

Nuru Kenya Community Economic Development 2013 Progress Toward Impact Report

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ABSTRACT

Nuru Kenya's Community Economic Development (CED) Program aims to equip Nuru farmers with the ability to cope with mild to moderate economic shocks by providing access to savings, loans, and money management training through a rural, commitment-based savings club program. As of December 31, 2013, the Nuru Kenya CED program reached 94 percent of their membership target and is tracking at 52 percent of their savings deposits per member target, with an average 104 Kenyan Shillings (KSh) per member per month deposited. Throughout 2012 and 2013, members saved on average 2,273 KSh toward the 5,000 KSh goal, the amount designated to cope with a minor economic shock. The percentage of members taking loans is holding steady and average loan size increased in the last quarter of 2013, which may have been in response to the decrease in crop yield due to the recent drought. Groups are regularly loaning out 25 percent of their savings. Progress toward impact targets will be reviewed every quarter to track if members are saving and progressing toward the goal of 5,000 KSh in savings deposits.



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Abbreviations

CED	Community Economic Development
HH/HHs	Household/Households
KSh	Kenyan Shillings
M&E	Monitoring and Evaluation
NI	Nuru International
NK	Nuru Kenya
Q1-Q4	Quarters 1-4 in Nuru International's fiscal calendar
USD	US Dollars



Overview

Nuru's Monitoring and Evaluation (M&E) system is built to produce useful and relevant information that can contribute to key decision-making about Nuru's programs (i.e., whether to continue, replicate and/or scale an intervention). With this utilization-focused approach at the center of Nuru's M&E strategy, the M&E team works to objectively monitor and evaluate the **performance** and **impact** of Nuru's Impact Programs — Agriculture, Community Economic Development, Healthcare and Education.

In service to this M&E approach, the Nuru Kenya M&E team continuously tracks and assesses the CED program to answer the question: **What is the impact of Nuru Kenya's CED Program? More specifically, are Nuru farmers able to cope with shocks through access to savings?** This paper was co-developed by the M&E and the Community Economic Development (CED) teams to set in place the framework that will be used to address these questions. It is organized to present the program rationale, goals, and progress toward those goals.

Nuru Kenya's Community Economic Development (CED) Program

Nuru Kenya's Community Economic Development (CED) Program aims to equip Nuru farmers with the ability to cope with mild to moderate economic shocks through a rural, commitment-based savings club program. (Note: For severe shocks, such as crop failure, Nuru is planning to provide assistance by offering crop insurance in the future.) The CED program provides farmers with access to financial services in the form of savings and credit as well as money management training. Money management training provides farmers the ability to plan and budget, while savings and credit allow farmers to cope with economic shocks.

Nuru savings, loans and crop insurance will enable farmers to cope with various degrees of economic shocks. For mild shocks that occur often in rural communities, such as illness of a household member, group members can utilize their savings to pay for expenses—estimated at up to 5,000 KSh¹ (\$59 USD). When a shock of moderate degree occurs, such as death of a family member, members can rely on their savings or access group savings in the form of loans—or employ both (up to 20,000 KSh, \$235 USD). Group loans enable farmers to avoid risky coping mechanisms, such as selling crucial/productive assets or borrowing from moneylenders at high interest rates. In addition to using loans for coping with moderate shocks, loans can be used to invest in additional income generating activities for members who demonstrate entrepreneurial skills.

Money management training enables farmers to acquire basic skills in expense tracking, planning cash flows and understanding how to best use money. It also assists farmers to understand when to take a loan and how to best use the loan.

CED extends its services to farmers in remote, rural areas in a cost-effective manner by leveraging savings club groups. By using groups, CED reduces the high transaction costs and low individual transaction values characteristic of financial services in rural, low-density, dispersed populations. By working in groups,

¹ Approximately 85 Kenyan Shillings (KSh) = \$1 US Dollar

members build a sense of community; the groups serve as a forum to discuss community issues, mobilize knowledge and resources, and build social capital among group members.²

Nuru Kenya's CED program assigns one Field Officer per 150 members and one Field Manager for every four to six Field Officers. The total staff cost ratio to employ CED Field Officers and Field Managers combined is approximately 720 KSh (\$8.5 USD) per member per year.

The Integrated Nuru Model

The Nuru Kenya (NK) CED Program works exclusively with Nuru farmers and is implemented following the first growing season of the NK Agriculture Program. CED does not work with entrepreneurs—the group traditionally targeted by Micro-Finance Institutions (MFI).³ Instead, Nuru farmers are the target group whose primary source of income is from agriculture. Nuru invests in increasing farmers' primary source of income, which is farming. The NK Agriculture Program provides an input loan to farmers and extension services to enable farmers to increase crop yields. Following harvest, farmers repay their agriculture loan (95 percent repayment rate in 2013), store yields to feed their families, and potentially save money from the sale of excess yields. The CED Program does not work to create micro-businesses; instead, CED works to create realistic expectations of sustainable growth within the agricultural sector to help farmers cope with different levels of economic shocks through access to money management training, savings and loans.

As farmers increase their agricultural income, save, and learn about money management, they increase their ability to cope with shocks and also invest in healthcare and education for their households. The CED Program works to shift the behavior of members from living for today to planning for tomorrow. By increasing farmers' ability to cope with shocks, farmers can continue to progress out of poverty through sustained increased agricultural income.

The CED Member Constitution

Nuru farmers are invited to attend CED meetings every two weeks where Nuru CED staff members teach about the role of basic money management, group-based savings, and loans in coping with economic shocks. After attending a series of trainings, members organize themselves into groups and sign the membership constitution. The regulations of the financial services offered are clearly documented in the constitution to effectively foster new financial management behaviors and help the CED program to monitor members' fulfillment of their membership responsibilities.

The constitution communicates the expectations required of each group member to the other members and the responsibilities of Nuru in facilitating savings and loans through Field Officers. Each member commits to savings a minimum of 200 KSh per month (\$2.35 USD) for a minimum of six months (1,200 KSh/\$14.12 USD). This time period is established to build the habit of saving. During this time, members are only able to make withdrawals for emergencies.⁴ After six months, a member can continue saving, withdraw money

² CARE International's VSL Program in Africa: Microfinance for the Rural Poor that Works, by Allen Hugh, 2002.

³ CGAP Microfinance Gateway. Frequently Asked Questions. Retrieved 6 December 2013 from <http://www.microfinancegateway.org/p/site/m/template.rc/1.26.12263/>

⁴ NK staff identified the most common economic emergencies that occur and estimated the cost needed to cope with each of these common economic shocks. Based on their experiences, the most common economic shocks that affect rural communities are (from smallest shock to largest): minor illness, house repairs, increases in food prices, funeral expenses, crop failure, and wedding expenses. The shocks vary from mild to severe depending on the scale of the problem.

as needed, and take a loan from the group account. Groups can be formed with a minimum of four members and a maximum of 25 members. Members should be at least 18 years of age.

The CED constitution was formalized in Q2-2013 (April-June), which coincided with the completion of the financial audit of existing savings account records and the launch of the Salesforce⁵ database for tracking future group deposits, withdrawals and loans. Existing CED members who joined prior to Q2-2013 were required to agree to the membership constitution in order to continue as CED members. Their savings rates are monitored as of Q2-2013.

CED Impact Targets

The NK CED Program has established targets to achieve by December 2016 for membership numbers and for savings deposits per member.⁶

These targets are:

- **Membership:** 5,500 Nuru farmers are CED members
- **Savings Deposits:** 2,700 Nuru farmers are able to cope with minor shocks of 5,000 KSh (\$59 USD, 7 percent of Kenya 2012 GDP⁷ per capita) via savings; and among these 2,700 farmers, 844 are able to cope with moderate shocks of 20,000 KSh (\$236 USD, 27 percent of Kenya 2012 GDP per capita⁷) via access to loans.
- **Loans:** There is not a target for the size of loans; however, Nuru strives for 10 percent of targeted Nuru farmers to take loans from their group on an annual basis. Loans will be monitored for increases or decreases in the amount and frequency demanded each quarter. Also, loan outstanding as a percent of savings is targeted as 35 percent for each quarter.

How did Nuru calculate these targets?

Estimating Membership Targets

The target of 5,500 CED members is based on 50 percent of farmers targeted by the NK Agriculture Program. The NK CED Program extends services in new sublocations after the NK Agriculture harvest each year, because the harvest season coincides with increases in cash income. CED will report membership figures after Q3 (July-September) each year. Membership targets are as follows, though they may vary depending on farmer counts of the NK Agriculture Program:

⁵ www.salesforce.com

⁶ Targets are set for 2016, the date when Nuru International is set to exit the project and Nuru Kenya will aim to achieve financial sustainability.

⁷ GDP per capita of \$865 USD, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>, conversion rate of 85 KSh = 1 USD.

Table 1: CED Membership Targets

Year	CED Membership Target
2013	2,250 members
2014	3,375 members
2015	4,250 members
2016	5,500 members

Estimating Savings Deposits Targets

The CED staff identified the most common economic shocks that occur in rural communities where the program operates and estimated the cost needed to cope with each of these economic shocks. A rapid survey by CED staff suggests the most common economic shocks that a rural family in Kenya faces include: sudden commodity price fluctuations, illness or death of a family member, drought, great loss or death of livestock, and crop damage.⁸ Savings rates are measured as the foundation for farmers' abilities to cope with economic shocks.

Based on this understanding, the CED staff established the savings deposits target at 5,000 KSh. CED targets savings and loans to cover low- to moderate-economic shocks requiring a cash amount ranging from 5,000 to 20,000 KSh.

If a member saves 200 KSh per month and does not experience any shocks requiring a withdrawal, the member will have saved 5,000 KSh after 25 months, which can be used to cope with mild shocks. As of December 2016, the 3,375 members targeted to join as of July 2014 will all have been members for 25 months. The CED program expects that a majority of these members (conservatively estimated at 80 percent) will have successfully contributed 5,000 KSh in savings (80 percent*3,375 = 2,700). Therefore, the targets for December 2016 are 2,700 members with 5,000 KSh in savings deposits.

Furthermore, a group of four (assumption of average group size) will have ideally accumulated 20,000 KSh in their group account after 25 months to then be able to provide one group member at a time with a loan of 20,000 KSh. Assuming the 3,375 members as of July 2014 are in groups of four people, 844 (25 percent⁹ of 3,375) of these members would be able to access a loan of 20,000 KSh from their group.

Figure 1 (below) shows the target trend of savings deposits and group savings for a typical group size of four members. Actual savings rates will be compared to this target savings trend to measure CED progress toward impact.

⁸ Consistent with Ethiopian Rural Socioeconomic Survey, Ethiopian Central Statistical Authority and the World Bank, 2013.

⁹ 25 percent = 1:4 members. Only one member at a time in a CED group is eligible for a loan.

Figure 1: Target Individual and Group Deposits by Length of Membership



Estimating Loan Targets

Groups receive interest of 2.5 percent per month for loaning out part of their savings to a group member. The program targets 35 percent of total savings to be on loan each quarter. This is calculated as the total loan outstanding balance for all groups as of the end of the quarter divided by the total net savings for all groups as of the end of the quarter. This target was set conservatively to encourage loans to be used for coping and investment and not to promote unnecessary lending.

Additionally, the CED Program aims for 10 percent of targeted Nuru farmers to utilize CED loans each year. This is calculated as the number of loans taken during the year, divided by the number of targeted Nuru farmers that year.

Progress Toward Impact Targets¹⁰

Membership Progress

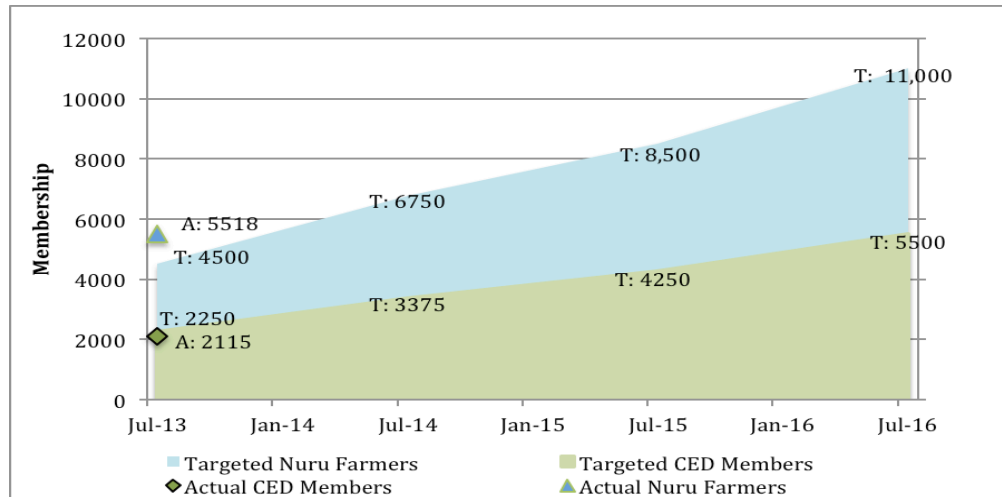
Agriculture recruits new members annually in January and harvest occurs in July-September of that same year. CED membership is reviewed at the end of September to see if they have recruited 50 percent of the targeted Nuru farmers. **As of Q3-2013¹¹, CED membership was 2,115, or 94 percent of their target of 2,250.** All 2,115 members signed the constitution in Q2 or Q3 (April-September) of 2013. Figure 2 shows

¹⁰ Nuru tracks deposits and withdrawals at the group level. Individual contributions are estimated as total group contributions divided by number of group members.

¹¹ Q1:January-March; Q2:April-June; Q3: July-September; Q4:October-December.

the targeted and actual membership trends for CED and Agriculture starting in Q2-2013 and measuring progress toward the target of 5,500 CED members in 2016..

Figure 2: Targeted and Actual Membership Counts



Savings Progress

Total savings deposits collected since 2012 indicate that CED members, on average, have saved 2,273 KSh toward the 5,000 KSh target. This is based on actual savings deposits captured in the Salesforce database between January 1, 2012 and December 31, 2013. The total deposits are then divided by 1,803, the average number of CED members in 2012 and 2013. Based on deposits in this time period, 224 members (10 percent of total current members) have met the 5,000 KSh target.

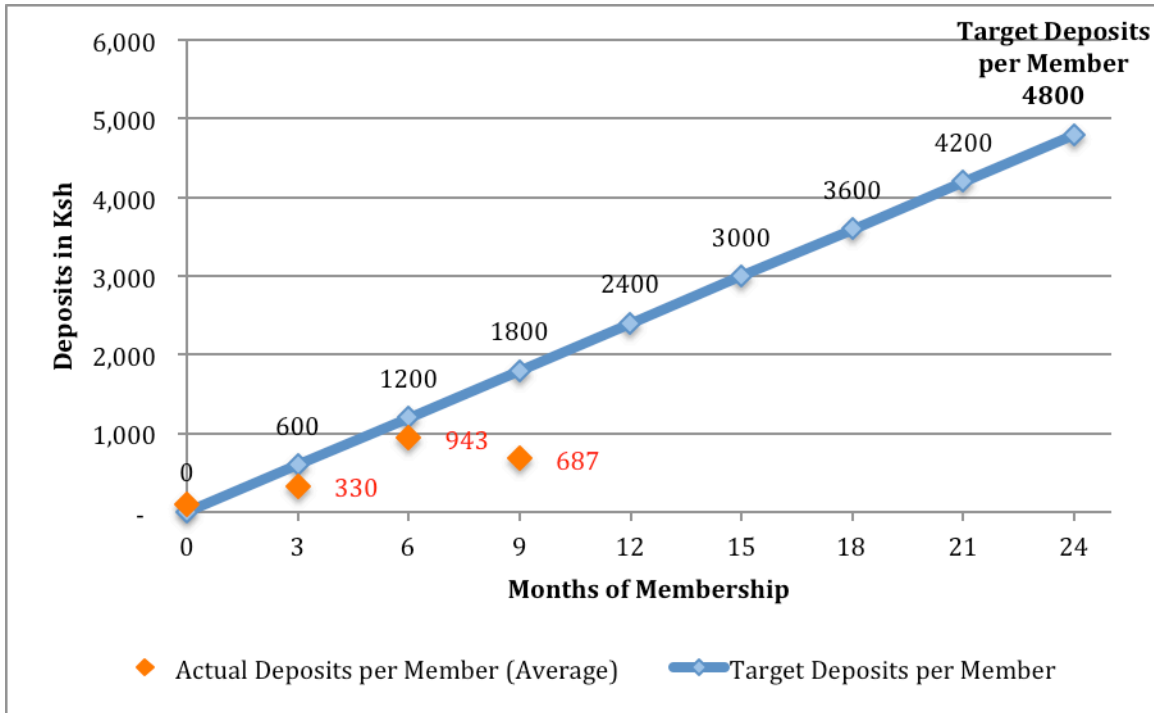
Nuru has also monitored savings deposit behavior since the implementation of the CED constitution in Q2 2013. This data indicates that the average rate of savings deposits is 104 KSh per member per month, or 52 percent of the target of 200 KSh savings per member per month. This is a two-step calculation:

1. Calculate deposits per member: total group deposits since signing the membership constitution divided by the total number of group members;
2. Convert to monthly rate: Divide step 1 by the number of months since the group signed the constitution (as of December 2013, membership length ranges from 0-9 months since March 2013 was the earliest date for signing the constitution).

In Figure 3, the target trend line (blue) is compared with actual deposits (orange) for members by the specific length of membership. This shows that if members deposit 200 KSh per month, they may progress toward the target of 5,000 KSh deposited over 25 months. For example, Figure 3 shows actual deposits at six months as 943 KSh; therefore, on average, CED members who have been saving for six months have deposited 157 KSh per month, six times. This savings rate for six months is relative to the targeted contributions of 1,200 KSh (200 KSh/month) and serves as a model to project anticipated savings behavior.

In total, 294 members (13 percent of total members) have deposited 200 KSh or more per month since joining CED and signing the constitution. However, some members save much more than 200 KSh per month. As of December 31, 2013, there are 49 members who have saved 5,000 KSh or more since Q2-2013.

Figure 3: Average Deposits per Member by Length of Membership



Withdrawals and Loans Progress

As explained earlier in the document, during the first six months of membership, members are only able to take withdrawals for emergencies. Of the 43 groups with less than six months of membership as of December 31, 2013, eight groups (19 percent) have taken an emergency withdrawal, with an average size of -393 KSh (-\$4.63 USD) withdrawn per group. For the 323 groups with 6-9 months since signing the constitution, 67 percent of groups have taken withdrawals with an average of -1,215 KSh (-\$14.30 USD) withdrawn per group member. Larger withdrawals (1,215 KSh) are possible for groups who joined prior to Q2-2013 and built large savings account balances during 2012.

Members may take loans from the group savings account to cope with larger shocks. The member who takes the loan pays interest to his or her group members at a rate of 2.5 percent per month and to Nuru at an additional 2.5 percent per month (total rate is 5 percent per month) for a duration of three months (with a six month maximum). Loans are monitored for increases or decreases in the amount and frequency demanded each quarter. The percent of members taking loans is consistent in all quarters, with the exception of Q1 where the program did not offer loans due to transitions prior to the membership constitution. Overall, 5.4 percent of targeted Nuru farmers participated in CED loans, compared with a target of 10 percent. Average loan size increased in Q4, which may have been in response to the recent drought. The average amount of savings that is on loan is 25 percent for 2013. As of Q4, **CED reached 71 percent of the loan outstanding as a percent of savings target of 35 percent.**



Table 2: CED Loan Monitoring 2013

	2013-Q1	2013-Q2	2013-Q3	2013-Q4
Number of loans issued per quarter	0	95	69	78
Amount of loans issued per quarter (KSh)	0	558,000	397,600	650,700
% of CED members taking loans per quarter	0%	4.0%	3.3%	3.5%
% of targeted Nuru farmers engaged in CED loans		2.1%	1.5%	1.7%
Average loan size per client per quarter (KSh)	0	5,874	5,762	8,342
Loans outstanding as % of savings	0%	26%	18%	31%

Conclusion

As of December 31, 2013, the CED program reached 94 percent (2,115 members) of their annual membership target of 2,250 members. The CED program also reached 52 percent of their 200 KSh savings deposits per member target at 104 KSh average savings per month. Throughout 2012 and 2013, members saved on average 2,273 toward the 5,000 KSh goal, the amount needed to cope with a minor shock. The loan outstanding as a percent of savings reached 71 percent of the target. Progress toward 2016 targets will be reviewed every quarter to track if members are saving and progressing toward 5,000 KSh in savings deposits.

The program is set to continue to scale membership to more and more Nuru farmers (with the target of 50 percent of Nuru farmers) while continuing to focus on increasing average monthly savings rates from 104 KSh to the 200 KSh with the program's existing members. Overall, 2013 has been a challenging year with the failed maize harvests throughout Kuria West District and Kenya; yet these shocks demonstrate the importance of a farmer's need to have the ability to cope with shocks.