

Asset-Building and Investment in Kenya: Small Pilot Project and Directions

Becky Wachera Gitonga¹, Kenneth Schultz², Matthew Meyer³, and Francis Ngambi⁴

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***Summary.** An asset-based development project has been initiated in the Korogocho shantytown outside Nairobi, Kenya. The program is operated through Ecosandals Investment Limited (EIL). EIL is a joint venture of Ecosandals Kenya, a small, partially employee-owned producer of sandals produced from used tires, and Ecosandals, Inc., a US-based non-profit organization that serves as an advisory board. The central goal of this program is to enable Korogocho residents to accumulate savings and then make investments in the Nairobi Stock Exchange. Experience with Individual Development Accounts (IDAs) in the United States has informed the design of the program.*

The EIL IDA model may have the potential for applicability to small businesses in other impoverished regions. Research to document and learn from this experience is a priority.

Setting. This Individual Development Account (IDA) model is a partnership between a small business and an advisory agency. The business is Ecosandals Kenya, a small, partially employee-owned manufacturer of sandals, located in the Korogocho shantytown outside Nairobi, Kenya (see photos below). Young adults from the shantytown design and produce sandals from used tires; sales are to local and international markets. Ecosandals Kenya launched Ecosandals Investments Limited (EIL), a Kenyan limited liability corporation, which oversees and invests IDA savings. The model involves sharing of investment profits between the participants and EIL.



¹ Head of Ecosandals efforts in Kenya. Email: becky@ecosandals.com; phone: +254-722-475456.

² Co-founder of Ecosandals Kenya, an attorney with the New Jersey law firm of Skoloff & Wolfe, P.C., and a Ph.D. candidate in Social Work at Rutgers University. Email: kenny@ecosandals.com; phone: +1-201-401-7355.

³ Co-founder of Ecosandals Kenya, and an attorney with the New York-based law firm Simpson Thacher & Bartlett LLP. Email: matt@ecosandals.com; phone: +1-302-897-1579.

⁴ Banking Officer, Co-operative Bank of Kenya. Email: fngambi@co-opbank.co.ke; phone: +254-2-272-8944.

Project goals. The goals of EIL are to: (1) increase the savings rate among Ecosandals Kenya participants; (2) stabilize the funding base of Ecosandals Kenya; (3) increase sandal-makers' interest in saving, investing, and growth of wealth as a means of addressing poverty; (4) invest sandal-making proceeds in the Kenyan marketplace; and (5) engage others in building wealth among Korogocho residents.

History of pilot project. The program started in 2006. The goal of the original program was to capitalize on an initial public offering of Eveready East Africa Limited on the Nairobi Stock Exchange. A 1:1 match from Ecosandals is provided subject to an agreement that requires sandal-makers to give 50% of the profit from the sale of their shares to Ecosandals Kenya. The offering was at 9.50 Kenya Shilling (US\$0.14) per share. Most sandal-makers did not have savings to purchase the minimum 1000 shares for 9500 Kenya Shillings (US\$140). The four sandal-makers at Ecosandals Kenya each contributed 4750 Kenya Shillings (\$70), and Ecosandals, Inc. matched their contributions individually. These investments appreciated 38% in their first six weeks on the Nairobi Stock Exchange.

Project design going forward. Initially, each of the six full-time and approximately 15 part-time sandal-makers at Ecosandals Kenya will have an account with EIL and deposit up to 5000 Kenyan Shillings (about US\$75) per quarter into his or her account. At the end of each quarter, these deposits will be matched by Ecosandals, Inc., at the rate of 2:1, up to 10,000 Kenyan Shillings (US\$150) per sandal-maker. A board consisting of representatives from both sandal-makers and Ecosandals, Inc., hires an experienced investment manager. The investment manager invests EIL account savings in the Nairobi Stock Exchange and manages the accounts.

The program serves to protect sandal-makers from potential loss of stock value. In the event of a decline in stock value, the matched portion (67%) contributed by the Ecosandals, Inc., would be affected before sandal-makers could lose any money. A rule is in place that any stock losing 33% of its value must be sold, meaning that the risk of investment loss is very low for the sandal-makers.

Participants may withdraw money from their EIL accounts one year after making a deposit for investments in: (1) education, (2) real estate, (3) small business, or (4) other financial instruments. Early withdrawal results in a loss of matching funds. Money withdrawn from each sandal-maker's account is divided, with 1/3 going to EIL and 2/3 to the sandal-maker.

In conjunction with the Information Office of the Nairobi Stock Exchange, EIL offers monthly educational programs that teach personal finance and basic investment techniques. These educational sessions are mandatory for sandal-makers holding EIL accounts, and open to other Korogocho residents as the program expands.

Discussion and plans. EIL has expressed interest in expanding the IDA program methodically to the 160,000 Korogocho residents who do not work at Ecosandals Kenya.

Caveats, concerns, challenges. (1) The project is in its very early stages and the scale is quite small. Although there seems to be potential, it is not possible to predict how the project will develop. (2) Opening stock market investments to very low-income people is promising, but rapid gains in the Kenyan stock market, as in the initial pilot, will not be the norm over time. Indeed, very rapid losses may sometimes occur, and the program and participants will have to absorb these losses. (3) A challenge will be to document results of this project to inform more comprehensive strategies that reach a wider population in Kenya, especially impoverished woman and children who are left out of both economic development and social benefits.

Potential. This project has the potential to demonstrate a new model for asset building through savings and investments by employees and members of the local community. The project also may demonstrate how companies doing business in developing countries can promote development of households and communities. Whereas the privatization of economies is often an avenue for the wealthiest to extend and increase their riches, this program provides a method through which the poorest can also build wealth through private investment. While in the early stages of implementation, careful study of this initiative could lay the groundwork for policy innovations in Kenya and beyond.