Kshs. 150/=; Passbook fee Kshs. 65/=.	22% over the year; Loan application fee 1%; Loan insurance fund 0.5%; Membership fee Kshs.200/= Passbook fee Kshs. 50/=.	22% flat rate per annum		2% p.m. 15 Groups 3% p.m. from Groups to members
Interest rates paid to savers	N.A Savings held in groups bank accounts.	Account is for group with KWFT signatory. Earns interest according to bank rates.			Equity deposit invested in term deposits. Saver gets at 2% above normal savings rate: KCB
Loan application procedures	Letter to group, guarantors advised to vet request. CO and group loans committee review application. Client deposits application fees and LIF to bank.	Five people apply then after 4 weeks of repaying another 12 apply. Application to group; loan committee visit the business; KWFT officer does	Loan application completed; a series of requirements like passport photos, Ids, Spouses Ids etc; attach minutes of group meeting that approved		Raise 20% of required loan; Branch manager may decide to approve loan lower than equity raised by group * 5. • Below Kshs 500,000/= decided at

KENYA	KREP	KWFT	NCCK / SBDO	PRIDE	WEDCO.
		business assessment; Pledge form (Only first one needs authentication by advocate); attach licence, bank statement, ID, Photos; Officer takes form to KWFT office.	loan; Paper work sent to Nairobi for verification.		branch level. • Up Kshs. 800,000/= operations manager • Above Kshs.800,000/= involves CEO.
Loan disbursement procedure	Approved application sent to Accounts (HO), cheque signed and returned to CO to release at meeting.	Approval; Personal cheque issued; Given to client at next meeting	Cheque written (to applicant) at HQ; Sent to area office and delivered at group meeting.		The cheque is issued to the group during their meetings.
Loan repayment procedure	HO signatories. Below 50,000 RM & AM. Above 50,000 FM & MD.	Period can be 3,6,9,12 months; Pay monthly at meeting; Watonos collect and check the money; handed over to treasurer for banking after being checked by KWFT officer; Bring pay in slips to KWFT.	Rural area two weeks grace period; Equal payments over 50 or 26 or less weeks. (For 4th loan 18 months or less). Urban areas equal payments over 50 or 26 or less weeks (For 4th loan 18 months or less)		Members pay their groups. Groups pay WEDCO. Groups use administration to enforce payment.
Restrictions on loan use	Loans for existing business.	Must be for business use	Loans must be invested in existing business not for start-ups.		Loans for existing business.
Restrictions on use of savings withdrawals	N.A.	N.A.	None. Group holds the savings fund in bank accounts. It can withdraw the interest earned on that account (Variable).		20% equity deposit cannot be withdrawn till loan cleared.
Savings account opening procedures	N.A.	Have to open a savings account at a bank to join KWFT.	Compulsory savings required, from Kshs 50 per week on loan 1 to Kshs. 150 per week on loan 5.		N.A.

KENYA	KREP	KWFT	NCCK / SBDO	PRIDE	WEDCO.
Savings account access conditions	N.A.	Access only possible on exit. Rarely savings on top of guarantee level can be withdrawn if an emergency.	Savings only accessible through exit.		Savings in excess of prescribed weekly rate can be withdrawn.
Main donors and other sources of funds.	DFID, Ford Foundation, USAID		****		DFID only .
Intermediation.			****		