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Case Study: Toi Market Community Savings Scheme

Tags: Investment, Housing, Land. Community Savings, Markets, Case Study

Image courtesy of Hellen Masido

With around 1 billion urban residents living in informal settlements, there is an urgent need to reconsider how development is delivered. This challenge is not just mobilising sufficient finance. It requires rethinking how urban development is structured to create an investment environment where all available resources and capabilities can be mobilised. In a new in-depth study found **here**, ICED explored how community finance organisations can help to overcome barriers to private-sector involvement in the development of informal settlements. This paper sets out one of 8 case studies from the paper.

The Toi Market Savings Scheme

Toi Market is a large and vibrant trading area on the edge of the Kibera informal settlement in Nairobi. Operating since 1983, the market has expanded to occupy some 6 acres of land and has become a key supplier of fresh produce for Nairobi. As a burgeoning economic centre, the Toi Market attracted a number of microfinance institutions (MFI) who provided business loans to traders. Despite the availability of investment finance, the market saw a decline around the year 2000, with traders closing down or defaulting on MFI loans. By 2003/4, half the market had closed.

An investigation by the leaders of the market found that the operation of the MFI was undermining the viability of many of the traders and leading to poor repayment rates. The issue of loans that were much larger than actually needed by traders; high interest rates of 18 – 24 per cent; repayment amounts and timescales that were unachievable; an absence of training and support by the MFI to help traders to manage cash flow and repay loans; and use of market stalls as collateral in circumstances where traders did not have full ownership. The lack of knowledge about the operation of the market and weak of tailoring of banking processes proved damaging both for the MFI and the market traders.

To reverse the decline of the market, leaders established a daily savings scheme, based on the SDI model, to build a capital asset available to traders and develop financial products that addressed the specific conditions in Toi Market. A savings scheme was established, which generated some Ksh 50,000 (US$484) in its first 3 months, with members of the scheme allowed to save any amount above Ksh 10 (10 Cents) daily, in line with their earnings. Loan products were introduced that include business capital loans, emergency loans, a welfare fund and express loans. The latter form of loan was for one day to provide cash for traders to bargain for lower cost wholesale prices than they could have achieved on credit.

Outcomes and Lessons Learned

By 2007 the savings scheme has membership of 1,200 traders and a savings capital base of Ksh 15 million (US$145,000). The market was full and the savings scheme was actively used by members to improve business performance. The effective performance of Toi Market scheme provided a basis for commercial loans of Ksh 200,000 (US$1,937) from AMT for the construction of a sanitation bloc in the market – a loan repaid within three months. AMT additionally provided a loan of Ksh 7 million (US$67,800) for the purchase of an 80 acre plot for housing development. Toi Market savers also negotiated a credit facility of Ksh 18 million (US$174,3000) with Equity Bank to meet demand for business loans. The credit facility was unsecured, but based on the established procedures and social collateral of the membership. The 800 traders were able to access loans of up to Ksh 30,000 (US$290) to improve their business. All loans were repaid which established credit history allowing access to individual bank loans.

For more information please download the full working paper on contact the ICED Facility at iced.programming@uk.pwc.com