Decentralised Financial Services

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"Institutionalising suspicion": investigating the role of social and cultural norms in the governance and management of user-owned microfinance systems

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1. Introduction

The action research project "Reaching remoter areas in East Africa with quality demand led financial services" is developing and testing tools with which to improve the management and governance of community owned and managed microfinance organisations. The toolkits being developed cover:

- Governance: board and member education toolkits
- Management: bookkeeping systems; internal controls; audit; management information systems; savings and credit methodology; portfolio and default management; legal issues for default and recovery management.

This project is premised on the need to extend financial services further into rural areas and recognises the advantages of cost that may be reaped by achieving this through user-owned organisations such as ROSCAs, ASCAs, FSAs and SACCOs (Malkamaki, Johnson et al. 2003). The tools that have been developed from a range of other tools used by NGOs working with community owned and managed financial organisations. The approaches to governance and management which they reflect operate on the assumption that it is possible to improve the effective and efficient operation of these organisations by introducing approaches to accountability and transparency which emphasise the need for information to be shared and for members to assert their rights by knowing the rules and questioning office holders accordingly.

While group-based systems in informal finance, such as ROSCAs and ASCAs are widely interpreted as operating effectively because of the local social context in which they operate in which members tend to know each other, many of the problems that they encounter are similarly related to the operation of power and socio-cultural norms within that environment. In such circumstances, training members on their rights and responsibilities does not necessarily produce the improvements in governance and management that are anticipated. Indeed, in relation to training programmes for small enterprise, Zegers has argued that they are largely still based on Western values although the importance of social and cultural factors is often acknowledged. But that in evaluations which conclude approaches to be largely ineffective, "the strange aspect is that…little attention has been paid to cultural reasons for possible ineffectiveness" (Zegers 1989). The research component of the project is therefore investigating the wider socio-economic, cultural and political context in order to consider how constraints to such ineffectiveness can be addressed and incorporated into the tools being tested.

This paper is in three sections. The first section reviews the literature on group-based financial mechanisms - ROSCAs and ASCAs - to explore their strengths and weaknesses and consider the implications for their development. In the light of this it then sets out a conceptual framework through which they can be investigated and concludes by discussing the research methods to be used. The second section reports findings from the baseline data collected on groups testing the tools being designed. The third section then reports findings from the first round of indepth field research carried out with a sub-sample of groups.

SECTION A: BACKGROUND AND CONCEPTUAL FRAMEWORK

2. Group financial mechanisms: a review

2.1 ROSCAs and ASCAs: ubiquity and apparent success

The ubiquity of ROSCAs across the world has been amply demonstrated by the literature. Commencing with the work of Ardener and Geertz in the 1960s (Geertz 1962; Ardener 1964) the fascination with these systems of financial intermediation was primarily among anthropologists. Economists studying financial markets in the light of liberalisation policies and concerned with the role of the informal financial sector became increasingly aware during the 1980s of the extent of their role, but the analysis and modelling of their operation by economists has been a much more recent phenomenon, starting with the work of Besley and Coates in the 1990s (Besley, Coate et al. 1993).

Estimates of the size of informal financial arrangements are of course difficult, but available estimates suggest that informal arrangements have supplied between 30 and 95% of the credit needs of rural or urban populations (Germidis, Kessler et al. 1991). However how this breaks down between the two main forms of informal sector finance - group-based operations such as ROSCAs and moneylending arrangements between individuals – is even less well documented. Never the less, while research on moneylending arrangements in Asia has been central to the informal finance literature, the extent of these arrangements in Africa is far less well documented and the implication from the literature is that it is group-based systems that tend to dominate there.

The ubiquity of the ROSCA arises from the simplicity of its underlying financial intermediation mechanism. At its most basic it is a system in which a number of people form a group and contribute equal amounts on a regular basis to a fund which is usually (but not necessarily) given to one person on each occasion, until everyone in the group has received the money in turn. The order of rotation may be determined by ballot, by age or seniority or other social systems of preferment. Alternatively the payout may be auctioned with the person willing to take the largest discount receiving the payout. The remainder of the funds are then divided amongst those who have not yet won the payout. Hence, ROSCAs are a very basic and simple form of financial intermediation that has a very high degree of flexibility: the amount to be saved; the number of people in the system; the regularity of contributions; the number of people to receive a payout on each occasion; the use to which funds can be put; can all be determined by those participating.

The fascination in the literature with ROSCAs has arisen from a growing appreciation of their flexibility and multi-purpose and multi-dimensional role in both economic and social life.

First, from an economic perspective, Besley et al (1993) demonstrated that ROSCAs are an efficient mechanism for saving to buy a consumer durable good since each individual (except the last) will be able to buy the good earlier than she would if saving alone.

Second, an appreciation by anthropologists of the potential for group-based financial systems to offer a means to pool and share risk and so a means of providing insurance has been examined in more depth by economists. In examining this issue, Platteau (Platteau 1997) argues that ROSCAs are an example of “balanced reciprocity” which is different to an insurance aspect which he calls “conditional reciprocity” and that the insurance component of these systems is relatively limited. Balanced reciprocity operates in a context where it is possible for members to benefit from each other frequently and uses the example systems to even out income variability in a Senegalese fishing community. By contrast, in African agrarian societies, he suggests that there is a subtle difference between state-contingent loans (that is, where the terms of repayment may be adjusted to take account of shocks affecting either borrower or lender) and mutual aid. While state-contingent loans can assist in mitigating the effect of unexpected shocks and hence act as a risk pooling mechanism, mutual aid tends to operate in the case of need. Using Udry’s data from Northern Nigeria, he argues that the state-contingent loans that Udry analyses are actually more akin to balanced reciprocity because the repayment periods under situations of favourable or unfavourable shocks are little different; hence the insurance element of these arrangements is not particularly significant. This view therefore argues that agrarian societies prefer insurance based on credit transactions because they better embody the ‘balanced reciprocity’ norm.

Platteau’s work is very important in attempting to delineate elements of financial intermediation and insurance. However there are a number of aspects of his argument for ‘balanced reciprocity’ that deserve further examination. First, the literature on micro-credit group-based lending involves a discussion of screening mechanisms whose purpose is to ensure that only those with the ability to pay join groups – what Ghatak (Ghatak 2000) terms positive assortative matching so that safe borrowers end up with safe partners while risky borrowers will end up with risky partners. This means that there is *a priori* selection into ROSCAs on the basis of an individual’s risk profile. Their risk profile is, by definition, a consequence of their socio-economic status. The function of groups intent on financial intermediation is therefore to exclude those who are likely to present a “bad risk” to the group and to ensure balanced reciprocity rather than redistribution. It is therefore unsurprising that only limited redistributive transfers operate *within* the framework of a ROSCA.

Second, Platteau suggests that reciprocity cannot occur within a cycle. However few ROSCAs are based on a single period. If they operate ‘well’ in early periods they are likely to persist and people recognise that they have to build up a track record with the ROSCA before they make claims on it in terms of need. Where members are slow to pay, or do not pay, the member may be ejected, or if a more widespread problem, it is likely to collapse. The longevity of the ROSCA may therefore be an indication of whether an adequately balanced reciprocity is in operation. But participants face uncertainty when entering into the ROSCA and may be careful about the claims they may make in any particular group, as they are also uncertain as to their ability to deliver balanced reciprocity in the group. By focusing on ROSCAs themselves as a means to delivering insurance, Platteau’s analysis overlooks the social and cultural aspects of their operation.

Indeed, as Ardener suggests, the social and economic functions are inseparable (Ardener 1995). Velez-Ibanez argues (after Lomnitz) that ROSCAs are an important means “by which individuals can successfully counter the basic uncertainty of a marginal existence by generating methods of economic solidarity that mobilise available resources efficiently” (Velez-Ibanez 1983, 113). In research on ROSCAs in Mexico he maintains that while offering the material means to purchase gifts and to enable crucial ritual obligations to be met "[a]ccumulating money to meet such obligations selects for an increased number of social links and with that increase more access to favours" (ibid:114). The favours may be reduced prices in the marketplace, an introduction to a job, assistance in childcare or medicine for a child and so on. While a feature of these favours may indeed be balanced reciprocity, these favours may operate well beyond the bounds of the ROSCA itself. As a "cultural invention" that allows people to meet both biological and socio-cultural needs (Velez-Ibanez 1983), he describes ROSCAs as adaptive to varied circumstances and argues that it is this adaptability that has contributed to their continued use.

The combination of functions that ROSCAs appear to perform has led to discussion of where they fit in terms of economic development. Geertz's classic article argues that they represent "intermediate" forms of institution between a traditional and more modern or developed societal context, arguing that these mechanisms enable peasants to "learn to be traders, not merely in the narrow occupational sense but in the broad cultural sense; an institution which acts to change their whole value framework from one emphasizing particularistic, diffuse, affective and ascriptive ties between individuals to one emphasizing-within economic contexts – universalistic, affectively neutral and achieved ties between them…..The theoretical as well as the practical interest of the association lies in its ability to organize traditional relationships in such a way that they are slowly but steadily transformed into non-traditional ones" (Geertz 1962). He argues that the ROSCA therefore represents two contrary forces: one which reflects the increased segregation of economic from non-economic activities and a freeing from traditional constraints; while at the same time have a directly contradictory attempt to maintain the dominance of the traditional values" (ibid:261)., Geertz sees them as a phenomenon of social transformation suggesting that they will be "self-liquidating being ultimately replaced by banks, cooperatives and other economically more rational types of credit institution" (p 263), however Geertz does not discuss the potential for ROSCAs to be a means of getting there.

However, while the anthropological literature is fascinated with them as a "cultural invention", and economists are in search of explanations of their ubiquity through theorization of their ability to improve the efficiency of savings, risk management or (more recently) by creating discipline (see (Chiteji 2002)), the literature does also reveal their limitations.

2.2 ROSCAs and ASCAs: the pathology

As Bouman points out a "low rate of default is assumed to be self-evident because of peer pressure…denials of misconduct ….are accepted by researchers at face value. Proper investigation is almost impossible without access to books and records. Outsiders, that is non members or former members may tell a different story" (Bouman 1995). The lack of written records available for analysis is indeed one problem. Some further reasons can be suggested.

First, is the fact that ROSCAs have clearly defined beginning and end points in the cycle. This allows them to be disbanded and re-formed with great regularity, hence ROSCAs that have failed no longer exist, and if they dealt with only small amounts then people are likely soon to forget about them. Moreover, a ROSCA that "survives" does so because the problematic participants are eliminated. Therefore ROSCAs that have existed for some time necessarily demonstrate selection bias. Moreover, even for those that do exist, the membership may have changed in the process. A very old ROSCA –such as one I encountered in Karatina open market in 1999 and which was reportedly formed in 1970, had only a few of the original members remaining – others had either been replaced by existing members taking up their "stake" or contribution, or by a careful process of replacement. A further feature is that when entering the field, researchers may find many ROSCAs are relatively young eg recently formed or only a few years old – this is in fact because many do fail and those who participate in these are busy trying out new groups until they find ROSCAs that suit their needs.

A further reason why the literature tends to view default as minimal in these systems is that anthropologists tend to view the fact that funds are repaid in some form at a later date as repayment. Hence, for example, Nelson writes that the Kiambu group was very successful and reports 23 cases of what she calls "negotiated temporary default" where members paid at a later date (Nelson 1995). Additionally Alila et al conclude that default is minimal in these informal systems and report that gifts were used in some cases to make up the default (Alila 1992). Indeed, the underlying issue here is that debt is a social relation and in many African systems regarded as open ended ((Zegers 1989); Rowlands in Ardener – check reference).

Johnson uses the term "negotiability" to refer to the flexibility of these systems in this respect. She argues that it is the fact that the underlying social relationships allow for renegotiation of debts that is a key reason for the popularity of these mechanisms in Central Kenya in the late 1990s (Johnson 2004). This negotiability means that the risk of entering debt relations through these systems is reduced compared to borrowing from the formal sector and hence in the context of uncertain livelihoods is more compatible. However, it is this element of negotiability and its intrinsic flexibility that contain both the greatest strength of these systems and their greatest weakness since it also enables powerful individuals to manipulate them to their own advantage (Johnson, Malkamaki et al. 2002). Hence, the power dynamics of the social relations in which these systems are embedded are also a key source of their failure.

Instances of ROSCA failure due to default suggest the influence of power relations in their operations. Bouman (1995) in reviewing the literature reports failure due to the power of local authorities in Nigeria where in the Ogba system, too much power was in the hands of a few headmen who abused it, and warrant chiefs manipulated *esusu* as a quick way to obtain wealth. The role of social relations of gender, kinship and age may also underlie problems of default and abuse.

Gender has been argued to be a factor by Burman and Lambete (Burman and Lambete 1995) who report that the mobility of men means that the potential for them to migrate and leave debts behind is higher in South Africa, and also that men tend to default with higher amounts. By contrast Ardener notes a number of features of women's involvement in ROSCAs: (i) the fact that social sanctions such as disgrace and shame act as mechanisms which force people to repay; (ii) the value members place on the social networking and solidarity which ROSCAs offer; (iii) the fact that women's ROSCAs tend to have smaller and lower contributions than men's; (iv) that women often prefer single sex ROSCAs and will actively exclude men; and (v) the opportunities for secrecy that ROSCAs offer in savings accumulation. However, Ardener herself makes a plea for a more detailed gendered analysis of ROSCA use, thereby suggesting that while this much is known, there is a need to answer a deeper question: how can this gender differentiation in ROSCA use be better explained?

Johnson analyses the greater prevalence of ROSCAs among women compared to men in the Central region of Kenya (Johnson 2004). The analysis proposes two main causes of this differential use rooted in gender relations. First, that the amount of money which women wish to save is much smaller than that for men, and the purposes for which they save are smaller expenditures such as small household assets and items of clothing alongside supplements to everyday expenditure. Men on the other hand require access to larger amounts for larger expenditures for which they are responsible such as school fees, farm inputs and larger assets. Second, the sanction of shame is more effective for women than men in relation to such debts. Hence while this does not eliminate default it helps to explain why ROSCAs among women are much more prevalent than among men in the area.

A further factor affecting performance can be the involvement of close kin and groups vary in their rules over the involvement of close kin in a group. Some may decide to exclude close kin on the basis that social obligations among them may increase the risk and "undermine the trust of other members" (Bahre 2002). However, friendship can also lead to sanctions not being pursued. In a detailed case study of a *tanda* in Mexico, Velez-Ibanez shows how misunderstandings and dissatisfaction regarding the motivation of the organiser in negotiating the order of ROSCA payout resulted in one of the organiser's friends deciding to default after he had received the payout. The friend was able to use a threat of revealing aspects of the organiser's behaviour that would damage his reputation with other members to conceal the fact and consequently the organiser paid on behalf of the friend (Velez-Ibanez 1983).

Age can also be a source of power within such systems and Bouman reports the case in Nigeria where young people started loan societies which sidelined elders since their domination of group mechanisms had meant they had used more of the benefits for themselves (Bouman 1994).

Apart from problems of non-payment of loans themselves are the problems of fraudulent use of the group's funds. Underlying problems of illiteracy and hence difficulties in over-seeing the books can either be a source of power since those keeping them can falsify them and other members will not know, or simply a source of mistakes which can lead to failure. Bouman reports fraudulent behaviour by *esusu* heads in Nigeria linked to illiteracy but that once more educated young men took over this was reduced (Bouman 1995). Problems of illiteracy and the potential for fraud become more acute in ASCAs than ROSCAs since the former necessarily involve more complex systems of book-keeping and may also involve the custodianship of funds belonging to the group that are not lent out. Indeed ensuring that as much money as possible is lent out reduces the risk of one member being in charge of a lot of money (Bahre and Smets 1999). By contrast ROSCAs have in-built mechanisms for transparency. For example, the uniformity of the contribution and payout, the fact that all the money is paid out at each meeting, enables members to know immediately whether a member has not paid. Research in Uganda into the losses involved in financial systems suggests that ROSCAs are less risky for poor people than ASCAs. In that context, Wright and Mutesasira found that the percentage lost of the amount saved in ROSCAs over the previous 12 months was 6% compared to 21% in ASCAs (Wright and Mutesasira 2001).

Finally, the literature also reports cases of bribery arising in ROSCAs where the length of the cycle was very long, as members may then seek to bribe the organiser to get their turn earlier (Bouman 1995).

To conclude, the extensive literature on the ubiquity of ROSCAs and the many attempts to understand their attraction must be balanced with a view of their failure. For a number of reasons these failures may sometimes have been less evident to researchers – not least because failed ROSCAs are hard to study. Moreover, the embeddedness of their economic functions within wider social relations are both a reason for their success and failure. The dynamics of the power relations that social embeddedness involves can inevitably result in default and fraud.

3. Improving governance and management: a conceptual framework

The DFS action research project seeks to develop toolkits to improve the governance and management of group-based financial systems in order to improve their operations and improve the prospects for financial service provision in remoter areas. However, Bouman asks why NGO intervention to develop such groups is apparently ridden with failure concluding somewhat pessimistically that many of these efforts have met with little success and that "we must finally accept that indigenous self help societies have their own ways of helping themselves and their own views of what Utopia looks like and at what tempo to get there" (Bouman 1995).

On the other hand, Dore's analysis of the failure of modern co-operatives is perhaps more nuanced. He points out the potential for these organisations to work well can be high due to the extent to which people know each other in a local context and have relationships of solidarity and co-operation. However, he points out when examining the social conditions appropriate to the development of modern co-operatives for agriculture (Dore 1988), the traditional solidarity that may exist in these societies also faces patterns of traditional authority, and that although such societies may be cohesive they may not be egalitarian. Those that do combine these two features we might expect to more successfully make the leap into a more modern phase of co-operation. The difficulty is one of:

> *"…separating specific institutionalised roles from general personal relations"…. "this then is the dilemma on which cooperatives are caught. Either the objective rules, with their suspicious assumptions of original sinfulness are scrupulously applied – with the likelihood given the diffusely personal nature of social relations in such societies and the principle that no quarrels are as fierce as family quarrels of arousing such animosity between those who apply the rules and those to whom they are applied that the organisation is burst asunder – or else the rules are not scrupulously observed and the non-observance eventually becomes so flagrant that the losers in the game of influence withdraw from the co-operative or it founders in the factional struggle for advantage.…. Modern cooperatives, rest on a delicate balance between mutual trust and mutual suspicion, between disinterested sentiments of loyalty and self-interested calculation"(ibid:56-7).*

In attempting to make use of the traditional solidarity of many communities in developing countries in order to develop the scope for the provision of financial services, the question is whether we have adequately considered what are the most effective means of ***institutionalising suspicion***. It cannot be expected that groups will effortlessly be able to "institutionalise" 'modern' notions of accountability and transparency that are embedded in the tools being developed. Indeed, according to Dore "the trick lies in retaining these elements [the sense of mutual trust between members and the sense of loyalty to the group] while at the same time introducing the rationalized accounting methods…[which allow] a strict apportionment of benefits to contributions and…the devices of institutionalised suspicion which prevent the abuse of leadership powers. The trick is an immensely difficult one…" (ibid: 58).

More recently trust has become a key element of the literature. One helpful categorisation of trust which fits well with this discussion is that of Harriss (Harriss 2000) - drawing on work of the sociologist Zucker. He suggests three ways in which trust is produced:

- Process-based trust – which is tied to past or expected exchange such as reputation or gifts and thus represents the experience of past transactions ('she has never let me down')
- Characteristic based or ascribed trust – which is tied to a person depending on characteristics such as family origins, ethnicity or education
- Institutional based trust - which is tied to formal societal structures such as deliberately created rules or regulations

Dore's analysis suggests that institutional based trust and characteristic based trust strongly influence each other. Moreover, it is clearly the case that process-based trust is an important means through which groups establish a track record of behaviour. The implication is that the project is attempting to develop institutional-based trust as the most important of these sources of trust, and that it should become more important than trust based on process or characteristics.

What then might be the most culturally and socially acceptable ways to improve institutionally based trust – that is to improve the operation of the rules through accountability and transparency towards them? As one participant in the November 2003 Tools Development project workshop commented: "It is very un-African to question". This raises the challenge of identifying the most effective means of enabling members to engage with their leaders and each other without challenging or questioning traditional authority in unacceptable ways. To put it another way, improving the effectiveness means reducing the scope for negotiability by finding ways of formalising it.

How then can this be conceptualised? In order for financial intermediation to operate, institutional arrangements are necessary. Johnson's framework (Johnson 2001) draws on the broader insights of Ostrom (Ostrom 1990; Harriss 2000). Ostrom suggests that the common features of institutional arrangements are:

- **Collective choice arrangements** which permit those affected by operational rules to participate in modifying them
- **Monitoring arrangements** in which those doing the monitoring are either accountable to the resource appropriators or are the appropriators
- **Graduated sanctions** against the violation of the operational rules
- **Conflict resolution mechanisms**

Applying this to the context of group-based financial intermediation, Johnson presents a view of financial intermediation as operating within organisations which in turn require rules, monitoring mechanisms to establish when the rules are broken and sanctions to be used when this happens, along with enforcement mechanisms to impose the sanctions. See table 1.

Table 1: Institutional arrangements for group-based financial intermediation

	ASCAs	ROSCAs
Legislated rules / Constitutional rules	No legislated rules. May be a written constitution but this may be more heavily based on members implicit understanding of a set of rules.	No legislated rules. May be a written constitution but this may be more heavily based on members implicit understanding of a set of rules.
Collective action rules	Members (savers) – constitution defines procedures for election and dismissal of group officials.	Members (savers) – constitution defines procedures for election and dismissal of group officials
Operational rules	Members may be in involved everyday operational rule implementation as well as officials	Members may be in everyday operational rule implementation as well as officials
Monitoring mechanisms	Monitoring via regular meetings at which repayments made and loans made. Usually reliant on book-keeping processes.	Monitoring in ROSCAs can be very easy as know when someone hasn't paid because no money for next person due to get the payout.
Enforcement mechanisms / Graduated sanctions	For late/non payment: Possibly financial penalties Seizure of assets Exclusion from group and/or social sanctions such as shame/ reputation	For late/non payment: Possibly financial penalties Seizure of assets Exclusion from group and/or social sanctions such as shame/ reputation

In the context of groups such as ROSCAs the rules may be laid down in a written constitution but often are not, but may never the less be explicit as far as the members are concerned in that they may have been discussed.

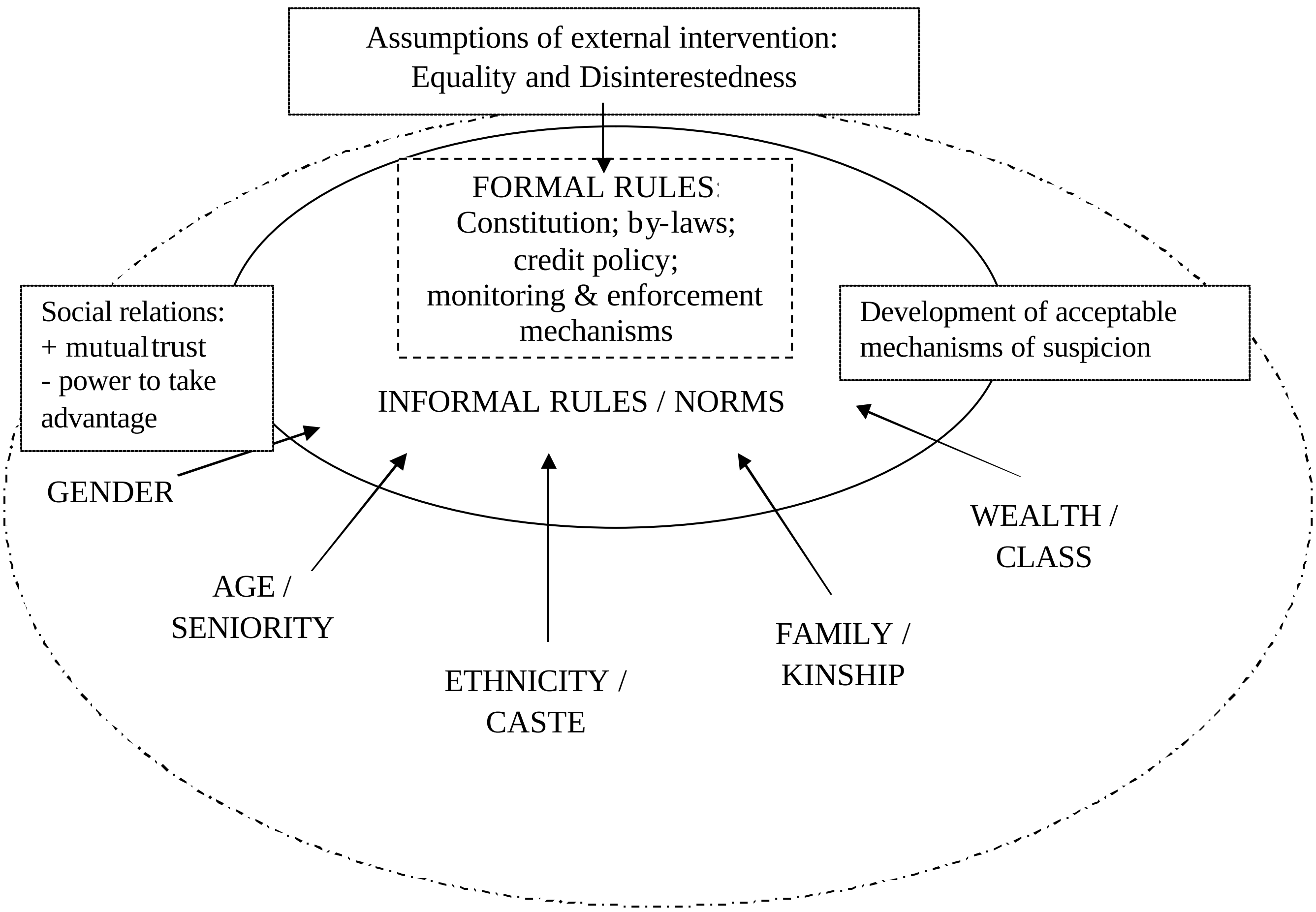
However the rules and their enforcement depend not only on rules which in this sense may be formal in that they are explicit and agreed among the members but also on informal norms and sanctions such as guilt, shame or other reputational sanctions. Johnson argues that norms such as these are largely based in social and cultural meaning and practice, including for example moral and religious values. Moreover, social norms do not necessarily require external sanctions to be effective, as they can be internalised and followed even if violations are not observed or exposed. Shame, or the anticipation of it, can be a sufficient internal sanction (Elster 1989). She goes on to argue that "social relations of class produce differential effects on rich and poor of sanctions such as reputation" (ibid). Quoting (Scott 1985) she argues that when investigating the ways in which the weak resist the power of the strong to impose a symbolic order that will "create and maintain a certain view of what decent acceptable human behaviour ought to be...The implicit purpose of these competing ideologies is not just to convince but to control...To the extent that they succeed in shaping behaviour they achieve a class purpose as well" (ibid:22). Scott goes on to discuss the point that tales that adjure people to protect their reputation and forego their immediate material interests are not neutral "what is the cost of a bad name? The answer unfortunately depends a great deal on who you are, for the cost of a bad name hinges directly on the social and economic sanctions that can be brought into play to punish the bearer...The politics of reputation is...something of a one sided affair" (ibid:24). Hence, the rich may be insulated from the effects of a bad name because they need nothing from the poor. However, he argues that while the rich may be relatively immune to the material sanctions that the poor can impose they cannot "escape symbolic sanctions e.g. slander, gossip, character assassination…(B)ut even on this small terrain the contest is unequal" (ibid:24) as a poor person is likely to be demeaned to his face where a rich one is only slandered behind his back.

Diagram 1 represents this process. The group has rules in the form of a constitution (written or verbal) along with agreements on how deviation from the rules will be monitored and punished. These rules are supported by a number of informal norms and sanctions which may be implicit but used – for example the sanction of shame. But the actual ways in which the rules are enforced are influenced by social relations of power that are embedded in relations of gender, kin, age, wealth and so on.

The tools development project is trying to achieve improved governance and accountability through strengthening the formal rules, monitoring and enforcement mechanisms. To do this we need to better understand the constraints to their operation:

- What are the informal rules and norms that are operating in the group? How are these related to social relations?
- How are these compatible with or contradictory to the formal rules that are being promoted?
- For those that are compatible, how can these be further developed?
- For those that are contradictory? What are the acceptable means by which they can be circumvented or addressed?

Diagram 1: Social relations, rules and norms in group operation



4. Research plans

4.1 Monitoring the impact of the tools

The first exercise is to monitor the impact of the tools on the performance of the groups as they are used. To do this two tools have been developed:

- Group wellbeing tool: this is a participatory assessment by the group of its own performance (bad, below average, above average, very good) against 8 indicators: attendance at meetings; savings/contributions; loan repayment; record keeping; group follows its rules; group is working together; members take part in decision making; quality of leaders.
- Group monitoring tool: this collects data on the groups performance, both financial and organisational and asks the field worker to assist in the assessment of a number of other aspects of its operation. It covesr areas such as conduct of meetings, record keeping, group discipline, leadership and so on. This therefore complements the groups self-assessment with a set of more objective data.

These tools are being carried out prior to the implementation of any of the tools. The group wellbeing tool aims to be both a baseline for the groups own evaluation of its performance and a means of opening up the discussion as to which areas of their operation they would first like to address. The fieldworker then chooses the follow up tool to train the group on. This exercise will be carried out after approximately 4 months and at the end of a year to monitor the group's progress.

The DFS project is working with MFIs and NGOs who promote groups (akin to the Indian SHG model). Hence it is the field staff of these organisations that are conducting the work after being trained on the tools in a workshop in January 2004 and some of whom have received follow up training visits from the team.

Partners implementing the tools have been asked to carry out the baseline exercise with some groups who they will immediately implement some of the governance and management tools and with others who they will not. Hence we hope to be able to monitor the performance of some groups who will not receive training in the next year as a 'control' of sorts. The findings of the baseline survey are presented in the next section.

4.2 In depth research

This component involves a more in depth range of research methods with a sub-sample of groups and their members.

The core research objectives of this work are:

- To develop an in-depth understanding of the socio-economic and cultural context in the areas where the tools are being tested. This will cover for example, the nature and operations of indigenous financial systems, especially those that are community based and their strengths and weaknesses; historical background to group activity for men and women, coops etc; local institutional norms and sanctions; gender relations; local social structures such as age-sets, lineage groups etc.
- To investigate the ways in which the implementation of the toolkits has affected the operations of community based financial systems, through interviewing groups, their

members (on an individual basis) and key informants. This will include discussion with members of alternative approaches to improving their functioning.

The research methodology for this component employs a range of qualitative research methods - PRA, semi-structured interviews and observation as follows:

(i) to identify the ways in which existing groups (both financial and those with other functions eg labour groups) operate for both men and women, and identify the rules, norms and sanctions involved in their operation. This will be carried out through analysis of data collected in the following ways:

a. a literature review of informal finance, anthropological and related literature to establish the local social, economic and cultural context
b. initial research using MSA Market Research tools to establish the dimensions of local financial markets and social relationships
c. interviews with key informants at the research sites, such as, local leaders (both men and women) including local chiefs to explore dispute resolution and leaders of what are seen as successful groups
d. interviews with a sample of group members themselves to review their past experience of group activity, what they view as well/ill functioning groups, how discipline was implemented and sanctions applied. In particular these interviews are critical for exploring what actions members take when they believe a group is not functioning well, the ways they do this, and the constraints they face eg. when and why they feel powerless to raise an issue.
e. the groups will also assess their own performance through a participatory exercise and make their own diagnosis of areas for improvement under the action research component – this will also provide data for the research component
f. observation of group meetings to see group dynamics in action.

(ii) re-visits will collect and analyse data on the changing performance of the groups in order to assess how members are tackling issues, adapting norms or implementing sanctions through:

a. re-interviews with the sampled group members to establish individual perspectives on how the performance of the group is/ is not changing in response to the tools being used, what ways to implement sanctions work / don't work and how personalistic ties can be ameliorated
b. re-application of the group self-assessment tool to get a group perspective on changing performance (carried out in collaboration with the action research partner)
c. observation of group meetings
d. follow up interviews on particular issues with key informants – e.g if new approaches to default management are being tried with the intervention of third parties such as the chief, then follow up interviews to get their perspective.

The findings from the first round of field work are set out in section 3 below.

It is anticipated that this will lead to recommendations for improvement of the toolkits for example through:

- enabling members to understand the way in which more powerful members can affect group functioning and finding methods or sanction which they can effectively employ to control them

- finding locally appropriate rules and sanctions that enable transparency to be better ensured or governance to be practiced
- finding ways of presenting information that may overcome literacy problems and become more transparent to all. For example, simply reading the books is unlikely to be adequate – pictorial systems may help.

SECTION B: BASELINE FINDINGS ON GROUP PERFORMANCE

5. Introduction

This section gives a profile of the groups that are involved in testing the tools. The data was collected using the Group Monitoring Tool and the Group Wellbeing tools (see above).

The approach has been to ask participating organisations to undertake the baseline with some groups with whom they would be using some of the toolkits and others with whom they would not - preferably 10 of each. We will not be entirely clear if this has been possible until we get the second round monitoring data in December. The intention is to use this data to assess whether the tools are having an impact on the group's performance.

By the end of May, data had been collected from 97 groups across eight organisations as follows:

Table 2 : Organisations involved in the action research project

Organisation	**Location**	**Model**	**Number of groups**
Women's Economic Development Institution (WEDI)	Nyeri, Kirinyaga and other districts in Central Province	Managed ASCA	17
Coastal Rural Support Programme (CRSP)	Kilifi, Kwale and Taita districts of Coast Province?	Integrated development model with S&C groups	12
Women Concern Kenya (WECK)	? Central \Province	Village banks (similar to FSAs)	2
SAGA	Bondo District, Western Province	Groups affiliated to SAGA SACCO for S&C and SAGA TEP for capacity building and support services	8
Embu Farmers SACCO	Embu District, Eastern Province	Lending from co-op to groups for small business	11
Narok Community Development Project, (NACODEP) Ngong Diocese	Narok District, Rift Valley Province	Integrated development model (plans to separate out S&C groups)	7
Microenterprise Development Project MEDP, supported by DANIDA	Kitui & Taita Taveta Districts Eastern and Coast Provinces	Independent S&C groups, small SACCOs and Jua Kali business associations	20
Songa Mbele	Nyeri District, Central Province	Managed ASCA	20
Total			97

Data quality is an issue, especially for the financial data, so that we are wary of putting too much weight on these findings. This could be improved in the next round through some simplification of the questions. One piece of data that was inadvertently omitted from the first tool was the gender breakdown of membership.

5.1 Group self-assessment

The table reports the groups self-assessment of their performance using the group wellbeing tool.

As would be expected there is a strong clustering of responses in the below and above average categories, unsurprising since groups are being asked to assess themselves relative to an "average". The highest proportion of groups reporting 'bad' performance was with respect to following group rules (24%), followed by loan repayment (16%), attendance at meetings (11%) and working together as a group (11%).

At the other extreme, those groups reporting 'very good' performance did so with respect to loan repayment (27%), followed by record keeping and participation in meetings (21%) and the group working together (20%).

Table 3: Group well being tool results

	Bad	Below average	Above average	Very good	Total	N/a
Attendance at meetings	9	26	39	5	79	20
%	11	33	49	6	100.0	
Savings/contributions	7	33	28	9	77	20
%	9	43	36	12	100.0	
Loan repayment	12	24	17	20	73	24
%	16	33	23	27	100.0	
Record keeping	8	23	29	16	76	21
%	11	30	38	21	100.0	
Following group rules	18	22	30	4	74	23
%	24	30	41	5	100.0	
Group working together	8	20	33	15	76	21
%	11	26	43	20	100.0	
Participation in meetings	4	27	25	15	71	26
%	6	38	35	21	100.0	
Quality of leaders	7	22	39	11	79	18
%	9	28	49	14	100.0	

Scoring the results on a scale of bad=1 to very good = 4, allows a minimum score of 8 and a maximum of 36. For those groups that completed all 8 criteria (56 groups): the score range was 13 to 29 with a mean score of 20.3. This mean across 8 criteria suggests the mean score per criterion was 2.5 - hence groups tended to rate themselves in the above average category as might be expected in a self-assessment tool of this kind.

The main purpose of this exercise was to enable groups themselves to make an assessment after having implemented some of the tools as to whether they had improved their performance. It is difficult to conclude very much overall at this stage, however, the findings with respect to each criteria can be compared to the more objective criteria set out below.

5.2 Group formation and membership

The majority of groups 63% were formed since 2000 and hence are less than five years old. 28% were formed in the 1990s but 11% were formed in 1999 itself. 5% were formed in the 1980s and 3% in the 1970s.

The smallest group is nine members but the maximum is 589 (an MEDP group). Only 4% had more than 100 members (three MEDP and one of WECK). 78% had less than 40 members with a mean of 39 and median of 25.

Groups reported that on average 7 members had left since the group was formed. However the median was 4 and the mode 3, with the mean being skewed by a maximum number of 112. 59% of groups had had no new members in the last twelve months with 32% having less than ten new members and only 7% having more than ten new members.

The majority of groups (91%) are registered with the Ministry of Culture and Social Services. This is to be expected in a context where the groups have a relationship with an NGO.

97% of groups reported having a constitution or set of rules governing the group.

Minimum contributions converted to a monthly basis, range from Kshs20 to Kshs800, with a mean of Kshs167 and a mode of Kshs100 (38%). 65% had contributions of Kshs100 or less, 19% between Kshs100 and 200, and hence only 16% over Kshs200. However, contributions are variable in the majority of groups (85%) and hence members may have consistently contributed more.

5.3 Financial performance

As indicated above, we are not entirely confident of the data reported here. The quality of the books kept by the groups themselves and the understanding of the officers in completing the GMT were both variable factors. Never the less, given the lack of such data generally it is hoped that it is broadly indicative.

Table 4: Group financial indicators

	N	Mean
Total group assets (Kshs)	78	308,390
Assets per member (Kshs)	78	7,399
Total group savings	87	93,267
Savings per member (Kshs)	87	3,722
Loans outstanding per group (Kshs)	81	142,647
Loan outstanding per borrowing member (Kshs)	41	16,668
Loans overdue per group (Kshs)	71	41,182
% of portfolio overdue	62	49.8

The definition of total assets needs clarification. In managed ASCAs it is normal for total assets to be greater than savings as there are profits remaining in the fund from past borrowing, however, bad loans are not usually written off against these figures so that the asset figure is over inflated.

The findings worthy of note here are: first, that the average savings per member at Kshs3,722 or US$50 is a significant sum for people in more rural areas in particular. Second, the average loan outstanding per borrowing member is Kshs16,668 (US$222) which appears quite high for rural contexts, however, this data includes groups of Songa Mbele and WEDI in Nyeri which is a relatively wealthy district. This figure compares with an average outstanding loan balance of Kshs 23,000 (approx. US$ 300) for MFIs in Karatina in 2003 (Johnson 2004).

Third, the estimate of 50% of the portfolio being overdue is not unsurprising given the contexts of more agricultural environments, and is probably of the order expected for these kinds of systems.

5.4 Group performance - meetings and savings

Actual attendance at the last meeting and on time attendance for the current meeting is given in Table 5. Mean attendance was 20 members or 65% of group membership.

Table 5: Group meeting attendance

(Proportion of group members)	Attendance at last meeting	On time attendance this meeting
Mean	65%	49%
Quartiles:		
25%	50%	30%
50%	67%	50%
75%	84%	70%

Comparing this to the self-assessment data where 55% of groups rated themselves as very good or above average might suggest that groups have few expectations of higher attendance.

For the 88% of groups that involved a compulsory savings contribution, a mean of 74% of the membership had actually made these contributions, in 20 groups (24%) all members had made their contribution.

Compared to the self-assessment data where 9% felt that their contributions and savings performance was poor, 43% below average, 36% above average and 12% very good, suggests a perhaps overall quite sanguine view among the groups of their performance – that only approximately half the groups where all had made their savings contribution actually reported their performance in this area as very good.

5.5 Record keeping

Table 6 reports the status of **individual passbook records**. It suggests rather poor record keeping at the passbook level.

Table 6: Status of individual passbooks

	Mean proportion of members per group	Percentage of groups reporting 100%
Members issued with passbooks	80%	65%
Passbooks updated with last meeting's contribution	58%	18%
Passbooks updated with project money (for those groups reporting extra contributions n=35)	55%	20%
Passbooks updated with loan repayments – for those with loans (n=29)	70%	41%

Field workers were asked to assess how many of the members of the groups understood the information presented in their passbooks. This was done by asking how many could actually read their savings balance and outstanding loans amount from their passbook. While initial results generally resulted in all raising their hands, once more specific questions were asked the numbers declined. On average 71% of members were reported to understand this information although this is still likely to be an over-estimate given the method used. In 29% of groups, all the members were reported to understand their passbooks, and in 25% of groups less than half the members reportedly understanding them.

At the level of **group records**, 79% of groups reported that the secretary takes minutes and that in 67% of groups they are referred to in subsequent meetings. 85% reported that other contributions made in the group are recorded, and these were invariably kept in either passbooks or a group level book – only one group reported keeping such information on a piece of paper, but this information was not available for 20 groups.

For the 85 groups for which data was available, 94% reported that a financial report was presented to the group at some time. In the majority of cases (72%) this was done monthly or more often and 22% case less frequently than monthly. 6% of groups reported never giving a financial report to the group.

We asked how many members in the group understand the financial report presented. This is difficult to assess: in some groups field staff just asked the members who understand the financial report to raise their hand. In others the ones that told that they understand financial report, were asked to explain them. On average 70% of members were reported to understand the report with 32% of valid cases (n=88) reporting that all members understood it, and 26% reporting that half or fewer understood it.

Groups were also asked whether questions were raised on the last occasion that the report was given. Of the groups who reported that they did give a financial report, 58% reported that questions were raised.

The self-assessment information on record keeping (table 2.1) indicates that 21% felt their performance in this area was very good and more than half thought it was above average, and this assessment does not appear significantly out of step with the GMT data.

5.6 Group dynamics and leadership

93 out of 95 (98%) groups reported that fines were to be charged for not following the group's rules. However, when these groups were asked whether they had actually fined members for not following the rules in this meeting, only 57% of groups reported that they had in fact done so.

This result compares to the self-assessment information that 5% felt they were very good, 40% above average, 30% below average and 24% poor. It was in this area that the highest proportion of groups indicated 'bad' performance and indeed this would appear reasonably consistent with the fact that 43% didn't actually follow up on their rules.

In terms of default follow up, in 83% of groups (n=86) members were reported to assist in following defaulters. However a follow up question indicated that in 15 of 73 groups (21%) of groups, it was solely the group officials or credit committee that would follow up, and in 53 of the 73 (73%) the members would also assist.

On average groups reported that on average 63% of their members contribute ideas during decision making, however the bottom quartile of groups reported that such ideas were contributed by 35% or less of members, half of groups that the participation rate was 60% or less and 75% reported participation of 90% or less with 15 (20%) reporting that all members contributed ideas. The self-assessment indicated that participation in meetings was very good in 21% of cases, above average in 35%, below average in 38% and bad in only 6%.

With respect to leadership, field officer made an assessment of the extent to which leaders themselves understood their roles. Members were also asked about the duties and roles of their leaders.

Table 7 gives the assessment of the leaders own understanding by field officers. The pattern seems to indicate that the majority were satisfactory or above for both chair and secretary but this seems to drop off for the treasurer. This is reflected strongly also in the following table which suggests that in 42% of groups members had a poor understanding of the role of treasurer compared to that for chair and secretary. In general the member's own understanding of the roles of leaders is biased towards poor and fair.

Table 7: Assessment by field workers of leaders understanding of their roles

	Chair		Secretary		Treasurer	
	No.	%	No.	%	No.	%
Poor	8	10	5	6	13	17
Fair	27	33	23	29	36	46
Satisfactory	37	45	35	44	23	29
Good	11	13	16	20	6	8
Total	83	100	79	100	78	100

Table 8: Assessment by field workers of member's understanding of leaders' roles

	Chair		Secretary		Treasurer	
	No.	%	No.	%	No.	%
Poor	7	11	7	11	36	42
Fair	33	53	35	56	32	38
Satisfactory	15	24	17	27	15	18
Good	7	11	3	5	2	2
Total	62	100	62	100	85	100

Comparing these results with table 2.1 where 49% reported that their leaders were above average and 14% very good, suggests an upward bias when reporting this in a group context where leaders were actually present, which is rather to be expected.

On average groups reported that 50% of their members would defy elected office bearers. The comments noted in respect of this are instructive. Four out of 29 responses, specifically explained that the members could not openly defy the office bearers but would use means such as calling for elections or questioning the group decision. Of these, one indicated that they would use the NGO to call for elections in order to "avoid victimization" and another that they could not "disclose openly but ask indirect questions to query the leaders". The majority of the remaining answers involved strategies such as:

- Call a special meeting to question their behaviour and then vote them out
- Ask for the secretary to read the constitution and then ask the official to explain him/herself
- Vote them out based on the constitution
- Wait till the end of their term of office and vote them out
- Involve the NGO in calling elections
- Give a warning and on third occasion hold elections and demand for handing over
- Call members, discuss the problems and present them to the committee – if no action taken then call for elections

However, as one group also noted, calling for elections is also a sensitive matter. These comments underline the politics of tackling these issues within groups and the power that leaders have which can prevent the issues being tackled.

5.7 Conclusions

As indicated above, the main purpose of the Group wellbeing and monitoring tools was to provide a baseline against which change in group performance as a result of implementation of the tools could be assessed. This section has used the information to give an overview of group performance at the outset. However, improvements in the group monitoring tool – particularly with respect to the accuracy of the financial data - still need to be made.

SECTION C: FINDINGS FROM IN DEPTH GROUP LEVEL RESEARCH

This section reports the findings from the first round of in-depth research explained in Section 1 above.

6. Research methodology

The in-depth work is being carried out with groups under three different organizations: one in each of Western, Coast and Central Provinces. The organizations selected were chosen on the basis of working with small groups (ie less than 100 members) rather than the larger models of FSAs and SACCOs. The three organizations are:

- SAGA based in Kisumu, Western Province and with groups in Bondo District
- Coastal Rural Support Program (CRSP), Mariakani near Mombasa in the Coast Province
- WEDI in Central Province and working with groups in Kirinyaga district.

Three groups were identified in each organization in consultation with the field officers. Group selection criteria included preference for groups in rural areas and encompassing both better and poorly performing groups. Based on the information gathered through the testing of the Group Well Being Tool (GWT) and Group Monitoring Tools (GMT), the Field Officers (FOs) of the selected organisations were asked to rank the groups as good, medium and poor Using their own criteria, with the intention of selecting one from each category. For SAGA the FOs decided not to take any groups from the 'good' category as the ones with which they were implementing the tools were all urban and male dominated. So instead they took one from medium and two from poor. While selecting the groups, preference was given to those having meetings during the time the researcher was in the field. Groups thus selected are as in table 9.

Table 9: Groups selected for research

Name of organisation	Group code	Performance category
CRSP	CRSP 03 CRSP 07 CRSP 08	good poor medium
SAGA	SAGA 01 SAGA 02 SAGA 05	poor poor medium
WEDI	WEDI 04 WEDI 11 WEDI 13	poor good medium

Several types of interview were conducted with members of each group, as follows:

1. The **board of directors** (BOD) or office bearers of each of the nine groups was interviewed using a semi-structured questionnaire. The main purpose was to understand the history and background of the group together with their rules and regulations and group performance.
2. **Observation** of the regular weekly or fortnightly meeting of each group. The main focus of the observation was on how the group functioned, who participated in the discussion, who did not, how the office bearers ran the meetings, interaction of members and any external interaction.
3. **Individual interviews**. Three individuals in each group were interviewed using a semi-structured questionnaire covering how the member joined the group, what other groups the member is currently in, and has been part of in the past, how they rate the current group as compared to the other groups and what role they have played in applying sanctions in the group related to repayment and other rules. group. The individuals were selected through a wealth ranking exercise (see below).
4. **Key informant interviews** were conducted with the Field Officers (FO) of each of the organizations involved using a semi-structured questionnaire.
5. **Other interviews** – in some groups interviews were conducted with other group members who were available or wished to be interviewed. Interviews with senior staff of the affiliated organizations were also carried out. Ad hoc interviews with other individuals were conducted to learn the socio-economic conditions and other sources of financial services in the area.

As a result the overall profile of interviews was as follows:

Table 10: Types of interviews carried out

Name of Organisation	BOD Member Interviews	Key informant interviews	Individual member interviews	Group Observation	Others*	Total
CRSP	3	2	12	3	3	23
SAGA	3	2	12	3	3	23
WEDI	3	0	9	0	0	12
Total	9	4	33	6	6	58

The interviews with CRSP and SAGA groups were carried out by Namrata Sharma, and those with WEDI groups by Markku Malkamaki. The work was carried out in April 2004.

The 33 individuals interviewed were identified through a wealth ranking exercise conducted with office bearers. In undertaking the wealth ranking, the office bearers of four of the nine groups, identified two wealth categories moderate and poor, while the office bearers of the other five groups identified three wealth categories. Of the five identifying three wealth categories amongst the membership, one classified their members as very rich, rich and moderate while the rest identified three categories of rich, moderate and poor. One group identified members in terms of occupation. Once categorised by wealth members' names were selected at random from each wealth category. However, to ensure a gender balance in respondents, selection ensured at least one male respondent was interviewed where groups were mixed. The resulting profile of individuals interviewed is given in Table 11.

Table 11: Individuals interviewed by category

Organization	Rich (or top category)	Moderate	Poor (or bottom category	Total
CRSP	0	6	6	12
SAGA	4	2	6	12
WEDI	3	3	3	9
Total	7	11	15	33
Gender: Male Female	 2 5	 4 7	 1 14	 7 26

7. Microfinance methodologies of organisations

This sections outlines the background and microfinance methodologies of the to the three organisations selected. Summary performance data is reported in Table 12.

Table 12: Summary performance data for selected MFIs

Kshs (US$ in brackets)	CRSP (as @ March 2004)	SAGA (as @ April 2004)	WEDI (as @ May 2003)
Members	N/a	5,366	22,446[1]
Groups	57	331	645
Savings: shares/compulsory savings voluntary Mean per member:	 2,790,150 (37,202) n/a	 5,495,025 (73,267) 2,048,550 (27,314) 1,024 (13.7)	 35,428,891[2] (472,385) 1,578 (21.0)
Loans: Total outstanding Number Mean per member: Portfolio at risk: >30 days >90 days	1,217,475 (16,233) n/a n/a n/a n/a	8,372,400 (111,632) 533 15,708 (209) 5.9% 0.01%	94,658,754[3] (1,262,116) 12,056 7,851 (104.7) n/a n/a

Note: US$1= Kshs75

[1] estimate

[2] compulsory and voluntary savings

[3] loans outstanding are higher than savings due to retained earnings and no write offs

7.1 CRSP

Background

The Coastal Rural Support Programme (CRSP) Kenya was founded in 1997 by the Aga Khan Foundation as the Kwale Rural Support Programme with the goal of promoting food security and improved rural livelihoods. Initially it operated in Kwale District in the Coast Province but now has expanded to parts of Kilifi district too. CRSP "aims at seeking long term sustainable solutions to economic and social development" issues. CRSP functions by mobilizing local people in the community to form Village Development Organisations (VDOs) in collaboration with the local authorities in the area. These organisations are registered with the Ministry of Culture and Social Services. CRSP is now targeting the poorest of the poor in their area of operation using PRA. There are four main services CRSP provides:

- Social Organisation – this they see as the backbone of the project.
- Technical Intervention – dealing with livestock and agriculture
- Physical Infrastructure – including installation of water pipes, dams etc.
- Enterprise Development – Business, marketing and savings and credit

Microfinance methodology

Since CRSP operates an integrated development approach, the groups involved in microfinance receive all other services also. Initially termed as the Saving and Credit programme of CRSP, it is now called the Enterprise Development activity. It mainly involves agricultural loan to groups in rural areas and enterprise loans to small number of groups in the market centres. In total they have 57 groups involved in saving and credit, including 49 VDOs and 8 market groups. Each group has between 10 and 30 members. The exact number of members is not available because CRSP keeps record at group rather than individual level.

The members save until the group reaches Ksh10,000 (US $ 134). This enables them to then open a group account in Kenya Commercial Bank (KCB) Mariakani branch with the minimum balance required. The signatories are Chairperson, Secretary and Treasurer of each group. Withdrawal is not allowed from the group account without approval from CRSP. After saving for six months, the group can apply for a loan of twice their savings. The next loan is 3 times saving depending on the timely repayment of the previous one. The repayment period is one year with two months grace period for the rural groups, and ten months with no grace period for market groups. Interest is 20% flat p.a.

Loan is given to the group as a whole and the contract signed by all members. Repayment is collected by the group and taken direct to the Bank, and deposited in the CRSP account. They also deposit their savings in their group account. They then take the deposit slip to CRSP and get a receipt. In theory this receipt is then shown to the group at the next meeting to confirm the deposit. The loan is disbursed by the group to their members and records kept in the group. CRSP keeps its records at group level.

Follow up from CRSP seems to be very weak. They follow up only with the group which is expected to chase the members to whom the loan is given. There are considerable delays in repayment and CRSP staff tend to accept and expect that since loans are agricultural, they are not repaid on time. There is no system of taking assets in case of default and although, in principle, CRSP can deduct the money from the group account, the field officers are not allowed to do so. CRSP's strategy is to alleviate poverty and a general principal is that deducting money from group accounts will destroy the VDO which is also the focus of other interventions. The only sanction they apply is to not give another loan until the current one is completely repaid.

7.2 SAGA

Background

SAGA Thrift and Enterprise Promotion Limited (STEP) is a company limited by shares and was incorporated in 1995. It was sponsored by Lutatco, an enterprise development corporation founded in 1947 by people from the Kenyan districts bordering Lake Victoria. Currently STEP has two institutional representatives (Plan and ?) and six individuals as shareholders. STEP's area of coverage is the Kenyan districts bordering Lake Victoria.

SAGA provides financial services through SACCOs to Members of Client Organisations (MOCOS). These are groups registered with the Ministry of Culture and Social services, which STEP refers to as ASCAs. SAGA currently has two SACCOs. One covering Bondo, Siaya and Busia Districts and the other covering Kisumu. SAGA is in the process of registering another SACCO to cover the former South Nyanza District.

Microfinance methodology

SAGA has a management contract with the SACCOs and manages all their financial services. There is a Management Committee elected by SACCO members which oversees its operations. There are service centres in Bondo, Kombewa and Kisumu staffed by SAGA employees and field officers. The board of the SACCO contains representatives of SAGA the Company; of the Management Committee; and the members' association which is also elected by the members. The Management committee is a statutory structure which signs the contract with STEP.

Although SAGA says that the ASCAs form the SAGA SACCOs and claims the ASCAs as their clients, every members of an ASCA is an individual member of the SACCO and can access the SACCO's services. Each has a separate share account and must buy at least one share per month for three months before being eligible for loans. One share is KShs80 (US$ 1.06[1]) and members can buy them by by contributing Kshs20 per week. The first loan is three times the share amount held.

SAGA has three types of savings products as follows:

1. Withdrawable savings: This saving can be withdrawn whenever they want so is potential for access to lump sums whenever needed.
2. Shares: Manadatory for all members. This enables members to access credit using the share as collateral.
3. *Account ya muda* or Fixed deposit: The minimum deposit acceptable for this product is Kshs50,000 (US $ 667) . Interest is earned at the prevailing bank rate, and is shared between STEP and the member in a 1:3 ratio.

[1] Exchange rate US $ 1 = Ksh 75

There are three loan products:

1. Market day loan which can be given after saving for three weeks. The maximum is Kshs50,000. It has to be paid within four days of the market day. They charge 2.5% flat per day interest. The interest is split with 1.5% going to the SACCO and the remaining to SAGA company.
2. Normal loan which is mainly for school fees, medicine or anything other than business. This is given only after the member saves for at least three months. In this the first loan has to be paid within three months. On satisfactory completion of first loan other loans are to be repaid within 12 months. They charge 2% per month flat. There is a rebate of 0.5% on timely repayment without any arrears. The interest is split with 0.75% going to the SACCO and 0.75% going to SAGA.
3. Enterprise loans are is given only after three months of saving shares. First loan is three times shares, rising to five for repeat loans. The usual repayment period is twelve months but for loans larger than Kshs150,000 it is a maximum of 18 months. Interest charged is 2% flat per month. Here too a rebate of 0.5% on timely payment without arrears is offered. The remaining interest is split evenly between the SACCO and SAGA.

Although SAGA emphasise the ASCAs, loans are given to individuals not groups with the contract being signed by the individual although the group has to recommend the member. In case of default money is deducted from the individual's shares. *(no co-gaurantors?)*

SAGA also offers savings and loan products to individuals in the market and city area who directly save without being members of groups. There are also groups - usually welfare groups - who open accounts to save only. Some ASCAs also have opened welfare accounts but this is not treated as a guarantee for the individuals who have taken loans.

The financial data given in Table 12 suggests a relatively low PAR over 30 days. We are aware that there has been a recent drive in the early months of 2004 to recover past loans which had fallen into arrears. Much of the qualitative data collected suggested that repayment discipline had in the past been very lax.

7.3 WEDI

<u>Background</u>

WEDI was started in 1995 by the founder who had previously worked for Partnership for Productivity and developed the ASCA management model (Johnson, Mule et al. 2002). From its base in Karatina it has spread its operations as far north as Laikipia and Samburu districts, east towards Embu and west towards Nakuru.

<u>Microfinance methodology</u>

WEDI assists women to form a group and, from the first meeting, members make a minimum monthly contribution of KShs100, which are called shares. From the first meeting savings are converted into loans to members of the group. As the fund grows, two types of loan are offered: short term loans called advances on which interest is paid at 10% per month, and longer term loans up to two years with interest payable at 17% flat. At the end of the year, dividends are calculated and profits distributed in relation to members shares.

The role of WEDI is the mobilisation of the groups, and a field officer attends the monthly meeting. She may also assist the group to develop its constitution and by-laws and register with the Ministry of Culture and Social Services. Field officers keep accounts of group transactions, of which the group secretary also keeps a copy. The group pays WEDI a service fee of 1% of the value of the fund up to a maximum of KShs2,500 per month. In addition WEDI has a key role in default management: it is responsible for identifying and following up defaulters, an aspect of the service which members appreciate as it avoids the social friction that may be caused by following up on defaulters themselves.

8. Findings

8.1 Profile of groups and their members

Eight of the nine groups existed before joining the organization's they are now affiliated with (see table 13). Five existed as women only merry-go-rounds (ROSCAs). The oldest was formed in 1996. In seven groups (three SAGA, two CRSP and one WEDI) all members of the previous group continued with it when it affiliated to the NGO. Once the NGO mobilized people in the area, it appears that members re-formed themselves around the criteria of the external organization.

Groups in CRSP and SAGA are mixed sex, while WEDI groups are women only. However, in only one CRSP group do men heavily outnumber women, in two SAGA groups they are relatively evenly balanced, while in the other three groups they are clearly in a minority. Among the six mixed sex groups two have equal gender representation in the office bearer position (*is this a CRSP policy??),* three have more women and one has more men representation but this balance does not directly follow the gender balance of the group as a whole.

Six out of the nine groups reported that they have defaults carried on to the present group from the previous ones. These defaults are unresolved and members have asked the defaulters to pay but full payment has not been made yet. However, as the BOD reported, some of the original members were late in repaying and never attended meetings. So they were asked to repay their dues and leave. In some cases they defaulted. They were made to pay their defaults then removed from the group. In one instance a member left to form a group for his clan only.

Table 13: Group background

Organisation and Group names	Membership F	Membership M	Total Members	Office Bearers F	Office Bearers M	Total Office Bearers	Based on preexisting Group/type
CRSP							
CRSP 03	15	9	24	3	2	5	F only ROSCA
CRSP 07	11	26	37	3	3	6	F only ROSCA
CRSP 08	21	9	30	3	3	6	F only ROSCA
SAGA							
SAGA 01	14	1	15	4	0	4	F only ROSCA
SAGA 02	8	9	17	4	2	6	Group formed by Plan volunteers representing different clans. Joined SAGA operation later.
SAGA 05	7	8	15	2	3	5	F only ROSCA
WEDI							
WEDI 04	23	N/A	23	5		5	None
WEDI 11	25		25	5		5	Originally formed as a WEDI group collapsed and recently restarted.
WEDI 13	47		47	5		5	PfP group
Total	171 (73%)	62 (27%)	233				

The primary source of income of the majority of members is agriculture. In the area where SAGA works, most members produced enough food to sell some, but in Mariakani agricultural production was primarily subsistence. Both SAGA and CRSP groups had a few members with fishing as their source of income. Business was a source of income for 13 interviewees but only a primary source for four (see table 14). The types of business were mainly selling crops, fish or having a small kiosk. Despite the proximity of Bondo to the lake, in the inland area where the groups were located, only one respondent had fishing as a primary income source (a man). One male member of a SAGA group is the assistant chief of the sub-location, one more man has a government job. One male member of CRSP is a retired railway worker, and one woman is a teacher in the primary school. Out of the total 33 interviewees nine had two occupation and two had three.

Table 14: Income Sources

Source of Income (n=33)	Primary	Secondary	Total
Farming	25	2	27
Business	4	9	13
Fishing	2		2
Government employee	2		2
Retired with pension		1	1
Teacher		1	1
Total	33	13	46

19 out of 33 (58%) were members of other groups undertaking financial activities, that is, ROSCAs and ASCAs (see table 15). Interestingly the incidence appears higher in Bondo than in the other two areas, although the extensive use of group-based finance in Central province has been well documented ((Kimuyu 1999; Johnson 2004).

Table 15: Involvement in other financial groups

Group type (n==33)	No. of groups			Totals
	0	1	2	
CRSP	7	3	2	12
SAGA	3	7	2	12
WEDI	4	5	0	9
Total	14	15	4	33
CRSP				
ROSCA only	-	3	2	5
ASCA only	-	0	0	
ASCA and ROSCA	-	0	0	
SAGA				
ROSCA only	-	7	2	9
ASCA only	-	0	0	
ASCA and ROSCA	-	0	0	
WEDI				
ROSCA only	-	2	0	2
ASCA only	-	2	0	2
ASCA and ROSCA	-	1	0	1
				19

Three respondents were members of labour groups: two in Mariakani and one in Bondo. Seven were members of welfare groups such as clan groups that collect cash for particular purposes such as funerals and illness: two in Mariakani, four in Bondo and one in Kirinyaga.

Further, out of 33, only 11 (33%) reported that they had been involved in group activities in the past (see table 16).

Table 16: Previous involvement in groups

Type of group (n==33)	Frequency
ROSCA	
Women only	2
Men only	1
Mixed	1
Total ROSCA	4
ASCA	3
Welfare	
Women only group	2
Mixed group	1
Clan	1
Total welfare	4
Total	11

Out of the 33 individual interviewees eleven said that they had been members of groups in the past. Some of these groups still existed and some were closed.

Out of the eleven groups the members were in in the past, reasons given for closing the groups as reported by the interviewees were – one said due to shortage of food, one said he stopped working for the hotel where the group was formed, three said that there was no need for the group now, four cases were reported where members said they did not want to pay for the default caused by dead members so other members left, two reported that there were no trust among members.

In these past groups, there were cases reported where in ROSCAs members stopped contributing after taking their payouts so the group stopped. One member reported that they had stopped a ROSCA for the time being because some members had stopped contributing. She herself could not do anything because the person who did not pay was her sister. They would continue the ROSCA when they needed it again.

In one case, a member reported that in a past ROSCA that she had participated the Chairlady, treasurer and secretary had defaulted one after the other and all three had died. So the members were asked to pay for the defaults so she left the group. Similarly another member reported that three members defaulted in one past group she was a member of, she was asked to pay for them so decided to leave instead.

In another case a man reported that they had opened a ROSCA in the beach but had to stop because one member did not pay his contribution. They finally deducted it from the rent he was to receive from his tenant who was also a member of the ROSCA.

8.2 Group performance

Overall financial performance for the groups is reported in Table 17, although it has not been possible to collect all the necessary data to complete the table.

Table 17: Summary performance data for selected MFIs

Kshs (US$)	CRSP (as @ March 2004)			SAGA (as @ April 2004)			WEDI		
	03	07	08	01	02	05	04	11	13
Members	22	N/a	30	15	19	17	22	N/a	44
Savings:									
Savings compulsory and voluntary	60,105 (801)	N/a	38,925 (519)	49,128 (655)	17,191 (229)	21,693 (289)	101,025 (1347)	N/a	70,285 (937)
Mean per member:	2,732 (36.4)		1,298 (17.3)	3,275 (43.7)	904 (12.1)	1,276 (17.0)	4,592 (61.2)		1,597 (21.3)
Loans:									
Total outstanding	13,041 (174)	N/a	11,857 (158)	67,650 (902)	0	9,370 (125)	168,187 (2,242)	N/a	364,482 (4,860)
Mean per member:	n/a								
Portfolio at risk:									
>30 days	100%		100%	N/a			59.1		35.9
>90 days	100%		100%	N/a			54.4		27.5

Note: US$1= Kshs75

As indicated above, CRSP is very lax in repayment and loans made in the last two agricultural years are still all outstanding. Data at the group level is not yet available for SAGA. WEDI data demonstrates the poor performance also of these portfolios. These issues are dealt with in greater depth in the next section.

8.2.1 Repayment: default and delay

Data reported in the GMT indicates that of the nine groups, only two (both in SAGA) had no overdue loans. All three groups in Mariakani have had an extension from CRSP for the loans that were due last year to this year (*or is it two years ie since 2002)* on the grounds that last year's agricultural season was poor, but the tool also treated the loan from CRSP as a group loan so that the status of individual members is not revealed. In two WEDI groups the number of members overdue is approximately one-half, and similarly in the third SAGA group.

Table 18: Overdue loans

Group	No. of loans			
	Members with loans	No. overdue	%	Overdue as % of loans outstanding
WEDI04	21	10	48	10
WEDI11	N/a	N/a	N/a	N/a
WEDI13	40	16	40	41
CRSP03	N/a	N/a	N/a	100
CRSP07	N/a	N/a	N/a	100
CRSP08	N/a	N/a	N/a	100
SAGA01	11	0	0	0
SAGA02	9	5	56	8
SAGA05	3	0	0	0

However, even in the two groups that had no overdue loans according to the GMT, delays in repayment of ROSCA contributions and general delays of a few days were common. However, despite these high levels of overdue payments, groups did not tend to treat these as default. As long as members kept repaying even if the amounts paid were small and spread over a long period, the groups considered this to be delayed repayment and did not take significant action to address the situation.

Cases were identified as default when it was clear that members had refused to repay or had stopped coming to group meetings. In some cases the treatment of a case as default was triggered by the lending organisation - SAGA – deducting money from the group's funds to cover an individual's loan. This precipitated action by the group to recover members' own funds. In other cases the line drawn between delay and default is when the group realizes that the member has no intention of repaying

From interviews with BOD and individuals seven out of nine groups reported nine cases of default (cases A-I in Table 19). Two more cases (cases J and K) were reported by individuals interviewed as default cases, but were not identified as such by other members and the BOD.

Two groups in which cases of default were not identified in this way were WEDI 11 and CRSP 08. WEDI11 was formed in 2003 so is relatively new and only had short term loans (ie one to three months) at the time of the research. Moreover, it is useful to note that a number of members of this group were in a previous WEDI group which collapsed in 2003 and in which they have lost Kshs10,000 to 20,000 and the group has not been properly liquidated. In interviews with CRSP08 members a vice-treasurer interviewed as an individual reported a default of Kshs5000 by another member but this was not mentioned by any other individuals or by the BOD. We have not therefore included it in this analysis but it will be followed up in the next round when detailed financial data from the group will be collected – as indicated in the previous section, the financial data collected through the GMT has proved insufficient.

Examining cases A to H in more detail, we can first look at cases H and I. The group in case H has been recently re-started having previously collapsed due to default, hence there are a number of default cases carried over from the previous group. This case may have drawn particular attention in the discussion because it was the largest single amount outstanding and there appears to have been dispute between the defaulters and the new group office holders about the exact figures involved. Since June the woman involved in case H attends the group meetings and repays her loan at Kshs500 a month instead of Kshs 2000. This indicates that she has accepted that she owes the group Kshs2,000. Another defaulter, the former chairlady paid the full amount back in June. Thus only 3-4 defaulters from the old group are not repaying. While the group collapsed, some of the members had continued to repay via the Assistant Chief. He, however, has not given the money back to the group. Now WEDI is trying to convince him to repay Kshs 3000 to the groups. Similarly, case I is another WEDI group where default is now on a wide scale (see table 17) indeed it is indicative of the problem that occurs when delays are not adequately followed up and a number of loans turn into default. This in turn tends to cripple the group since they are ASCAs and it usually means that the flow of funds reduces to such a level that members cannot take new loans and the incentives for other members to repay also decline. This group was reportedly close to collapse in early 2004. The issue about follow up in WEDI groups is that it is usually regarded as the role of WEDI, although the funds belong to the members themselves, this is discussed further below.

The other seven cases (A-G) reported in table 19, are cases where it is clear that a particular individual has defaulted. It is notable that six involve men and only one involves a woman, and does raise a question as to whether there is a gender element involved here.

Table 19: Cases of default

Group	Case Code	Case	Action taken / resolution
CRSP 03	A	A male member took a loan and did not pay after his job was transferred from the village by his employer.	Cash not cleared yet. Members have written letter to employer to request a deduction from his salary to repay the group fund.
CRSP 07	B	Former **Chairman** took a loan of Kshs700 and did not pay.	Cash not cleared yet. Removed from position as Chair.
CRSP 07	C	Current **secretary** (male) defaulted - amount unknown – and has not repaid it.	Cash not cleared yet. Secretary still in post, issue taken to the local chief.
SAGA 01	D	A male member took a loan of Kshs15,000 and stopped paying with Kshs 6000 remaining. On hearing that he was leaving the area the group took action to find him.	Case taken up with SAGA officer and local Chief and resolved. Bull to be taken if he didn't pay on the agreed date. All of the amount was recovered. Member removed from group.
SAGA 02	E	A male member defaulted on his loan by disappearing from the group.	First SAGA deducted from group funds. The group asked the local chief to follow up, who called the man but he did not come. Eventually the group found that he had earned some money from PLAN and was to be paid through SAGA. They made a request that it be deducted. The group lost Kshs800 and the member was removed.
SAGA 02	F	A male member defaulted after his wife died and he took a loan to help pay for the funeral.	First SAGA deducted the money from the group funds. The group followed up for about siz months then deducted the balance from his SAGA shares. He then left the group.
SAGA 05	G	The former **chairlady** defaulted on her loan and also	The members were having difficulty removing her from office bearer position so finally got the

		misappropriated group funds (see case P below).	help of the SAGA officer to hold election where a new chairlady was elected. The money is still not repaid. Finally have got her to write a letter to SAGA to deduct money from her shares.
WEDI 13	H	A member who had taken a loan in 1995 in the previous incarnation of this WEDI group but had been unable to pay after a family problem after which the group collapsed. It has now been revived and she has an outstanding balance of Kshs 23,000.	Initially not resolved, but agreed in June to pay at Kshs500 per month. However, this group has been revived after its previous collapse so many members have outstanding debts.
WEDI 04	I	Several cases of defaults between Kshs12,000 -16,000, but seen as WEDI responsibility to follow up.	Not resolved.
Reported by individuals			
CRSP 03	J	A female interviewee admitted to having defaulted because she did not pay her registration fee in 2003	No action taken This is not a loan but money going to group fund.
SAGA 05	K	A female member admitted that she had defaulted an amount of Kshs708 from the current MGR of the group as she used it for school fees.	No action taken. Groups asked her to pay but she has told them she cannot.

A further point to note about table 19 is that there are three instances (cases B, C and G) where office bearers have defaulted. When action is eventually taken against defaulting office bearers then a further pattern can be seen. First, out of the three cases, in two (cases B and G) the office bearer was removed from his/her position to become a general member again. However, in one case (C) the office bearer has not been removed and the members reported that they would remove him from the position only after he repaid their loans. However, none of the office bearers who have defaulted, whether removed or still in position, have cleared their loans.

Finally, cases J and K were cases where individuals said that they themselves had defaulted. The reasons why these were not mentioned by the rest of the group are probably because the amounts are all small (all under Kshs1000, US$13) and the members are still attending the groups, hence are still in some way acknowledging this debt. We note also that these self-reported cases were all by women.

This analysis suggests two things. First that there appears to be a gender dimension to default, when this is not widespread in the group. Second, that office bearers have a level of power in the group that means members find it more difficult to deal with than ordinary members.

8.2.2 Misappropriation of funds

Members and in some cases field officers reported four cases of misappropriation of funds (see table 20). However, when discussed with the office bearers these cases were not usually referred to as misappropriation, rather indicating that an office bearer was removed because the "records were not kept properly". In one case in CRSP 03 the office bearers said that group money had been lost as records were not kept properly but they were holding the treasurer responsible as she collected the funds.

In case N and O, members identified that the male secretary and treasurer respectively had misappropriated funds but had not removed them from their leadership positions. The reason they gave for this was that they wanted them to pay first. In both these cases, although the individual interviewees referred to the cases as misappropriation the office bearers did not. However in CRSP 07 the group' treasurer and in CRSP 08 the assistant treasurer when interviewed individually did report these cases as misappropriation.
It is clear that office bearers have remained in position for a significant period even when the group was convinced that they had misused the group funds. This appears to be because these people were more educated than the general members and may also have been because they had strong connections with the NGOs concerned. However these instances did not appear to be seen by other members as very deliberate. As one member put it she "did not know why the office bearers behaved the way they did when they (the members) trusted them so much."

In case P it was necessary for the group to involve SAGA staff in calling for an election. The chairlady has been involved in misappropriating group funds and defaulting MGR funds since the group existing prior to the current one. However, she kept asserting to be an office bearer. First she had taken the post of chairlady, treasurer, secretary and teller. Then she retained her post as chairlady and treasurer, finally, the group members have been able to remove her from all the positions totally by taking the help of the SAGA field officer. They called the SAGA field officer to come and help them conduct an election where a new chairlady was elected, the former assistant treasurer was made the treasurer, a new secretary has been elected. They have also made her write a letter to SAGA to deduct the fund she misappropriated and defaulted from her share amount.

There have been two instances (M and P) where women office bearers have been removed from their positions but are still members of the group. However in the cases of the two male office bearers (O and N) they have been asked to return the money but are still in position. The reason given by respondents for not removing these office bearers is because they want them to pay first. This further suggests that male office bearers may exert more power in the group than women and hence be harder to remove from positions of authority.

Table 20: Misappropriation of funds

Group	Case code	Case	Action taken / resolution
CRSP 03	M	The woman Treasurer collected money every week and did not deposit in bank as required. The group learnt about this after the CRSP FO did an audit of group funds. Kshs6000 had been misappropriated. The same woman has Kshs2000 from the MGR that existed prior to this group dating back to 2000.	Early 2004, she was replaced through an election. But the amount misused has not been repaid although she has agreed to pay back.
CRSP 07	N	The present male secretary collected money and did not deposit it in bank as required. This was discovered after the CRSP FO did audit of the group. He is still the secretary and the members reported that this was because he still had to pay the money he defaulted in his loan although he had repaid the misappropriated amount. They said they would remove him after he cleared the default too.	They took him to the chief and he repaid the total amount he misappropriated but still has to clear the amount he has defaulted. He is still secretary as members want to remove him only after he repays completely - case C above.
CRSP 08	O	The present male Treasurer collected money and did not deposit in bank as required. This was discovered after the CRSP FO did an audit. The amount was Kshs15,000 which he agreed to pay by Nov 2003 but so far has repaid only Kshs1500.	He is still the treasurer. They want election but not yet. They are also talking about using the help of the local administration.
SAGA 05	P	The former chairlady misused group money. She had misappropriated funds in the original MGR, but although removed from the chair position was still kept as treasurer for some time. This appears to be because she was more educated than most members. (see also case G above).	Finally after a long time and with help from SAGA, she has been removed her from position. She has agreed to SAGA deducting money from her shares, but this has not happened yet.

A further case of misappropriation involves members of WEDI11. This group has been formed by members of another WEDI group where default was a problem and the group collapsed in 2003. In addition these members reported that the WEDI officer had encouraged the office bearers to take Kshs2000 each from the group fund for themselves. There is a policy in WEDI that office holders get a honorarium of Kshs2000-2500 at the end of the year for their services. However, in many groups members do not want to give this honorarium to the officeholders. In these cases WEDI officers have taken the money from the group fund but included that as officers savings in their passbooks. When the other members of the group found out they were asked to pay back. All except the secretary have done so. This case illustrates the influence that WEDI officers have over the groups and the fact that there is insufficient transparency and accountability in the way that model is run.

8.2.3 The effectiveness of sanctions

As indicated above, eight out of the nine groups reported nine default cases. Out of these four have been resolved – all are in SAGA groups. Three of these were resolved through SAGA deducting money from the group fund and hence precipitating action by the group against the defaulting member. These cases were also resolved by regaining some of the money through SAGA deducting from the member's shares. In all other cases the defaulters have been identified and asked to repay but the money has not been repaid.

The methods that members indicated that they used to follow up repayment are as follows:

- Members talk about "insisting" that a member pays, in one case a member said that she would ask the person to "repent" and repay
- Visiting homes and threatening to remove assets – however no actual case of asset removal was reported and many members reported that they would not go as far as doing this
- Referring the case to the local chief. This helped bring pressure to bear in two out of the three cases where he was involved. In the third case, (E) the members were not happy about the way that the chief handled it and it is clear that the chief simply calling the person had no effect.

This does imply that groups have few sanctions at their disposal. One group, SAGA 01, has gone further to ask for items to be pledged as collateral against loans. However, while this can help in follow up, in central Kenya one of the authors is aware of cases where people have become quite clever about this process and it is necessary to get the local administration involved if asset repossession is attempted. One case involved a woman shouting that the group members had come to rob her house and she was able to invoke the police against them.

Indeed, it is clear from the evidence that action to resolve the situation has only been precipitated in the cases where SAGA has deducted the money from the group's funds. Indeed up to this point, the case is not seen as default. This clearly highlights the first important point, which is that groups have only taken action against defaulters when the lender has actually done so against them. This highlights the importance of external discipline arising from the actions of the lender. It is clear that the affiliated organisations do not have a strong follow up mechanisms. The SAGA staff, both in the field and head office, have admitted that they have a poor recovery mechanism and need to improve it.

CRSP are in the classic role of an integrated development project working in an agriculturally marginal area that would tend to see enforcing repayment after a poor year as counterproductive in terms of their poverty alleviation goals. CRSP needs to consider how to address this issue. The key point here is that in both SAGA and CRSP, the funds belong to the lenders, and particularly in the case of CRSP where members are still able to access other benefits from the project, are unlikely to prioritise repayment.

WEDI is a different case in terms of repayment enforcement. In this model, the group sees it as the responsibility of WEDI to pursue defaulters, and that they are paying for this service. Indeed this is one of the key advantages in their view of such a model, precisely because it does remove this responsibility from the members themselves in terms of their need to follow up their relatives, friends and neighbours. However, the incentives in the model can become skewed as a result - since the ASCA manager may benefit unduly from the fines levied in the process and this may also lack transparency. Ultimately also the ASCA manager cannot force the member to repay if the group disagrees (since it is their funds). The administrative difficulties as well as costs of taking members to court is generally seen as something to be avoided. This means that there is ultimately a shortage of cost-effective sanctions to be used.

8.3 Conclusions

The picture of repayment delays and default that this section highlights are not surprising and are consistent with much research and experience on the topic. The incentives for members to force each other to repay are weak when these relationships are seen in the broader social context and livelihood strategies involved. As we have argued in Section 1 social relations and "negotiability" play a key role in these strategies. Moreover, it particularly highlights the fact that debts tend to be seen as open-ended and such a view is easily transferred to the organisation lending the money if it does not develop effective follow up mechanisms and sanctions.

The conclusion is that as a consequence of these more open-ended views of debt, a loan is not seen as being in default unless there is clear action to follow up by the lender, or that the group finds specific information to indicate that a member has no intention to repay, that is, is an intentional defaulter. As long as a member continues to attend the group and pay, even if in very small amounts, this is regarded as a delay rather than a default.

Second, the evidence does appear to suggest that two dimensions of social relations may be at work in default behaviour and the effectiveness of follow up: gender and education. These are factors that will be followed up in the second round of research. However, these findings do support the view that trust in leaders is inferred as a result of these social relations and that this tends to limit the suspicion with which their actions are regarded and also limit the effectiveness of the sanctions involved.

Third, it is clear that the poor repayment performance cannot be blamed solely on the groups. SAGA and CRSP both act as lenders of external funds to the members and groups. SAGA is operating to deduct group funds when default is apparent and this precipitates action on the part of the group. However, CRSP clearly takes a much more relaxed attitude to both long term delays by rescheduling the whole group's debts from one year to the next, but it does not clearly help the groups to follow up and discipline members who the groups have identified as defaulters. It seems unlikely that discipline will be instilled in groups if the organisation does not itself promote such discipline.

The responsibility for discipline is clearly for SAGA and CRSP since it is their funds. Although in the case of SAGA the funds belong to the groups through their ownership of the SACCO, discipline is not a natural result of ownership. In the case of WEDI, the relationship is different because WEDI is effectively being hired by the group to instill discipline for them, however the incentives involved in this approach are not always towards transparency and accountability on the part of the organisation towards the group. This remains to be tackled.

The immediate implications of these findings for DFS are:

1. NGOs promoting self-help groups must recognise that they have a responsibility to promote discipline in repayment and follow up. Without this their efforts would appear destined for failure and unlikely to produce sustainable organisations of any description. User-ownership (eg. SACCOs) will not of itself produce this. This is one thing that the mainstream MFIs have clearly promoted and their borrowers now understand this discipline.
2. The challenge of this in more rural and marginal agricultural areas is to be able to deliver products that will be appropriate in the sense that they can be sufficiently managed by enough members that discipline can be maintained. If loans are sufficiently small and flexible in design then discipline can be promoted without over-exposing clients to debt.
3. The portfolio management and default tool might need to address the delay and default distinction specifically. That is, members are clear that default is when someone has no intention of repaying but the consequences of delay may be less clear in terms of what happens to the system as a whole.

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