Larger Group Size in Rwanda

ONE ACRE FUND

Farmers First

PHASE:	Research Station	50 – 500 farmers	1,000 – 20,000 farmers	Full Scale

Introduction

One Acre Fund serves farmers in a group lending model. Theoretically, there are two ways to drive up the number of clients we serve: increase the number of groups, or increase the number of clients per group.

In 2010, every field officer in our Rwanda program served about 14 groups, with an average group size of 9.3 farmers. Looking at these numbers, we theorized that groups could be more efficiently formed. The hypothesis was that it might be easier, as well as less risky, to drive up clients per group than to form brand new groups.

To make groups larger, we launched a number of different strategies over two seasons in 2011, including raising the maximum group size limit from 12 to 20 clients; offering trainings for group leaders on recruiting new members; and offering incentives for group leaders to find new members for their group, for group members to add a friend or neighbor to their group, and additional incentives for exceptionally large groups.

After initial successes, problems started to emerge, and the larger group size trial was concluded after the 2012 season.

Why It Failed

The larger group size trial was successful at accomplishing its goal. In 12 months, our program-wide average group size increased from 9.3 to 16 clients per group. However, the rise in average group size led to negative operational results:

- **We saw an increase in fraud.** One Acre Fund offered small incentives for field officers and group leaders to add members to their groups, including small amounts of cash and small credit adjustments. In an effort to pad numbers and reach specific incentive levels, a small number of field officers and group leaders created phantom clients. While this only happened on a very limited basis, at the time, One Acre Fund had fewer distribution controls to verify if particular clients actually took inputs or not. When it was clear repayment was progressing at a slower rate than usual, we sent headquarters staffers to the field to investigate. When they reported back that repayment was lagging in some cases because a small number of listed clients didn't actually exist, we immediately put together an emergency team to conduct field audits.
- **Group cohesion was comprised**. Most One Acre Fund farmer groups are made up of farmers who are neighbors, friends, or family. Under the larger group size trial, group leaders sometimes added clients to groups without full buy-in from the other group members. This contributed to a decrease in group solidarity, which in turn weakened the group lending framework.
- **Repayment rates declined.** As a result of fraud and weak groups, the Rwanda program finished 2012 repayment at 92.9 percent, which was the first time the program finished lower than 98 percent. One Acre Fund tends to budget 2 percent in non-repayment

annually. Though there isn't a precise minimum repayment threshold that we try to attain, anything less than 96 or 97 percent is undesirable. Because loan repayment is an indicator of client satisfaction as well as a method for achieving financial sustainability, 92.9 percent repayment was unacceptable from both an operational and customer service perspective.

What We Learned

The lack of success of the larger group size trial in Rwanda taught us the following lessons:

- **Good systems reduce opportunities for fraud**. We created a number of new systems and processes to better track client data, prevent and investigate fraud, and improve repayment. For example, the emergency field audit team was the first of its kind within One Acre Fund. In addition to managing annual field audit activities, the team implemented a system whereby the field operations team can submit audit requests for sites where there is suspected fraud. We also introduced client passbooks— a tool that not only allows clients to track their payments to One Acre Fund, but also helps our audit team identify fraud. We now have systems like this in place in each of our country operations to protect against creation of phantom clients.
- **There were other efficiency levers worth exploring**. We decided to focus enrollment strategies on creating new groups, and made an effort to cluster groups that were geographically close to one another. This allowed farmers to group themselves naturally, while also making it easier for field officers to service a large number of groups. Exploring ways to sustainably increase the field officer-to-farmer ratio, while still ensuring quality customer service, has become a focus of One Acre Fund's efforts to streamline field operations across all countries of operation.
- **Any increases in group size must be done incrementally**. Incentivizing a jump from 12 group members to 20 group members led to inflated numbers. In 2015, our Rwanda program served 29.5 groups per field officer, and 6.5 clients per group. For 2016, we aim to increase group size again, but incrementally (the current target is 9 clients per group). Incremental increase in group size will allow for buy-in from existing group members.
- **It is more manageable to test operational changes at a smaller scale before rolling them out country-wide**. When we trialed larger group size in Rwanda, we implemented it across the entire country operation instead of trialing it in a single operating unit. We now understand that it's important to test operational changes at a smaller scale, and we have created "Scale Innovations" departments in Kenya and Rwanda that design and implement operational trials, evaluate their results, and determine the most promising operational changes to scale up across a full country operation. For more information on our Scale Innovations work, read our white paper.