IMPACT EVALUATION

SUMMARY | fivetalents

SUMMARY FINDINGS from the Five Talents UK 2017 Kenyan Programme Evaluation

SPONSORED BY THE CET / COMMERCIAL EDUCATION TRUST

TRAINING SAVINGS LOANS

ACKNOWLEDGEMENTS

This evaluation was made possible through the generous support of the London Chamber of Commerce and Industry's Commercial Education Trust. We are extremely grateful to the Trust for their support of this project and the learning it has provided for Five Talents and the wider savings group sector. We would also like to thank Anne Figge, the consultant who led the evaluation and helped to ensure that the research provided valuable learning for Five Talents.

Through the time they took to participate in focus group discussion and complete surveys, the members of the programmes provided valuable insights. We are especially grateful for their input. Our partner organisations helped to design the methodology and facilitated the data collection. We are thankful for their support of this project. The programme areas detailed in the report refer to these independent local partner organisations:

- Thika - Thika Community Development Trust
- Nakuru - Nakuru Community Development Trust
- Embu - Embu Diocese Community Development Trust

Photos: Adam Dickens, Taking Pictures, Changing Lives

INTRODUCTION

In the twelve years since we began, Five Talents has reached over 35,000 people through savings and loans groups across rural East Africa. Initially, Five Talents supported credit-led programmes, often providing the external loan capital required to disburse loans to members. Ten years ago Five Talents supported its first savings-led programme, where the loan capital came from the members' own savings.

The first savings-led programme was based in Thika, Kenya and started by Peterson Karanja. The unique model which Peterson developed aimed to reach the poorest communities who had no access to formal financial services and to address the challenges with the informal financial services they relied on. Today, Five Talents supports six such programmes across East Africa. All programmes are run by local partner organisations and aim to be self-sustaining after five years of grant-funding from Five Talents, so that they can continue serving their communities after Five Talents' support has ended.

HOW FIVE TALENTS WORKS

Working through local partner organisations, Five Talents provides business and financial skills education to groups who save together and then make loans to one-another from their combined savings fund. These loans are then used by savings group members to grow their businesses.

Step One: Our local staff travel out to rural areas and provide sensitisation sessions to financially excluded communities. If they're interested, members form a group comprised of trusted friends who act as co-guarantors when loaning begins.

Step Two: After the group has formed, members write their own Constitution, elect their leaders and attend Five Talents' training sessions, covering financial literacy and business skills principles, adapted to local needs.

Step Three: Members begin saving regularly, every month. The minimum monthly savings amount is set by the members, to make sure it is affordable for them all. Members must save for six months before they can borrow from the accumulated savings pot.

Step Four: Loan applicants provide basic business plans to their Groups to demonstrate their ability to repay. The Group members decide who should take a loan based on their knowledge and trust of each other. As our programmes increasingly move to a paperless system, these loans are will be made via mobile money.

Step Five: Loans are made at interest rates determined by the group themselves, typically around 1% per month (though this does vary). This is significantly below the market-rate for our rural clients. Loan repayments are made over periods ranging from three to twelve months.

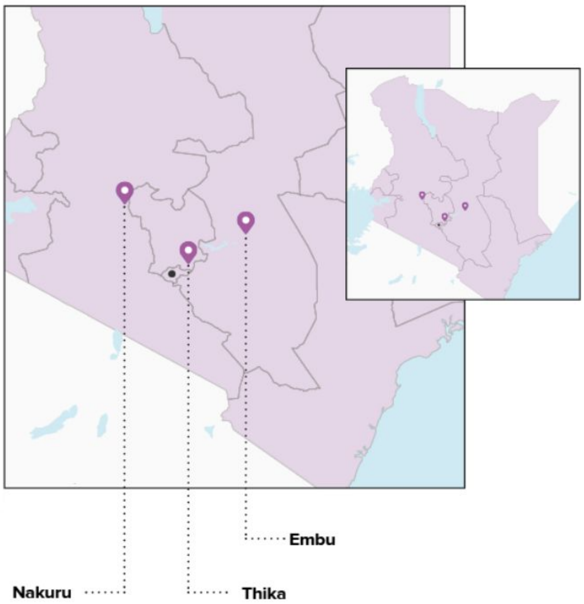
Step Six: In all of our savings-led programmes, the interest is kept within the group and shared out to members as an annual dividend. These dividends are often the first time our clients have received interest on their savings which motivates them to keep saving even more.

Step Seven: As loans are repaid, the money is returned to the group's savings pot, ready to re-lend. As our groups only share out the interest each year, the savings fund continues to grow, meaning that members can take larger loans over time and make significant business investments.

THE EVALUATION

Prior to this evaluation, Five Talents had collected anecdotal evidence and survey data from small samples of members to demonstrate impact. The generous support of the London Chamber of Commerce Commercial Education Trust presented a unique opportunity for Five Talents to commission an independent evaluation of our work. The evaluation is intended to measure the impact of Five Talents' programmes over a 10-year period and specifically to understand how Five Talents' unique model had affected these impacts.

The evaluation will be used to advance the learning of Five Talents and its local partners and make future programmes even more impactful. In addition, as interest in savings groups grows within the NGO sector, it is expected that the evaluation will enable Five Talents to share its learning with other organisations.



Methodology: The evaluation focused on three of Five Talents' programmes in Kenya (shown on map) which have been operating the unique savings-led model for the longest period. To help identify trends, the evaluation used structured questionnaires across a sample of 529 members. The selection process for the treatment population was wholly random for 60% of the sample and targeted to randomly select from within different interest groups for the remaining 40% of the sample.

These interest groups were groups identified by Five Talents' local partner staff as groups considered harder to reach and who may find it especially difficult to access financial services. They were (1) female members, (2) members with low levels of formal education (primary or under), (3) elderly (defined as 65 years of age and above), (4) youth (defined as 18-30 years of age) and (5) members who live in marginalised rural and semi-arid geographic locales (because of the lack of infrastructure and their vulnerability to environmental and economic shocks).

The surveys asked members about how they've accessed the programme (their expectations when they joined the programme, which services they've accessed from the programme, which services they've found most useful) and the impact of the programme (change in diet, investment in businesses and the home).

Focus group discussions were also held with 110 members. These were used to help explain some of the reasons behind the trends identified by the survey. Finally, a sample of non-members were surveyed to allow comparison of impacts for members compared with a control group of non-members, and to help understand how far changes could be attributed to the Five Talents programmes. The evaluation concluded with a one-day workshop with the leadership from the programmes in order to share initial findings as well as to discuss feedback and recommendations.

KEY LEARNING & RECOMMENDATIONS

IMPACT FOR VULNERABLE AND DIVERSE POPULATIONS

Overall, 82% of members reported that they had been able to increase their household expenditure as a result of joining the programme[1]. Importantly, this was reported across all demographics demonstrating the programme offers an inclusive service, accessible even to groups considered hard to reach. 81% of men reported an increase in household expenditure, 82% of women, 82% of elderly members, 75% of youth, 73% of members from the poorest locations and 81% members with low or no formal education.

It was also found that the impact of the programme increased over time (see Figure 1 below). This demonstrates that with the programme's support, members continue becoming less poor even beyond the normal three year training period. Five Talents' commitment to longer-term support for its partners (typically at least five years) is key to increasing the impact.

FIGURE 1: Impact over Time

The focus of the programme is on saving rather than loaning. Members are required to bring a minimum monthly savings amount to every meeting for six months if they are to be eligible for a loan. This rule is liked by group leaders and members alike as it encourages good financial discipline and helps grow group capital.

[1] International Development practitioners are increasingly measuring expenditure on basic needs as a proxy for income. This is because poor households who combine their business and household finances are able to give more accurate insights into expenditure than income.

The amount members should bring each month is decided by the group members. Members of some urban Groups can manage up to KES 300 per month (£2), whereas in more marginalised rural areas, members may only be required to bring KES 100 per month (70p). Even though the monthly minimum is set by members to be affordable for all, during emergencies such as drought, it can be hard for members to continue saving at this level and several groups reported having to stop saving during these times.

It is recommended that staff facilitate discussion on dropping the savings minimum or allowing members who are struggling to 'share' a savings minimum and the resulting dividends. This is especially important to consider during times of drought and to ensure that the poorest are able to participate.

- Facilitate discussion with groups about decreasing the minimum savings amount during emergencies
- Where the poorest have reported that the minimum savings balance is too high, facilitate discussion with groups about allowing the poorest members to share the minimum savings contribution.
- When Groups are first formed, staff should seek to ensure that the founding members do not set the minimum monthly savings at a level which could exclude harder to reach, poorer members of the community who may be less likely to join in the first year of the Group's life.

PROVISION OF APPROPRIATE TRAINING

Training in business skills and financial literacy is one of the unique features of the FIve Talents model when compared to the traditional 'merry-go-rounds' or chamas that exist in rural Kenya. The training is based on a curriculum developed by Five Talents over the past ten years, with support from the Chalmers Center[2].

Many clients credit the training as improving their confidence and capacity in saving and borrowing because of improved money management skills and business skills. In this sense, the training can be viewed as an intake tool of sorts for the Trust Groups that empowers members to effectively access the benefits of the service.

For example, Evans, a member from Embu shared that 'the training helps you to utilize the loan well.' Evans felt that he was able to invest his loan well because he had received training about investing in productive purposes from the staff.

Since the Trust Groups are lending their own money, they are not reliant on continual injections of outside capital (as in credit-led microfinance). After three years of training from Five Talents local partner staff, the Trust Groups are able to continue to operate independently with only occasional support visits needed.

Staggering Training Curriculum

When asked which training modules had been most useful to them, the most frequently reported were: "how to save," "how to borrow for investment," and "multiple borrowing." In addition, members

[2] https://www.chalmers.org/our-work/intl-savings-group-training/

frequently reported that receiving this training alongside its practical application through monthly savings or borrowing, was essential in forming the habit.

It is noteworthy that topics members said they found most useful relate to how best to use the service rather than improving their business skills. Local partner staff attribute this to the lack of practical application of business skills in the early stages of the programme when members' businesses are still small and skills such as bookkeeping are less relevant.

Training should therefore be segmented and delivered to groups at the most appropriate stage of their 'life cycle'. The training relating to business growth is most helpful to more mature businesses and should therefore be provided at a later stage. It is important that all training has a practical application relevant to members at the time it is given.

INCREASED RESILIENCE TO EMERGENCIES

Emergencies, and even expected but large life cycle events such as funerals or school fees, can force poor households to sell a productive asset. If these households are to benefit sustainably from the programme, it is vital that they are able to withstand such events. Drought is becoming increasingly common in the areas of Kenya where Five Talents works and indeed, whilst the evaluation was being conducted, Kenya declared a national drought emergency.

The evaluation found that the programme is helping households to increase their resilience to unexpected events. 71% of Trust Group members (and 78% from semi-arid areas) reported that they were now better able to cope with emergencies. While Trust Group members were still affected by the drought, they shared that 'we are much better off [than non-members] because we can save.' They also shared that 'the Group has taught me how to save and how to deal with the unexpected.'

Members further identified the training about planning and budgeting as well as how to diversify their income through off-farm income generation as key factors in their improved ability to cope during emergencies. Paul, a member from Embu, shared that 'saving by yourself is hard. The Group helps you because you are accountable to bring savings to each meeting. Before I had nowhere to get money when I had challenges, now I do.'

Inclusion of an emergency fund

During an emergency members reported that they would prefer to take a loan from their group rather than withdraw their savings. This was because withdrawing savings effectively decreased a person's stake in the group and their savings balance meaning they could only borrow smaller loans in the future. In addition, there was a fear coming from the members themselves that encouraging withdrawal during such a time would erode the financial discipline of saving.

Borrowing a loan during an emergency is not considered best practice in microfinance as it has the potential to encourage serial borrowing and over time, the cost of borrowing even at 1% will accrue. A balanced approach might be to ask Trust Groups to contribute to a social or emergency fund (for each group) that members can borrow from interest-free in the event of an emergency.

Staff should provide training to Trust Groups about the strengths and drawbacks of having an emergency fund. If emergency funds are introduced, policies for its use should be considered carefully by the group. Policies around multiple borrowing should also be reviewed regularly and adhered to.

INVESTMENT IN BUSINESSES AND WIDER LOCAL ECONOMY

Since Five Talents began working in Kenya a decade ago, the programmes have disbursed £6.29 million in loans. 76% of members report borrowing for business creation and investment (almost twice the number of non-members), meaning that of the total loan value disbursed, more than £4.78 million has been invested in small businesses. This investment has knock-on benefits for those outside of the programme. Many of the members reported now employing someone to help with their business leading to further job creation.

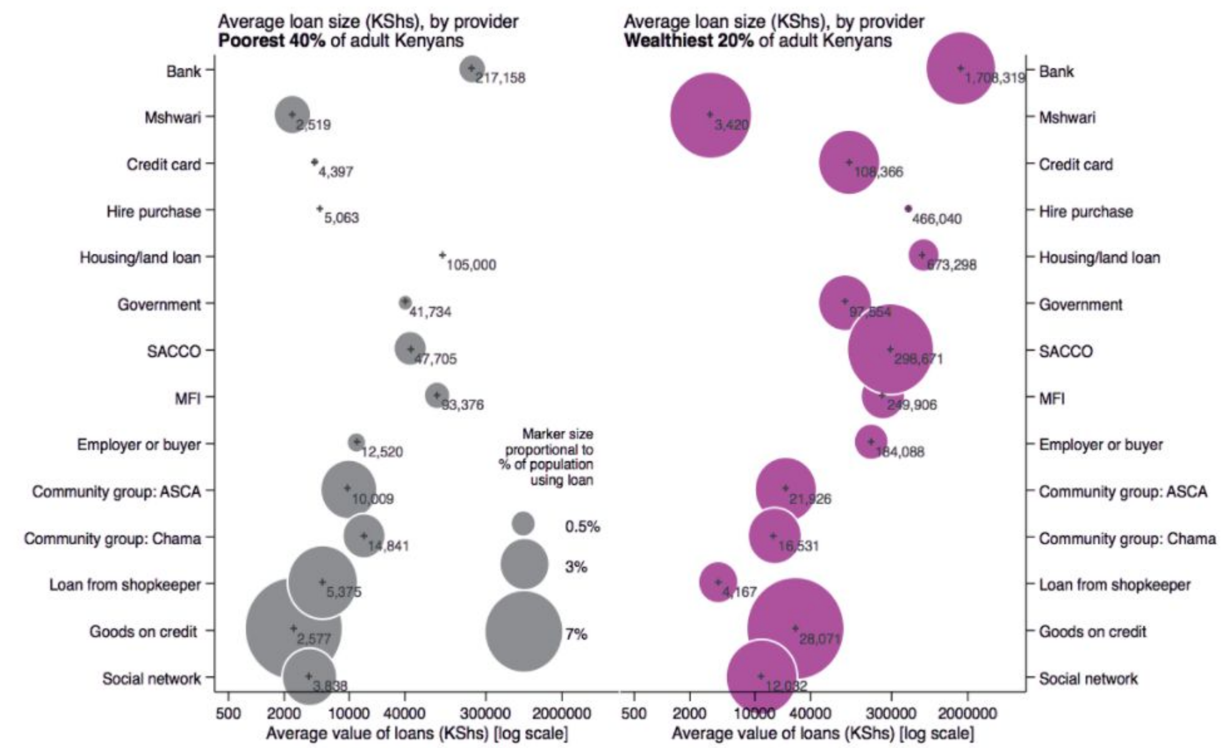
For example, Moses from Embu borrowed to invest in his timber business. The wood planer he purchased meant he could shape the wood, adding value to his products. Moses shared that he has tripled his profits since buying the machinery. With the increased demand and profits he has employed someone to help with the labour.

A unique feature of the Five Talents approach is that savings are able to accumulate without limit. In other models such as the Village Savings and Loan Association (VSLA) approach, the total savings pot is often lent out at each meeting and loans may be capped at three-month terms, to give sufficient members a chance to borrow within a twelve-month cycle. This limits the loan capital available which becomes an increasing drawback for members as their businesses grow.

Ensuring members can access appropriately-sized loans

Even in the newest Five Talents programme included in the evaluation, the mean loan size is £241. This is considerably higher than in other informal savings and loans groups within Kenya as shown in Figure 2 below. Usually only formal financial services can provide the size of loans that Trust Groups are offering. The typical member of a Trust Group would not be considered creditworthy at such institutions because of their lack of collateral to borrow against.

FIGURE 2: Average Loan size in Kenya by Type of Provider



Graph notes: Kenya's poorest 40% , wealthiest 20% are identified using an asset based index of welfare
Source: 2016 FinAccess household survey, FSD Kenya, August 2016

As such, Trust Groups are providing a unique service in enabling their members to not only access credit, but to access higher than average sized loans. Trust Groups are in theory well placed to meet demand from members requiring a range of loan sizes according to their ability to save. However, some members reported that they were waiting to borrow at all until they are eligible to borrow a large loan and make a large investment.

Encouraging members to initially borrow a small loan is likely to build their confidence and ensure good repayment discipline before larger loans are borrowed. Although repayments rates are high across the programmes (all above 92%), groups in the poorest areas often have low rates of borrowing. Encouraging members in these areas to begin by borrowing smaller loans is likely to be less overwhelming and help to build their confidence.

Staff should provide training in the first twelve-months of a Trust Group's formation to encourage members to begin by borrowing smaller loans to help build their confidence. This is especially important in the poorest areas where groups often lack confidence.

STEWARDING RELATIONSHIPS

One of the aspects of the programme that is most valued by the members is the relationships that exist between them. The trust that members have in one another ensures that repayment rates are high, but also helps members grow in confidence and build social support.

The group leadership remains strong even as groups grow. groups elect leaders from their own membership and as a result, members feel that the leadership is accessible to them. Since each member helps to set the by-laws or constitution of the group, they also understand what policies govern the management of the group. As a result, the group itself is self managed and drives its own success which is an important aspect of Five Talents' exit and sustainability strategy.

This is a unique feature of the Five Talents model when compared to other formal financial services. In these institutions the management or leadership is not known by or accessible to the majority of customers and the policies of the institution are imposed upon the customers rather than voted on and then adopted.

The growth in the size of the group over time, helps the group to accumulate more capital but does have the potential to decrease the trust between members or the 'social capital' which the model relies upon. To mitigate this risk, each Trust Group is also made up of Cell Groups. These are groups of 3-5 members who know one-another well and are prepared to guarantee one-another's loans.

The Cell Group structure helps to maintain good repayment rates but staff should consider how relationships in the wider Trust Group can be maintained as they grow in size. This will help to maintain strong group cohesion, accountability of leadership and mitigate the risk of 'elite capture'.

WOMEN'S EMPOWERMENT

As a result of the programme, 84% of female members reported a positive change in household relationships. As shown in figure 3 below many members attributed this to being able to contribute to key household expenditure as a result of the growth of their small businesses and a safe place to save their earnings.

Both male and female members reported increased household planning and discussion about financial matters with their spouse. Prior to the programme, many members reported that financial decisions were made by the male head of household alone. Members attributed this change to their household needing to work together to ensure that they met the monthly savings goal and were able to maximise their benefit from the programme.

FIGURE 3: Commonly Shared Insights from Members Regarding Income Smoothing

Business Training Needs of Women

During focus group discussions, members were asked if they owned a business and if so, to describe the business. Female members often had income generating activities but did not identify them as businesses. One member from Nakuru, for example, shared that she had borrowed two loans for school fees and to buy chickens. Despite planning to sell the eggs from the chickens, she did not identify this as a business.

The result of this understanding amongst female members was that they felt the business training was not relevant to them. Following on from this, some female members felt less able to borrow loans and indeed, when they did borrow, were likely to borrow smaller loans than male members. On average, loans borrowed by female members were 40% smaller than those borrowed by male borrowers. Although this may illustrate that female members are exercising sensible caution, staff should work with female members to ensure that they are able to fully benefit from the services, recognise their own business potential and invest in the enterprises they are running.

Gender Equality Training

The positive changes in household relationships reported had happened organically rather than alongside training or facilitation of discussion by local staff. Whilst it is positive that these changes have been led by the members, it is important that local staff facilitate discussion about such changes to ensure that potential negative outcomes (for example, increased gender based violence) are identified and mitigated. In addition, local staff noted that without further training, the positive changes may not be felt beyond the household and may not be welcomed by the wider community.

- Five Talents' approach is based upon an Asset Based Community Development (ABCD) philosophy which starts with what people in the community have—by identifying pre-existing physical and social assets. This philosophy encourages communities to maximise the resources to which they already have access. The ABCD philosophy could be more pro-actively used to help female members to identify their existing businesses and therefore, opportunity to grow these.
- Staff should facilitate gender equality discussions with group members and the wider community to ensure that the empowerment of women through the programme does not lead to negative outcomes and the benefit is felt beyond the home and in the wider community

CONCLUSION

The evaluation found positive impacts as a result of the Five Talents' programmes across multiple measurements (household expenditure, meals eaten a day, resilience to emergencies, investment in businesses). The unique features of the Five Talents model, specifically the self-management and ownership of Trust Groups, the emphasis on saving rather than loaning, the long-term approach and the provision for members' capital to accumulate year on year were found to be key drivers for these impacts.

These impacts were shown to build over time, with impact increasing the longer a member is in the programme, endorsing Five Talents' approach of establishing sustainable local institutions. Importantly, the impacts were felt by even the most vulnerable populations reached, showing that the model is pro-poor and inclusive. The evaluation also provided useful recommendations relating to the business training provided, access to an emergency fund, gender-transformative training and stewarding relationships as Trust Groups grow.

As interest in savings and loans groups continues to increase, we hope this evaluation and the recommendations provide valuable insights for other NGOs within the sector. The recommendations relating to gender training, inclusion of an emergency fund and ensuring a practical outworking for business training provided are likely to provide useful learning for NGOs whatever their approach to savings groups. We would welcome the opportunity to share learning from other NGOs engaged in similar programmes too.