

THE ROLE OF INFORMAL FINANCIAL GROUPS IN EXTENDING ACCESS IN KENYA

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The Kenya Financial Sector Deepening (FSD) programme was established in early 2005 to support the development of financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry, the programme's goal is to expand access to financial services among lower income households and smaller enterprises. It operates as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). In addition to the Government of Kenya, funders include the UK's Department for International Development (DFID), the World Bank, the Swedish International Development Agency (SIDA), Agence Française de Développement (AFD) and the Bill and Melinda Gates Foundation together with the Government of Kenya.

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Abbreviations

AMA	ASCA management agents
ASCA	Accumulating Savings and Credit Association
FO	Field Officers
GDP	Gross Domestic Product
MFI	Microfinance Institution
ROSCA	Rotating Savings and Credit Associations
SACCOS	Savings and Credit Co-operatives
WCG	Welfare/clan group

EXECUTIVE SUMMARY

This report discusses the role of informal financial groups in extending access to financial services in Kenya. The scale of informal financial groups in Kenya has long been known to be extensive but reliable data at the national level has not existed.

The report first reviews the literature on informal groups in Kenya (mostly ROSCAs and ASCAs) to highlight the key ways in which their functions and role have been analysed. The report argues that the fascination in the literature has been with their ubiquity and apparent success. The fascination in the literature with ROSCAs has arisen from a growing appreciation of their flexibility and multi-purpose, multi-dimensional role in both economic and social life. Much of the emphasis of the literature is to explain why informal groups are so popular. Main reasons why people join ROSCA and ASCAs are the ability to accumulate, household conflict and group as savings commitment device assisting in self-discipline.

The literature review further discusses a new type of informal microfinance model, ASCA groups that are managed by a private agent. This model is interesting in the sense that both the ASCA groups and the management agent are sustainable. But the section also discusses the challenges of managed ASCA groups.

Second, this report uses data from the 2006 Financial Access Survey carried out in Kenya to examine the scale, scope and nature of informal groups. This survey provides the first significant nationally representative dataset (n=4214). Logistic regression analysis and cross tabulations were used to assess the socio-economic, geographic and demographic characteristics of users.

Informal groups were classified under the following five types: Welfare/clan group (WCG); ROSCAs; Individual ASCAs; managed ASCAs; and investment clubs. Welfare/Clan Groups do not intermediate funds but provide financial support for members and their next of kin in the case of illness, death etc. Rotating Savings and Credit Associations (ROSCAs) and Accumulating Savings and Credit Associations (ASCAs) facilitate saving and lending within groups. In a ROSCA group meeting savings are collected, the whole pot is then immediately given to one member who has not yet received the pot. In the case of an ASCAs, instead of allocating the pot to someone, funds are lent to willing borrowers with interest. The interest paid on the loans will then accumulate in the group fund. Investment clubs are more recent phenomena. People come together to form a group in order to invest in property or business. Several investment groups also invest in the stock market.

Regarding the extent of use, the fact that 53% of adult Kenyans belong to at least one informal financial group, and that for 35% of the population informal groups are the only financial service that they have access to demonstrates the overall importance of informal group membership.

The fact that an estimated Kshs 60 bn (US\$ 860m) is being intermediated through informal groups on an annual basis, about 3.7% of the GDP in 2006, demonstrates the significant volume of savings.

The key reasons for belonging to informal groups extend beyond the key financial features of getting access to funds from ROSCAs and ASCAs to the fact that they enable people to obtain funds in emergencies and also provide social contact and networks.

The biggest challenge reported were members leaving the group, followed by those who reported members not paying contributions. These experiences were the most common across all types of groups. The implication of this is that there would be strong effects on cash flow within the group. The analysis has also shown that these groups face many challenges, in terms of delayed payments, management and governance of the groups, mismanagement of funds and theft.

Given their importance in overall access and the evidence of how much savings they mobilise, it is appropriate to consider how their services might be improved, especially in the light that many of these groups are not well organised. The Decentralised Financial Services project and Village Savings and Loan Association methodology have developed simple tools for groups to manage their own operations independently and more effectively. Policy should therefore consider how to further expand or support the development of these and other similar approaches.

The analysis has also demonstrated key barriers in the form of socio-demographic factors of gender, age, geographical location and education. Men are significantly less likely to use informal groups than women, young people are significantly less likely than older people and people in Western, Coast and especially North Eastern are less likely to use informal financial services compared with other provinces.

Regarding the policy responses to key barriers, policy should consider how to facilitate the access of men in these groups. The findings indicate that men's groups were better organised. If the informal groups could be strengthened through simple tools that make them more transparent and easier to operate, more men might be more willing to participate and invest bigger sums in them. Policy should also consider how to facilitate access to younger people in these groups.

Regarding the fact that people in Western, Coast and North Eastern are much more likely to be excluded even from informal groups policy priorities for financial service development – especially in the semi-formal and informal sectors – could be more regionally specific.

The level of education did not significantly affect the likelihood of belonging to a WCG or ROSCA groups suggesting that people at all levels of education are

similarly likely to use these services. However for ASCAs and investment clubs, the higher the respondent's education, the more likely he/she is a member of these groups. This implies that with higher level of education people are more likely to start using services that offer more features and increased flexibility. In the long run Universal Primary Education will facilitate the movement towards more flexible services but the current adult population with only primary completed (46% of the population) or only some primary (26% of the population) need simple financial literacy education not only on the services on the formal end but also on the informal end of the financial market.

Chapter 1

INTRODUCTION

This report discusses the role of informal financial groups in extending access to financial services in Kenya. There are several types of financial self-help groups in Kenya. This study will discuss Welfare/Clan groups (WCG), Rotating Savings and Credit Associations (ROSCAs) and Accumulating Savings and Credit Associations (ASCAs) and investment clubs first by reviewing the literature on these groups in Kenya and then analysing and discussing the FinAccess 2006 data on these groups.

WCGs do not intermediate funds but provide financial support for members and their next of kin in the case of illness, death etc. ROSCAs and ASCAs facilitate saving and lending within groups.

ROSCAs and ASCAs are similar to each other in the sense that they are both voluntary and independent groups with their own rules and no outside organisation has control over them. The central difference between ASCAs and ROSCAs is that each time a ROSCA group meets and savings are collected, the whole pot is then immediately in the same meeting redistributed to one or several members of the groups. ASCAs do not give the funds to anyone, but lend the funds to willing borrowers with interest. The interest paid on the loans will then accumulate in the group fund. At the end of the year ASCA members often divide part of the profits (from interest payment) to the members.

Running an ASCA requires more skills because some kind of book keeping is necessary, but the fact that people in Kenya use the term merry-go-round for both ROSCAs and ASCAs is an indication that in their perception these two groups are very similar. Another example of the symbiotic relationship between ASCAs and ROSCAs is the fact that numerous ASCAs have within the group one or several ROSCA groups. And while the ASCA group meets the ROSCAs also do their transactions. Thus even if the literature review discusses mostly ROSCAs, many of the findings relate also to ASCAs.

Investment clubs are more recent phenomena. People come together to form a group in order to invest in property or business. Several investment groups also invest in the stock market.

The first part of this report will review the existing literature on informal financial groups in Kenya.

1.1 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 (Ardener 1964 ; Geertz 1962) 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 Coate in the 1990s (Besley et al. 1993).

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 to 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, multi-dimensional role in both economic and social life.

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 as 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.

1.2 WEAKNESSES OF INFORMAL GROUP OPERATIONS

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 to quickly 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 further feature is that when entering the field, researchers may find many ROSCAs are relatively young e.g. 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 in Kenya 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 concludes from Western Kenya 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). However, accountants would disagree that default is minimal because in many groups a substantial part of the loan fund is in default.

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 %age lost of the amount saved in ROSCAs over the previous 12 months was 6% compared to 21% in ASCAs (Wright and Mutesasira 2001).

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.

Next we will review the literature on informal groups in Kenya. No research on WCGs, ASCAs and investment club groups was found. Most of the research is on ROSCAs. Further, two articles on what we call Managed ASCAs were identified.

1.3 THE FREQUENCY OF USE OF INFORMAL GROUPS IN KENYA

Kimunyu (1999) found that between 45–50% of the respondents in Central Kenya belonged to ROSCAs. Anderson et al found that in 57% of the households in Kibera slum at least one person belonged to a ROSCA. Similarly, Johnson (2004) found (in a small purposeful sample) that 49% of respondents in Central Kenya belonged to ROSCAs whereas 9% belonged to independent ASCAs and 6% to managed ASCAs.

Further, the data from both the Western rural and Nairobi indicate that ROSCA members were more likely to be women (Anderson et al. 2004; Gugerty 2007). Similarly Johnson (2004) found that in Central Kenya, 66% of women in the sample were ROSCA participants compared to 30% of men.

Both Anderson et al (2004) and Gugerty (2007) detected that ROSCA members were more likely to be employed permanently in the informal sector. Further, Anderson (2004) found that ROSCA members were more likely to be married, older and with primary education.

1.4. WHAT ARE THE REASONS FOR USING INFORMAL GROUPS

1.4.1 Saving-up for a lump sum

In a first attempt to theorise ROSCAs, Besley, Coate, and Loury (1993) suggested that members join ROSCAs because they wish to buy an indivisible durable good. According to this theory the advantage of saving together is that everybody except the last person will have saved-up the lump sum quicker compared to a situation where they would save alone. Anderson et al (2004) explain this by ‘early pot motive’. Everybody in the group is impatient and is hoping to get the pot or the lump sum early during the cycle.

Anderson and Baland (2002) and Anderson, Baland and Moene (2004) claim that their findings from the slums of Nairobi support the hypothesis that members are interested in saving towards an indivisible good. Anderson et al find that in Kibera slums ROSCA members mostly save for indivisible goods like school fees, rent and clothing.

1.4.2 Commitment mechanisms

Lately research has analysed the commitment aspects of ROSCAs. Under the commitment mechanisms two explanations have been put forward, the household conflict and self-commitment explanations.

i. *Household conflict committing to saving in ROSCA*

According to the first explanation, with conflicts within the household, a ROSCA is a device through which women can commit the household to save more than what the husband would like. Based on the data from Kibera in Nairobi, Anderson and Baland (2002) show that men prefer immediate consumption to saving. However, even if the husband prefers consumption, he will not force the wife to withdraw from the ROSCA because they both are aware of the social sanctions that the ROSCA would put on the household if the wife withdraws. When the wife has received her pot (the lump sum from the ROSCA) the husband is usually willing to allow her to purchase the goods towards which she has been saving if she has enough bargaining power within the household.

ii. *ROSCA as savings commitment device assisting self-discipline*

Gugerty (2007) claims that the main reason for women joining ROSCAs is a perceived self-discipline problem. Gugerty (2007) counters the indivisibility and household conflict arguments as reasons for joining the ROSCAs. Based on the data from rural areas in Western Province in Kenya she shows that it is not uncommon to use the pot for various different purposes. According to Gugerty even the most common uses of the lump sum are divisible, e.g. school fees can often be paid in several instalments. Also food doesn't have to be bought in bulk even if buying in bulk might be cheaper. Neither does Gugerty find evidence for the early pot theory in that participants would be impatient to receive their pot early during the cycle.

Gugerty (2007) claims that the Western Province data does not support the household conflict hypothesis as the main explanatory factor either. She reports that 41% of the respondents receive funds from their husbands that they invest in the ROSCA. Further, almost half of the respondents gave part of the money from the pot to their husbands.¹ When asked 'What was the most important reason for joining the ROSCA', 38% of the respondents reported that it was not possible to save at home 'because the money got used up in small household needs'. Another 21% told that they can't save alone and got 'strength to save from sitting with others. Only 8% told that they can't save at home because the family/husband will use money.

Gugerty concludes that the data from Western Kenya fits best with the argument that individuals for self-control purposes need ROSCAs in order to

save. Nevertheless she admits that the fact that ROSCAs provides illiquidity for savings can at times also be an argument for other explanations like safe savings, acquisition of an indivisible good or household conflict arguments. In addition to what Gugerty concludes, it can be argued that even within the same location people can have different reasons for belonging to informal groups like ROSCAs and ASCAs.

1.4.3 ROSCA design and norms

Johnson (2004) demonstrates why ROSCAs are used mainly by women. She shows that women's income streams in Central Kenya are smaller than those of men but constant. Men received bigger, but less regular lump sums. Thus women's income streams were better suited for saving in ROSCAs. Another explanation why men were not able to make use of the ROSCA device was the fact that they were responsible for buying agricultural inputs and school fees. Inputs and school fees have to be paid at certain times of the year. ROSCAs were not very useful for these purposes because members can get their pots anytime of the year and not necessarily when they need it. The last reason why women use ROSCAs more than men are the informal sanctions that are used against non-performers. Both the interviewed men and women claim that the informal sanctions of naming and shaming or visiting the members homestead if he/she has not paid, are much more effective towards women than men (Johnson 2004).

Johnson also emphasises the social importance of groups for women. She quotes a Kikuyu man: 'To a woman a gitati (group) is her lifestyle, it's her way of life. . . a woman is not woman until she is in a gitati'. In a group young women also get advice from older women. Thus both in terms of identity and more practical issues the group makes a woman into a woman (Johnson 2004).

1.4.4 Negotiability

An additional feature that explains the popularity of user owned financial intermediaries (SACCOs, ASCAs and ROSCAs) is the negotiability of the contract if the member does not have savings or if there is an emergency. Johnson (2005) reports on cases from Central Kenya where ROSCAs were willing to renegotiate the order of the pot if someone was in urgent need of the lump sum. In other occasions two members would swap their place in the ROSCA so that the member in more urgent need would get the lump sum. Also groups often collect extra funds from the group members to a person in need, especially when there was a death in the family (Johnson 2005). Thus, even if formally bidding ROSCAs have not been found in Kenya, some ROSCAs seem through this negotiability to have a social safety net element.

1.5 PERFORMANCE AND STRUCTURE OF INFORMAL GROUPS

In her Western Kenya sample, Gugerty identified three different mechanisms for allocating the lump sum:

¹ Ardener 1995 reports similar finding from other African countries.

1. Random draw before the new ROSCA round (42%).
2. Negotiated order before the new ROSCA round (21%).
3. Pre-existing order from previous rounds (34%) (Gugerty 2007).

Anderson (2004) found in the Kibera sample that 21% of the ROSCAs had a random draw before the new round and 79% had a pre-existing order. Thus, in both of the samples members knew before the new round of ROSCA started when they will get their lump sum indicating that early pot motive might not be the main reason for joining ROSCAs.

Anderson (2004) found that ROSCA groups faced two main problems. Members either did not pay their contributions regularly or they stopped contributing after they had received their lump sum of money. A respondent emphasized: “the usual form of cheating is for a new member to come to a merry-go-round (the local name for a ROSCA), and ask for number 1 or 2 because they have an emergency... And then, they stop contributing. (...) There are many cheaters like that, about half of the population!” (Anderson 2004). Anderson concludes that enforcement was a major issue in many of the groups. However, another important finding was that groups didn’t only use social pressure to enforce contribution. Anderson et al claim that groups that expect contribution problems are also reforming the structure of the ROSCA to cope better with less trustworthy clients or that the structure of ROSCAs for trustworthy clients is different from ROSCAs for less trustworthy clients.

In order to show that this is the case, Anderson (2004) categorised ROSCAs based on whether the ROSCA had elected leaders and whether it had a written constitution. If it had both the ROSCA was “fully formalised”. If it had either elected leaders or written rules, it had ‘some formalisation’ and if it had neither rules nor elected leaders, it categorised it as ‘non-formal’. Anderson et al (2004) suggest that formal employment, higher incomes, owning a dwelling and previous participation in ROSCAs are indicators of an individual’s ‘trustworthiness’.

Anderson found that the participants with these characteristics belonged to ROSCAs with random draws and least formal structure (i.e. no elected leaders and no written constitution). Anderson then asks why is it that trustworthy members prefer random draws and no formal structure in their groups. Part of the reason was that in these same groups the contributions and the pots were higher than in other groups. Further, since they knew and trusted each other, they didn’t feel that formal structures were necessary. However, these less formal ROSCAs also have more conflicts than the more formal ROSCAs, because the loose structure allows more negotiations e.g. on who should get the pot when.

This means that the least reliable individuals in Kibera are in ROSCAs with more formal structures and with pre-determined order. Further, the least reliable members and new members get slots towards the end of the cycle (Anderson

et al 2004). Because the order is pre-determined there might be less space for negotiability in these groups.

An interesting finding from Kibera was that 63% of the Kikuyu ethnic group participants belonged to random ROSCAs with little formalization (‘the trustworthy clients’), whereas 85% of Luhya and Luo ROSCAs belonged to the other extreme with pre-existing order and high formalisation (‘least trustworthy’). Kamba and Kisii participants were in the middle, 65% belonging to ROSCA with pre-existing order and high formalisation. Anderson (2004) attributes the fact that Kikuyus have less formal structures to sustain their ROSCAs to Kikuyus ‘more cohesive social bond’. According to Anderson the social bond has developed because Kikuyus have been a target for ethnic violence. We suspect that this argument would be highly contested and there are other possible explanations.

1.6 ASCA GROUPS AND ASCA MANAGEMENT AGENTS (AMAS)²

ASCA management agents are a new type of microfinance model that has been operating initially in Central Province since late 1990s but more recently also in Rift Valley and Eastern Province. As table 1 indicates, the model is serving a substantial number of ASCA members. What makes the model interesting is that it grew out of the withdrawal of donor funds from Partnership for Productivity, a local NGO which consequently needed to sustain itself. With assistance from the ASCA management agent (AMA), the members form a group. Quite often pre-existing groups join an AMA. The AMA trains the group on how the groups are supposed to operate. The key features on how the groups have been found to operate are the following:

- From the first meeting onwards each member saves a minimum monthly amount of Kshs 100. Members are allowed to save more if they wish. . After 2-3 meetings the group fund is big enough for the first loan product, one month short term loans with 10% interest rate, to be introduced.
- Short term loans are for one month but can also be rolled over for up to three months. If loans are rolled over, for the first 2 months only interest is paid and interest and principal are paid on the third month. Members are entitled to short term loans of up to two times their savings. Short term loans carry an interest of 10% flat in a month.
- When the group fund has grown sufficiently, the second loan product, long term loans is offered. Long term loans are for 15 to 24 months at 15 to 24% flat per annum. Members are entitled to long term loans of up to three times their savings. In addition to these two main loan products several management agents have introduced a voluntary fixed deposit Education booster fund. The majority of management agents have also introduced an insurance fund – a small compulsory monthly contribution

² This section draws from Malkamäki 2008.

to offset defaults. Further, in the majority of groups members have also decided to make contributions for group welfare fund (sickness, death, weddings etc).

- Although the short term loan interest rates appear high, the ASCA loan interest rates are lower than in MFIs. This is because ASCA members receive substantial dividends or bonuses at the end of the year. Roughly 25% of the group's income is distributed to members based on their savings contributions. The rest of the group income is left in the group fund.
- Another bonus, 'an advance bonus' is paid to the members who have repaid their short term loans in time. Advance bonus is 20% of the short term loan interest paid by the member. The purpose of the advance bonus is to reward those members that are contributing most to the increase of the group fund. This bonus is added to members' savings. (Malkamäki 2008).

What then is the role of ASCA management agents (AMA) while dealing with the groups? AMA officers meet each group once in a month. During these meetings, especially with new groups, the Field Officers (FOs) role is to explain how the system operates and the rules and regulations that AMA expects the groups to follow. The FO also co-chairs the meeting with the group's chairperson. The FO also records financial transactions into group accounting form that is kept in the AMA office.

In addition to managing group meetings the FO's role is also to resolve conflicts and deal with defaulters. If a group member is in default, the FO will first send group members to find out the reason for non-payment. If this doesn't help, the FO will visit the member. If the reasons for non-payment are acceptable for the group (e.g. sickness) the loan repayment terms can be renegotiated. If this doesn't help the AMA will send a demand letter inviting the defaulter to the AMA office. However legally the AMA is in a weak position, since the defaulted funds do not belong to the AMA but to the group. The AMAs' position is further complicated because usually the AMA and the group do not have a formal agreement that allows the AMA to take action on behalf of the group.

The FO receives a fee at each meeting from the group. The fee for one meeting is 1% of the revolving fund. The majority of AMAs are owned and managed by one person while two AMAs are NGOs. The organisational structure is very flat. In addition to the owner-manager the rest of the staff are field officers. Malkamäki found clients of Managed ASCAs members were fairly evenly distributed among all income deciles, meaning that both the wealthiest and poorest members of the communities find the ASCA services useful. But large income differences between ASCA members are not only within the sample but also within most of the groups. On average in each group the highest household in term of expenditure was 5 deciles higher than the lowest member household. Another interesting finding in the sample was that two thirds of the ASCA members received their main income from farming (Malkamäki 2008).

Table 1: Approximate numbers of group members in groups that are managed by management agents

Year	Number of members
December 1999	17,358
July 2001	29,205
December 2007	56,000

Source for estimates: Johnson et. al (2002) for 1999 and 2001; DFS for 2007.

1.6.1 Why do members like managed ASCA groups?

Members like the monthly repayments. They prefer monthly repayments to weekly repayments that are common in MFIs. Members also like the flexible savings. Savings can be withdrawn at any time with notice – and for small amounts without notice.

Flexible loan products are also liked, especially that the repayment of the principal can be rolled over if necessary. In this respect the members prefer the ASCA products to ROSCA products where the member receives the lump sum at a certain time regardless of whether she needs it at that time. Members value the ability to re-negotiate the loan terms. Renegotiating loan terms with banks and MFIs is normally very difficult. Members also value the financial return that they receive in the form of bonuses from the group. In ASCA groups the interest rates that members pay all stay in the group and are partially repaid back to the members in the form of bonuses. The retained accumulated interest also increases the size of the loan fund enabling the members to take bigger loans. However, the model has several challenges.

1.6.2 Challenges of Managed ASCA groups

One of the challenges is that a few powerful community members can take advantage of the weak systems; they can quickly set up a group, collect funds from other members, take a big loan themselves and default. Another challenge is that AMAs can't deliver what they have promised. AMAs promise to provide book-keeping services and oversight of the group operations including the follow-up of the defaulters. However, in most of the cases AMAs do not have the time and resources to systematically follow-up the defaulters. Johnson et al (2002) further claim that the fact that the fund is owned by the group but that the defaulters are chased by the AMA creates a principal-agent-problem. AMAs are entitled to 1% of the group fund in a month. By paying this fee the group assumes that the AMA is also dealing effectively with defaulters. However, the group is in most of the cases not in a position to effectively monitor how well the FOs deals with defaulters. This is because in most of the groups many people are illiterate and even for literate people understanding the financial status of the group from the bookkeeping records is often difficult. Often only one person in the groups, the secretary, understands the book-keeping, in many cases even not her, since she may only be copying what the FO does.

Chapter 2

THE USE OF INFORMAL GROUPS

This section discusses the use of informal groups based on the data from the Financial Access 2006 Survey.³ As indicated above, ROSCAs are the most used of any financial service and the informally included access strand represents the largest proportion of the population at 35.2%. It is important therefore to understand in greater depth the operation of these groups. Respondents were asked in a separate section of the questionnaire whether they belonged to any type of informal societies or group saving schemes, allowing them to report up to three informal groups which were classified under the following five types: Welfare/clan group (WCG); ROSCAs; Individual ASCAs; managed ASCAs; and investment clubs.

37.5% of the overall sample reported belonging to at least one group: Of these 29.7% had only one group, 6.0% reported having two groups and 1.8% reported having 3 groups.

The questions included in the survey covered reasons for using the groups, contributions, the extent to which groups used means such as meetings, constitutions etc to organise their operations and asked people about their experience of using the groups. We review each of these areas in turn.

2.1 MEMBERSHIP

Figure 1 shows that ROSCAs are the most widely used informal group in Kenya (28.3%)⁴, meaning that close to 5 million adults are members of at least one ROSCA group. Table 3 indicates that in terms of popularity ROSCAs are followed by WCG (9.1%), independent ASCAs (4.8%), investment clubs (3%) and managed ASCAs (1.0%). However, it should be noted that the enumerators at times had difficulties in placing a particular group in the right category, partly because one group can have many functions, e.g. within an ASCA group there can be several ROSCAs (see Annex 1. for triangulation of group classification).

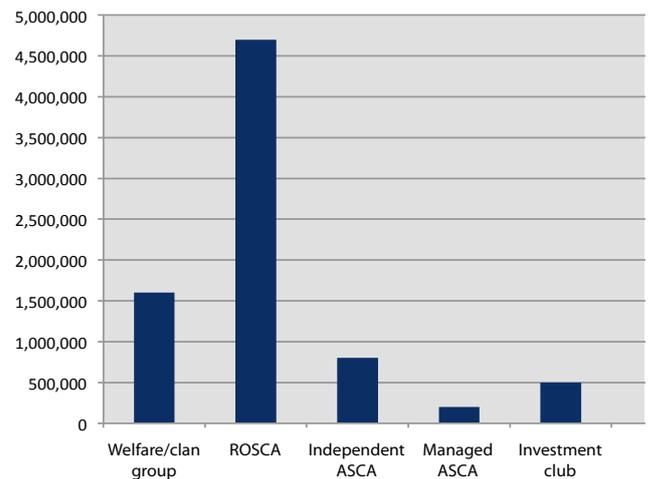
2.1.1 ROSCAs

In geographical terms, more rural people belong to ROSCAs (28.9%) compared to urban people (19.9%). The highest proportions using them are in Nyanza, Central, Eastern and Western. Roughly one third of the adult population in these four provinces are members of a ROSCA. Rift Valley is below the mean proportion and Coast and Nairobi are approximately one half the levels of the regions where they are the most used, whereas in North Eastern only 0.2% of the population use ROSCAs. This indicates that ROSCAs are not filling the gap left by more formal services in Coast and North Eastern in particular.

³ The 2006 FinAccess was the first nationally representative survey on financial access in Kenya. The sample size was 4,420, big enough to have reliable estimates at the provincial level. The objective of the survey was to measure access to financial services (formal, semi-formal and informal). The results in this report are based on weighted data.

⁴ This figure is based on question A1. Here, however, a lower figure of 26.7% is used, which is based on question E2. The lower figure in section E was likely either because of lower response rate to this section of the questionnaire covering groups, or there might have been some misclassification of groups in earlier questions compared to the more detailed specific questions about informal groups.

Figure 1: The popularity of informal groups in numbers



One third of all women (33.3%) belong to ROSCAs whereas around 20% of all men belong to ROSCAs.

Figure 2⁵ uses results from regression analysis which examine the relative likelihood that individuals with particular socio-economic characteristics use ROSCAs relative to those in a base category, holding all other factors constant. So it shows that women are more than two times more likely than men (who are in this case the base category) to use ROSCAs once many other factors such as education, age, location, marital status and so have been controlled for. In terms of age those who are 22-44 are significantly more likely to use ROSCAs by a factor of 1.3 compared to 18-24 year olds, but older people above 44 are less likely to belong to a ROSCA than 18-24 year olds. Detailed regression results are presented in Annex 2. This is an interesting result since in the literature review several authors suggested that ROSCAs are more popular among older people.

Respondents running their own businesses are significantly more likely to be in a ROSCA by a factor of 1.3 compared with those in the base category, in this case those whose main income source is selling produce from farms, livestock and fishing (henceforth farmers). However, respondents employed in domestic chores and those dependent on pensions/transfers are (significantly and) two times less likely to be in a ROSCA than the farmers. Overall, ROSCAs seem to be popular across most income sources, even among government and private sector employees who are almost as likely to use ROSCAs as farmers, even though many of the former group have access to formal financial services.

Education did not have a significant influence on whether the person belongs to a ROSCA. This is interesting since we would have expected that better

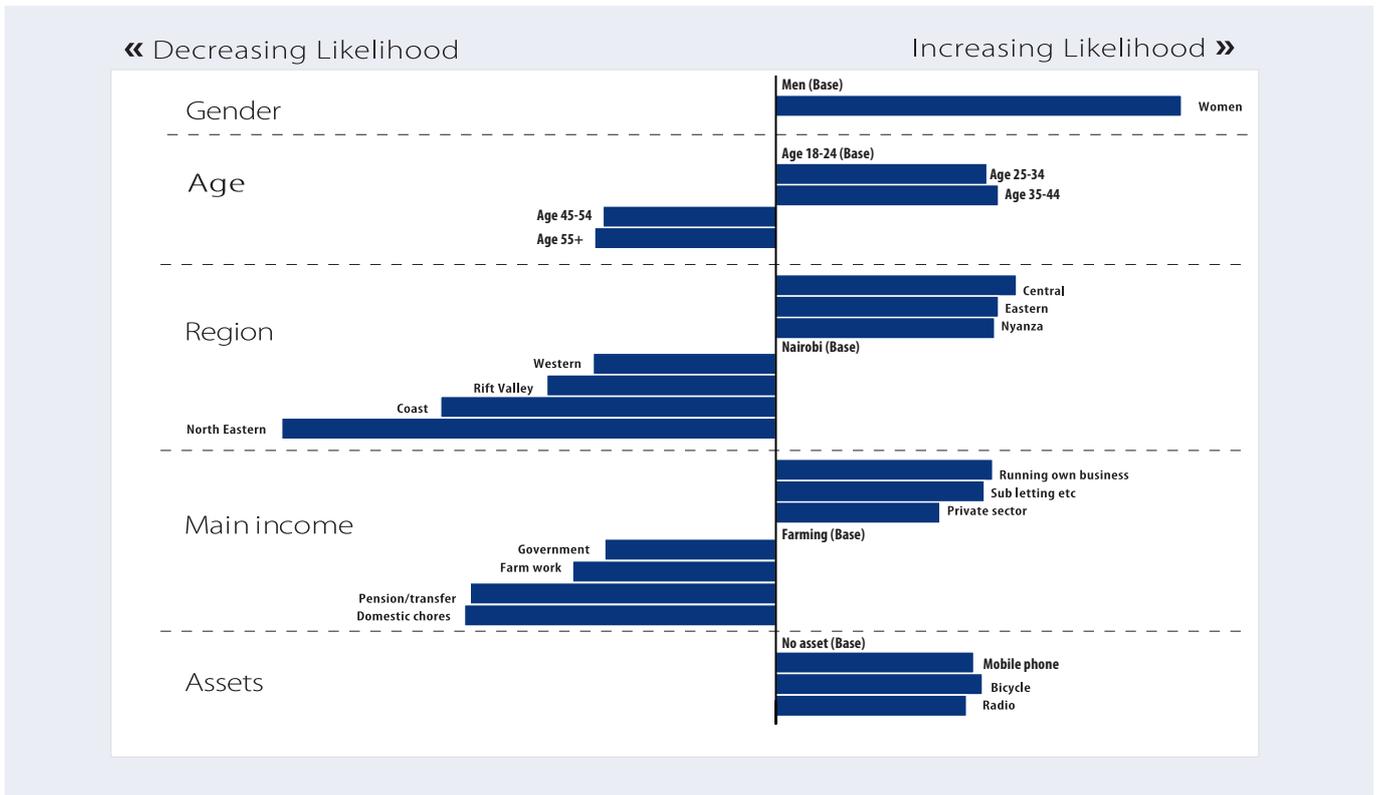
⁵ The regression results are summarised into charts for ease of presentation. The charts do not contain scales on the right hand axis because the odds ratios that the regressions produce had to be manipulated to be presented in this way.

Table 2: Membership in informal groups

(18+ years old)	N	%	Welfare/Clan group	ROSCA	Independent ASCA	Managed ASCA	Investment club
Overall	4,214	100	9.1	26.7	4.8	1.0	3.0
Location			***	***	*		
Rural	2,864	75.3	10.5	28.9	5.3	1.1	3.3
Urban	1,350	24.7	4.9	19.9	3.2	0.6	1.8
Gender				***	*		**
Men	1,847	48.2	8.7	19.7	4.0	0.9	3.9
Women	2,367	51.8	9.6	33.3	5.4	1.0	2.1
Age			***	***	***		**
18-24	897	21.2	5.4	22.6	2.4	0.4	1.7
25-34	1,257	29.6	8.3	28.5	4.4	0.8	2.2
35-44	876	20.2	8.4	30.7	7.2	1.4	3.5
45-54	544	13.3	11.9	25.4	6.0	1.9	4.6
55+	640	15.6	14.4	24.9	4.3	0.8	4.1
Education				***			
No formal education	766	17.1	7.6	18.4	1.5	0.3	2.3
Primary	1,901	46.0	10.9	29.9	5.2	1.1	2.7
Secondary+	1,531	36.6	7.6	26.3	5.7	1.1	3.6
Region			***	***	***		
Nairobi	419	10.8	5.2	17.2	4.7	0.3	0.7
Central	554	12.8	20.8	33.1	9.5	1.6	7.0
Coast	344	9.3	0.5	15.7	1.1	0.3	1.1
Eastern	667	15.8	19.2	32.4	3.0	0.2	3.2
North Eastern	130	3.4	0.0	0.2	0.0	0.0	0.0
Nyanza	675	14.1	11.6	35.9	6.7	1.8	3.7
Rift Valley	994	23.5	3.4	23.9	4.1	1.1	2.8
Western	431	10.4	4.0	32.4	5.3	1.2	2.1
Frequency of family without enough food to eat							
Often	541	12.8	16.7	23.2	2.3	0.9	2.0
Sometimes	1,475	35.9	7.7	26.6	4.1	1.2	2.0
Rarely	831	20.2	10.2	27.7	5.9	0.7	3.3
Never	1,358	30.9	7.0	27.7	5.7	0.9	4.3

*, ** and *** significance at the 0.05, 0.01 and 0.001 level respectively. Chi-square was calculated on un-weighted data.

Figure 2: ROSCAs – socio-economic factors influencing use



Odd ratio numbers for ROSCAs, ASCAs and WCGs supplied in Annex 2.

educated people would use ROSCAs less because they might be able to access more formal financial services.

Owning a radio, bicycle or mobile phone all significantly increase the likelihood of using a ROSCA compared to not having these assets. When it comes to marital status, being single also significantly reduces the likelihood of being in a ROSCA by a factor of 1.5.

2.1.2 Welfare and Clan groups

Welfare/clan groups (WCG) are important means of pooling savings together to assist members in different events such as sickness, funerals, and purchases of household goods. Table 2 shows that almost 10% of the adult population are members of WCGs. The proportion of the rural population (10.5%) using WCGs is more than double that of the urban population (4.9%). The highest proportions using them are in Central and Eastern followed by Nyanza and the lowest use in Coast and North Eastern, although it is interesting to see that in this case use in Nairobi is higher than in Rift Valley and Western. Figure 2 shows that those in Central Province are 3.5 times more likely to be in WCGs and those in Nyanza 2.3 times more likely than those in Nairobi. Respondents on the Coast are 5.5 times less likely to be in WCGs compared to those in Nairobi. In Western people are 2.5 times less likely to be in WCGs compared to Nairobi.

Interestingly, neither gender nor education is significantly associated with WCG membership, suggesting that both men and women with any level of education are similarly likely to use these services. Nonetheless, findings revealed that age is significantly associated: with significantly higher likelihoods that those 55 and over belong to WCGs. These findings may be explained by a number of factors. The fact that the kinship networks in which clan groups are based are more vibrant in villages. Further that older people may value these groups more as a means of sustaining clan traditions; moreover younger people are often not eligible to join such groups until they have established households of their own.

Results indicate that as age increases, the proportion of people using WCGs also increases; only 5.4 % of those who are 18-24 belong to WCGs, but 14.4 % of those aged 55+. Figure 2 indicates that over 55 year olds are almost twice as likely to use WCGs compared to those aged 18-24.

Food security may be a key explanatory factor on the use of WCGs: people who 'often' do not have enough food to eat are almost three times as likely to belong to a WCG compared to those who never suffer from food shortages.

Source of income did not significantly affect the membership in WCGs, except for respondents whose main source of income was from private business, in

which case they were 1.5 times less likely to be in a WCG. Single respondents were 1.6 times less likely to belong to a WCG than a married respondent.

2.1.3 ASCAs

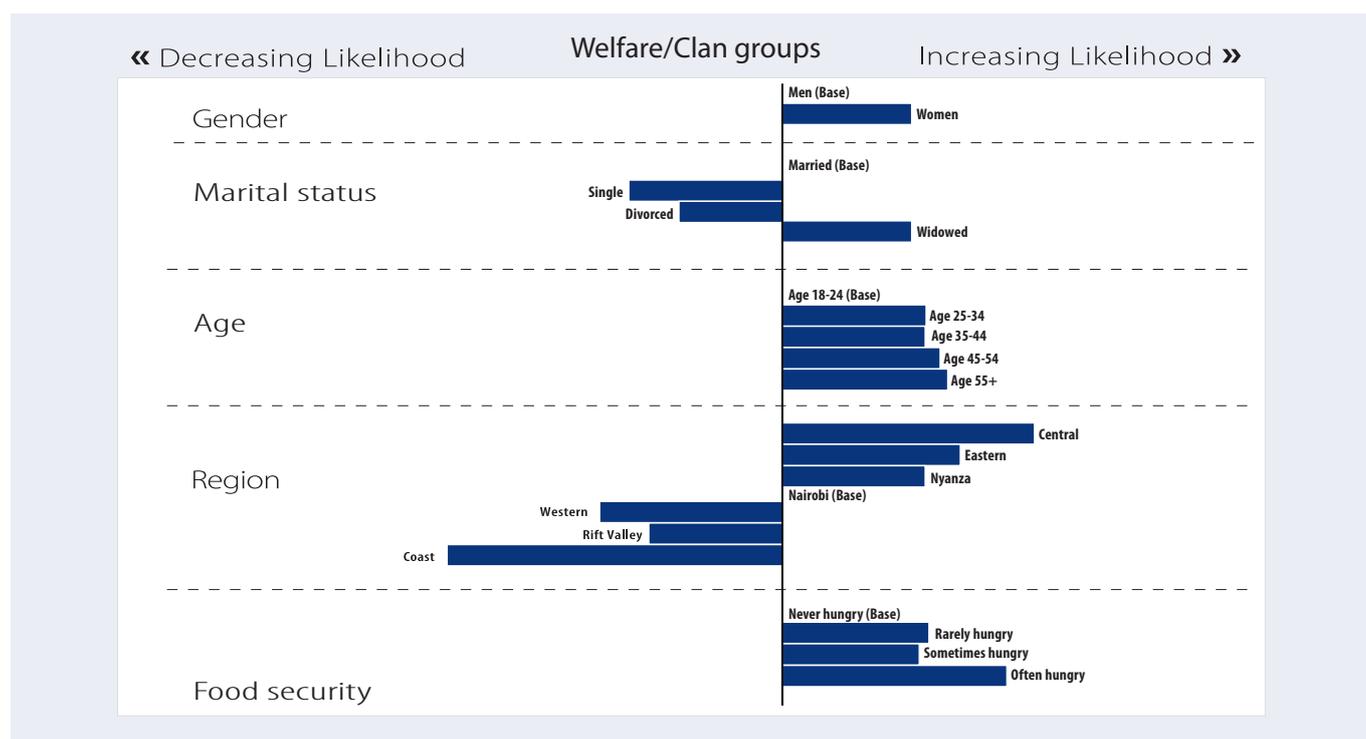
Table 3 shows that of the 4.8% using ASCAs, a bigger share are rural people (5.4%) than urban (3.9%). In terms of absolute numbers the difference is high since 75% of the population are rural. Again highest use is in Central region followed by Nyanza, but in terms of member numbers Rift Valley is also contributing 20% of all ASCA members. Figure 4 indicates that people in Central Provinces are 3.5 times more likely to save in an ASCA and in Nyanza two times more likely to save compared to people from Nairobi. However, it is interesting to see that the ordering is a little different for these compared with WCGs as in this case Western is above the overall mean of 4.8% while Rift Valley and Nairobi are only just below it.⁶

Similarly, the difference of gender in joining individual ASCAs is very slim and not significant: 5.4 % of women compared to 4.0 % of men. Figure 4 indicates that women are one and a half times more likely to save in an ASCA than men (still a significant difference). The likelihood of men being in an ASCA is somewhat higher than them being in a ROSCA.

In terms of age, similar to ROSCAs, the proportion of people using individual ASCAs increases from those aged 18-24 (2.4%) to 35-44 years old (7.2%), and then drops to 4.3 % in the 55+ age category. Those aged 35-44 years old are almost 2.5 times more likely to use ASCAs compared to those aged 18-24; those in the age brackets 25-34 and 45-54 are twice more likely to use ASCAs compared to those aged 18-24. This concentration in middle age groups, may also reflect periods of greatest economic activity over the life-cycle. It is interestingly comparable to the fact that the mean age of members in microfinance schemes also tends to be in the mid-30s. Education has a significant impact on likelihood of being a member in an ASCA where it had no effect on the likelihood of ROSCA membership. Those with primary education are twice as likely to be in an ASCA than those with no education and those with secondary education and above are over 2.5 times more likely to be in an ASCA compared to those not formally educated. This may relate to the greater complexity of their operation compared to ROSCAs, and the recognition by those who are better educated of how to organise and use these to meet their financial service needs.

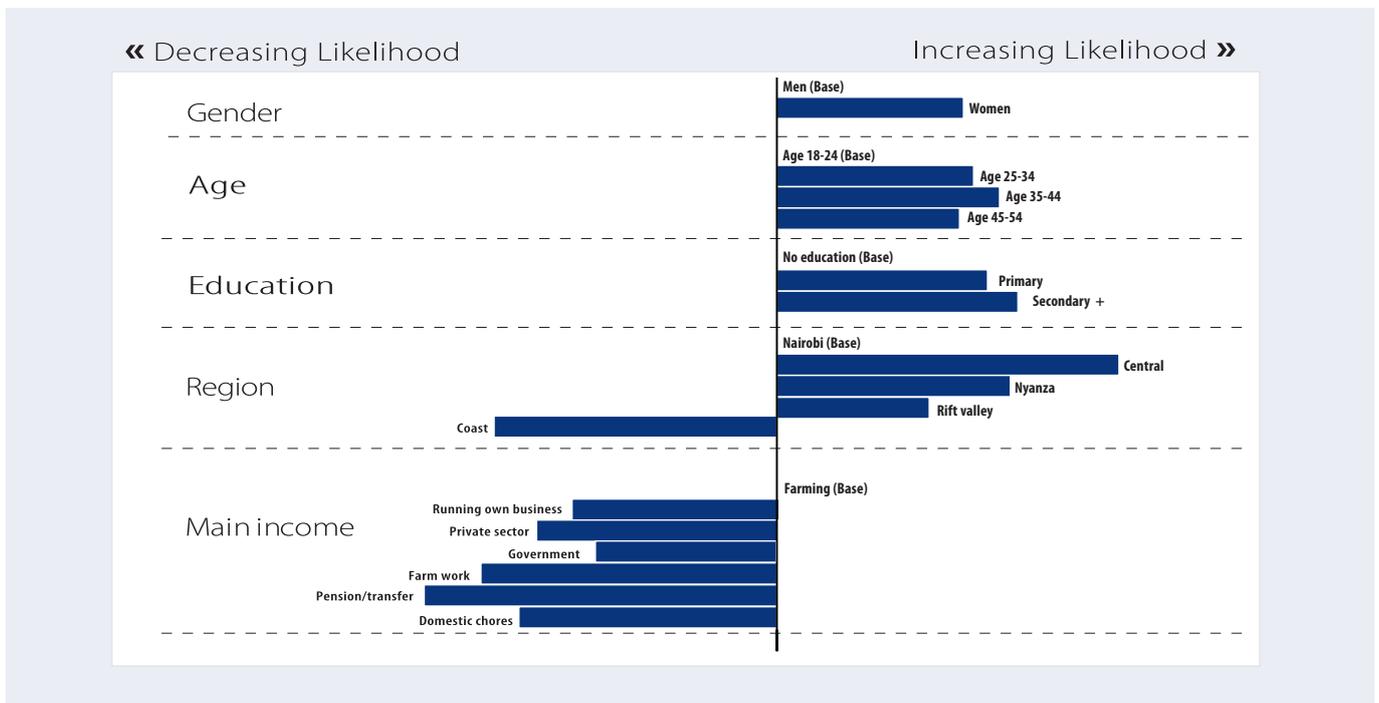
Source of income significantly affects the use of ASCA services. Those depending on pension and transfers are 3 times less likely to be in an ASCA compared to those whose main income comes from farming (or fishing). People employed

Figure 3: WCGs – socio-economic factors influencing use



⁶ Catholic Relief Service is about to start a big VSLA project on the Coast, and a few other provinces. It could be interesting to compare the costs of setting up groups on the Coast where only few groups exist vs. other areas where ASCAs are currently more popular.

Figure 4: ASCAs – socio-economic factors influencing use



on other people’s farms are 2.5 times less likely and respondents who are domestic workers are 2 times less likely to be in an ASCA compared to farmers. Not surprisingly, people working for the government and for the private sector are also less likely to be ASCA members compared to the farmers by the factor of 1.32 and 2.00 respectively. Thus we can conclude that ASCA groups seem to be most popular among the respondents who receive their main income from farming.

Household assets were used in the analysis as proxy indicators for poverty. A person owning a car was almost twice as likely to be in an ASCA than those without, and owning a radio increases the likelihood of being in an ASCA by almost three times; while owning a mobile phone increased the likelihood of being in an ASCA by a factor of 1.6. This also suggests that ASCAs are more likely to be used by those who are wealthier.

Further, not surprisingly, people who ‘often’ go without enough food to eat are twice less likely to be members in an ASCA group compared to those who never suffer from food insecurity.

2.1.4 Investment clubs

Of the 3% using investment clubs, the urban-rural split was not significant nor was the regional split although similar patterns of the ranking of prevalence across regions are apparent as for other groups, even though the proportion of investment clubs in Nairobi was surprisingly low. Significantly proportionally more men (3.8%) than women (2.3%) use them. As we might expect, as

age increases, the proportion of people belonging to investment clubs also increases, except for those aged 55+. Level of education was not significantly associated with investment clubs membership.

The highest proportions of Managed ASCAs were in Nyanza, followed by Central Province. For managed ASCAs (1.0%) the proportion of people using them was too small for significance testing to establish clear patterns of membership by socio-economic category.

2.2. HOUSEHOLD POSSESSIONS AND HOUSING CHARACTERISTICS

In the survey asset ownership and housing conditions were used as proxy for wealth. In table 4 the household possessions of WCG, ROSCA and ASCA members are compared with those of SACCO members as well as with bank account holders.

Bank account holders are most likely to own a TV set (66%) and a mobile phone (72%), refrigerator (17%) and a car (17%), followed by SACCO and ASCA members. The least likely to own these assets are the WCG members. However, regarding refrigerator and car ownership the differences between informal groups are not big, whereas the ownership of a TV set and a mobile phone clearly differentiates WCG, ROSCAs and ASCAs from each other. WCG members are the least likely to own a TV set (21%) and a mobile phone (22%) whereas the likelihood of an ASCA member owning a TV set and a mobile

Table 3: Comparison of WCG, ROSCA, ASCA, SACCO and Bank account holders' household possessions

	WCG	ROSCA	ASCA	SACCO	BANK
Household effects					
Radio	83%	83%	91%	91%	97%
Television	21%	26%	31%	42%	66%
Own mobile phone	22%	29%	38%	45%	72%
Refrigerator	2%	3%	3%	9%	17%
Ox plough	10%	8%	8%	7%	6%
Means of transport					
Bicycle	31%	31%	35%	33%	34%
Motorcycle	1%	1%	2%	2%	2%
Car/truck	2%	3%	5%	9%	17%

phone is much higher (31% and 38% respectively). ROSCA members are in the middle and very close to national average (27%) in terms of mobile phone ownership.

2.2.1 Housing Characteristics

Table 4 indicates that WCG members own the dwelling in which they live in 84% of the cases followed by ASCA members. Interestingly, the likelihood of bank account holders owning their dwelling was lowest at 56%. This could imply that having a bank account doesn't necessarily mean that the person is wealthy, it can also mean that the employers have opened bank accounts for employees to facilitate the payment of salaries. Another possible explanation could be that renting is almost entirely associated with urban locations and banking is also skewed towards the urban.

However, dwelling floor and wall materials, the main source of water and sanitation facilities are good indicators into which type of financial institutions members belong. Bank account holders are almost three times less likely to have a mud floor compared to WCGs, ROSCA and ASCAs. Bank account holders are over three times more likely to live in a stone house (53%) compared to WCG members and more than two times as likely as ROSCA and ASCA members (21% and 22% respectively). Around 32% of the SACCO members live in a stone house.

Further, 38% of the bank account holders have access to piped water in their dwelling, which is three times more likely compared to WCG members (13%), 17% of the ROSCA members, 25% of the ASCA members and 34% of the SACCO members have piped water.

Lastly, bank account holders are 3-4 times more likely to have a flush toilet compared to WCG, ROSCA and ASCA members. SACCO members are twice as likely to have a flush toilet as the WCG, ROSCA and ASCA members.

2.3 CONTRIBUTION TO INFORMAL GROUPS

Respondents were asked how much the last contribution to the informal group had been. However, the question did not give a time period or frequency for contributions, and therefore the data must be interpreted with care.

As expected, investment clubs receive the largest average contribution amongst informal groups. This is not surprising as people who join these financial mechanisms intend to make larger investments than can usually be financed individually and may invest in company shares or fixed assets such as properties, therefore clubs are being used as a mechanism to mobilise relatively large amounts of funds. However, these may also be less frequent contributions than for example ROSCAs which often function on a weekly basis. People using WCGs reported the smallest mean contribution out of the other informal groups followed by ROSCAs, managed ASCAs and individual ASCAs. Examining the contributions by gender, men's mean contributions to ROSCAs are significantly higher than women's. However, women's mean contributions to individual and managed ASCAs are higher than men's but not statistically significantly so.

Table 4: Comparison of housing characteristics

Indicator	WCG	ROSCA	ASCA	SACCO	BANK
Dwelling ownership	%			%	
Owned by family/member	84	72	79	75	56
Occupied without payment/shared	3	3	1	7	4
Rented	13	25	20	18	40
Other	100	100	100	100	100
Main house floor material					
Mud, Dung, Sand	64	59	61	48	23
Polished wood/vinyl/tiles/cement	35	41	39	51	75
Unpolished wood planks	1	-	-	1	2
Total	100	100	100	100	100
Main house wall material					
Brick	27	12	6	10	11
Stone	15	21	22	32	53
Mud/dung	37	45	44	32	16
Wood	16	15	20	21	14
Iron sheet	4	6	8	4	6
Other	1	1	-	1	-
Total	100	100	100	100	100
Main house roof material					
Grass/thatch	12	14	5	2	2
Corrugated iron sheets (mabati)	86	82	91	90	84
Tiles	1	2	2	6	8
Other	1	2	2	2	6
Total					
Main source of water (%)					
Piped water	13	17	25	34	38
Public tap	12	14	9	9	19
Public well (open)	22	11	12	8	7
Well on residence/compound/plot	7	10	11	10	14
River/stream	27	25	23	26	12
Pond/dam	10	5	1	1	1
Spring	6	11	13	7	5
Rain water	1	1	2	2	2
Other	2	6	4	3	2
Sanitation facility					
Flush toilet	8	10	6	18	31
Traditional pit toilet	66	64	64	57	35

Indicator	WCG	ROSCA	ASCA	SACCO	BANK
Ventilated improved pit latrine	21	20	29	25	29
Bush or field	5	6	1	-	1
Total	100	100	100	100	100
Source of cooking fuel					
Firewood	83	68	72	72	40
Charcoal	10	19	15	8	21
Kerosene	7	9	6	11	21
Electricity	-	-	-	8	17
Bottled gas	1	3	6	-	1
Number of households	318	998	203		

Table 7 estimates the total contributions being made to these groups in Kenya. It suggests that ROSCAs are mobilising some Kshs2.2bn (US\$30.7m), followed by Investment clubs – which while not numerous mobilise relatively large contributions. As indicated above, we do not know the frequency of these contributions but it is not unreasonable to suggest that the average frequency of these groups is monthly – some will be more frequent – many ROSCAs meet weekly, while WCGs may meet as infrequently as 6 monthly or annually. This

assumption suggests a total volume of some Kshs60bn (US\$ 860m) being intermediated through these mechanisms on an annual basis. The savings stock of Equity bank which is regarded as the largest and most dynamic microfinance bank in Kenya at 31/12/06 was US\$176m, with approximately 1m savers whose average balances were US\$165 (MixMarket). This suggests therefore that informal groups are offering a significant financial service.

Table 5: Contributions to informal groups

	Mean contribution group 1	Mean contribution group 2	Mean contribution group 3	Mean by service ⁷
Welfare/Clan group	256	373	122	271
ROSCA	470	467	293	463
Individual ASCA	754	580	113	706
Managed ASCA	598	575	242	563
Investment club	4438	582	491	3387

Table 6: Contributions to informal groups

Group 1 only ⁸	Mean contribution	Mean contribution male	Mean contribution female	T-test
Welfare/Clan group	256	300	212	
ROSCA	470	652	363	***
Individual ASCA	754	605	878	
Managed ASCA	598	549	664	
Investment club	4438	5846	1313	

⁷ This is weighted mean.

⁸ Given difficulties in data organization for this section, only the differences in contributions for the group respondents first reported was examined.

Table 7: Estimated total contributions made to informal groups in Kenya at last contribution

(18+ years old)	Total members	Mean average by service	Total contribution (Kshs)	Total contribution (US\$)
Welfare/Clan group	1,588,291	273	430,426,861	6,148,955
ROSCA	4,647,058	463	2,151,587,854	30,736,969
Individual ASCA	826,323	706	583,384,038	8,334,058
Managed ASCA	165,934	563	93,420,842	1,334,583
Investment Club	515,514	3387	1,746,045,918	24,943,513
Total			5,004,865,513	71,498,078

2.4 REASONS FOR BELONGING TO INFORMAL GROUPS⁹

By far the most important reason for belonging to a ROSCA¹⁰ was to have a lump-sum to use in scheduled turn (73.0%). This is not surprising given the ROSCA's core function is to provide a lump-sum. However, the second most important reason reported was to cope with unexpected emergencies, as 31.6 % reported this reason. In contrast to Gugerty (2007), this suggests there is an important insurance element in ROSCAs. Johnson (2004) underlines the flexibility involved in ROSCAs when people can swap turns if they have a particular need either by agreement with the group as a whole or with other individuals, or the ROSCA may have a welfare fund attached to it to provide additional support in times of need, or members may simply make additional contributions to assist someone in need.

The third reason (25.4 %) was to socialise and meet friends, demonstrating the strong importance of the social dimension of these mechanisms. The social and cultural reasons for joining groups are surprisingly important but have not been acknowledged by most writers except anthropologists. The fourth reason for belonging to ROSCAs is to keep money safe: 15.5 % reported this reason. However, this question does not specify from whom the money should be kept safe. Gugerty (2007) had divided the safety issues into three different alternatives: a) to avoid theft by non-household members, b) that husband does not take it c) that other family members don't use it.¹¹ Gugerty found that 7% of the respondents were worried that other family members will use it and 1% that the husband will use it whereas 3% were worried about thieves.

The main reasons for WCG membership are – as would be expected – getting financial aid when there is a death in the family (68.3%) and financial help when there is an emergency (58.4%). However, WCGs are also an important means to socialise and meet friends since almost 20 % cited this as a reason

for joining. A further reason for belonging to WCGs is to get household or farm goods through the group when it is their turn and reflects activities where goods are bought in bulk and distributed to group members rather than cash being provided.

For ASCAs, the most frequently cited reason, (40.6 %) was to get money when they face an emergency; this suggests the importance of the credit component of these financial mechanisms in responding to times of need. Once again, people belong to individual ASCAs to socialise and meet friends (31.3 %). But with the same frequency, people cite using ASCAs to pull money/resources together to invest in larger assets. A further reason for belonging to individual ASCAs is associated with the ease of getting money when it is needed: 29.7% of people joined reported this reason – again suggesting that the flexibility of response to people's short term needs is a key component. Interestingly, people also cite belonging to ASCAs to exchange ideas about their business; this is an important finding as it shows the importance of group dynamics and social relationships in sharing information.

The most important reason for belonging to a managed ASCA is to get money easily when you need it (41.1%). The second most important reason is financial help in case of emergency (38.1 %). Similar to individual ASCAs, the third most important reason for people to belong to managed ASCAs is that they are able to exchange ideas about their business (28.3%). Pulling money/resources together to invest is the fourth most important reason. The fifth most important reason is to keep their money safe. It is interesting that a third of the respondents that are in ASCAs consider them safe places to keep money.

The main feature of investment clubs is that people pull money/resources together to invest in larger assets; 72.6 % of people reported this reason and place it as the most important one for belonging to these informal groups. Given that investment club members have a business orientation, 35.3 % join these groups to exchange business ideas. 20.6 % of people also belong to investment clubs to socialise and meet friends, whereas 17.2 % of investment club members join these informal groups to have a lump-sum to use when it is their turn, suggesting that they may also have a ROSCA operating inside the group.

⁹ These were pre-coded responses and respondents could report more than one response.

¹⁰ This section uses only the data for the first group that respondents reported having (ie 1647 responses).

¹¹ In order to test the commitment theories with the national sample, it would be important to ask first an open ended question 'What is the most important reason you joined this ROSCA' and then follow up asking the respondent to choose the most important reason from the alternatives that the questionnaire provides.

Table 8: Reasons for belonging to informal groups (Responses under Group 1 only)¹²

Group 1 (18+ years old)	n	%	Welfare/Clan group		ROSCA		Individual ASCA		Managed ASCA		Investment club	
			19.3	Rank	60.6	Rank	10.3	Rank	2.1	Rank	6.1	Rank
Overall	1647	100	19.3	Rank	60.6	Rank	10.3	Rank	2.1	Rank	6.1	Rank
To have a lump sum to use when its your turn	809	49.1	3.5	(11)	73.0	(1)	20.2	(8)	12.1	(8)	17.2	(4)
To keep money safe	259	15.7	3.9	(10)	15.5	(4)	29.1	(4)	20.5	(5)	10.4	(8)
To help when there is a death in the family	384	23.3	68.3	(1)	14.2	(6)	15.0	(9)	11.2	(9)	10.7	(6)
To help when there is any other emergency	585	35.5	58.4	(2)	31.6	(2)	40.6	(1)	38.1	(2)	14.8	(5)
Because you inherited the position from your parent	16	1.0	1.7	(12)	1.2	(12)	0.0	(13)	0.0	(12)	4.2	(12)
It is compulsory for people in your clan/village	52	3.2	7.9	(6)	1.1	(13)	1.0	(12)	0.0	(12)	5.7	(11)
To socialize /meet your friends	385	23.4	16.7	(3)	25.4	(3)	31.3	(2)	7.1	(10)	20.6	(3)
To exchange ideas about business	216	13.1	5.3	(9)	11.1	(8)	23.2	(6)	28.3	(3)	35.3	(2)
To invest in bigger things by pulling money/ resources together	305	18.5	6.4	(8)	14.7	(5)	25.8	(5)	25.1	(4)	72.6	(1)
The group buys you household goods or farm goods when its your turn	195	11.8	10.3	(5)	13.1	(7)	7.7	(11)	4.1	(11)	8.5	(9)
To increase income by lending	87	5.3	1.1	(13)	2.3	(11)	22.2	(7)	18.9	(6)	3.5	(13)
Because you could not get money or help anywhere else	126	7.7	7.4	(7)	6.0	(10)	7.9	(10)	13.8	(7)	11.2	(7)
You can get money easily when you need it	205	12.4	11.2	(4)	10.2	(9)	29.7	(3)	41.1	(1)	7.5	(10)

While this evidence confirms the financial intermediation roles of groups in enabling people to access useful lump sums of money, it is perhaps surprising to see that a key reason people value groups very highly is for their ability to get financial help in the face of emergencies. This underlines the key importance of the flexibility and responsiveness of these groups to respond to idiosyncratic shocks. While this result might have been expected for welfare/clan groups which are usually perceived to have strong social safety net functions it is more surprising to see this reason as the most important one cited for independent ASCAs and the second most important for managed ASCAs as well as second most important for ROSCAs, even if many authors (Gugerty etc) have concluded that ROSCAs don't have an insurance element. This may well underline the ease of access to credit through ASCAs to respond to emergencies but may mirror that there are underlying social welfare functions among ASCA and ROSCA groups also. Moreover, these groups are a crucial means of socialising and making and maintaining social networks both for friendship and business.

2.5 FEATURES OF INFORMAL GROUP ORGANISATION

Respondents were asked about the organisational features of the informal groups to which they belong. This section examines the most important

characteristics in order to identify how sophisticated these features are for each type of informal group as well as those characteristics that are significantly associated with socio-economic factors.

According to Table 9 82.2 % of WCGs members reported holding regular meetings. 59.2 % have a constitution; this means that these informal groups have principles and rules that set their operation even if these rules are not necessarily written down. Third, 58.5 % report that their WCGs elect their officials. Fourth, although WCGs are referred to as 'informal groups' 46 % have a certificate of registration which would normally be with the Ministry of Culture and Social Services and is necessary in order to hold a bank account.

36.6 % of WCGs members reported that their groups keep accounts. 35.6 % of WCGs have a bank account and this characteristic is significantly more common in urban areas (50.2%) compared to rural areas (33.5%). In addition, 35 % of WCGs take minutes in their meetings, and this is also more common in urban areas (56.5%) compared to rural areas (31.9%) and more common amongst men (40.8%) compared to women (29.7%). However, only 11.8 % of WCGs have a passbook for recording financial operations. However, urban WCGs have significantly more passbooks (35.2%) than the rural (8.5%). Only 11 % of WCGs have more than one signatory on the cheque book, but again urban WCGs have significantly more often (21.2%) more than one signatory compared to rural groups (9.6%).

¹² More than one reason could be given by respondents

Table 9: Features of informal group organisation

Group 1	Welfare/Clan groups	ROSCAs	ASCAs	Investment clubs
N	318	998	203	100
A bank account	35.6 (7)	13.5 (9)	65.3 (5)	75.3 (4)
Certificate of registration	46.0 (4)	20.9 (7)	69.5 (2)	76.2 (3)
Book for any money received	33.4 (9)	20.0 (8)	52.7 (9)	57.9 (8)
Have a constitution	59.2 (2)	42.7 (3)	68.7 (3)	74.0 (6)
Minute	34.9 (8)	30.8 (5)	64.7 (6)	67.0 (7)
Elect officials	58.5 (3)	46.1 (2)	67.3 (4)	78.9 (2)
Passbook for recording savings or loans for each member	11.8 (10)	11.4 (10)	43.3 (10)	33.4 (10)
Have a group cheque book	8.7 (12)	4.1 (12)	18.5 (12)	31.3 (11)
Holds meetings on regular fixed intervals	82.2 (1)	75.0 (1)	79.9 (1)	93.4 (1)
Keep account record	36.6 (6)	32.5 (4)	63.3 (7)	74.1 (5)
Have accounts checked by an external auditor	3.6 (13)	1.9 (14)	10.4 (13)	17.7 (12)
Have a treasury / finance person who is not also the chairman	45.5 (5)	28.7 (6)	55.5 (8)	49.5 (9)
More than one signatory on the cheque book	11.0 (11)	6.5 (11)	29.4 (11)	35.6 (10)
A money box with more than one key	1.5 (15)	2.0 (13)	0.7 (15)	1.1 (14)
Non-member manager	1.6 (14)	1.0 (15)	3.5 (14)	5.8 (13)

For ROSCAs, 75.0 % of members report regular meetings although it is surprising that this is the lowest figure reported across the different types of groups. This may reflect the fact that more of these groups than others operate in markets and similar environments where key people collect the savings and organise the payouts so that meetings are not necessarily held. The second most frequently reported feature was that 46.1 % of members' groups elect their officials. Again it is interesting to note that this is the lowest proportion across all types of groups. This pattern is significantly associated with location, more groups in rural areas (48.4%) undertake this practice compared to urban areas (36.7%) and more men (51.6%) than women (42.8%) (see table 17 in Annex 3). 42.7 % of members' ROSCAs have a constitution; again this is the lowest of all group types. It is also again significantly more associated with rural areas (44.8%) than urban areas (34.4%). 32.5 % of groups are reported to keep accounts and again this is the lowest proportion across all group types, and significantly more men (39.4%) reported that their groups keep records compared to women (28.5%). That not many ROSCA groups are keeping accounts is not surprising since the operations of ROSCA are the simplest of all the informal groups.

Keeping minutes was reported by 30.8 % of groups and having a treasurer or finance person was reported by only 28.7 % of groups and was again more common in rural areas (29.7%) than urban areas (24.5%), and most common

amongst those ROSCA members aged 45–54 years old. A number of other features were also significantly more likely to be carried out by groups to which men belonged compared to those to which women belonged. These were: keeping minutes, having a certificate of registration, a book to register deposits, a bank account, a passbook for recording financial operations and more than one signatory on the cheque book. This may suggest that men prefer groups to be better organised as a means of better ensuring the safety of their money. It fits with the finding that men generally find it harder to operate in groups than women, and they may therefore resort to greater formalisation to overcome their concerns about participation, which resonates with Anderson et al (2004) above on formalisation and trust.

Regarding ASCAs, 79.9 % hold meetings on a regular basis, this being the most frequently reported feature. 69.5 % have a constitution and this feature is associated with gender, having more men (79.4%) reporting a constitution in their ASCAs compared to women (60.4%). The third most frequent feature is that 68.7 % of ASCAs elect their officials and the fourth is that 67.3 % have a certificate of registration.

65.3 % of ASCAs have a bank account, 64.7 % take minutes. In 52.7 % of groups there was a book to register deposits. These patterns are associated with the gender of the members: more men (70.6 %) carry out these

practices compared to women (48.8 %). In addition, 43.3 % of ASCAs have a passbook for recording savings and credit of each member, and this pattern is more common in urban areas (64.4%) than rural areas (38.6%). Similarly, the proportion of urban ASCAs (27.1%) having a group cheque book is larger compared to that of rural ASCAs (16.6%) (see Table 17 in Annex 3.)

For investment clubs – the least common type – 93.4 % undertake their meetings regularly and this is the highest across all types of groups. 78.9 % of investment clubs elect their officials and 75.3 % have a bank account. 76.2 % report a constitution and 74.1 report keeping accounts. It is interesting to note that these patterns are associated significantly with food security as a larger proportion of those members whose families never suffer from food insecurity belong to investment clubs that elect their officials, have a constitution and keep account records.

We also found that 75.3 % of investment clubs have a bank account and this pattern is more common amongst men (73.3%) than women (55%). In addition, 67 % of investment clubs record minutes in their meetings which is associated with the location: 78.3 % are urban compared to 55.8 % rural. Booking any money received occurs in 57.9 % of the investment clubs and this is significantly associated with the members' age, being those aged 55+ the largest proportion that book their investment clubs deposits. 35.6 % of investment clubs have more than one signatory on the cheque book and this is more common in urban areas (56.5%) than rural areas (26%). Interestingly, having a passbook for recording savings or loans for each member, and having more than one signatory on the cheque book is associated primarily with those people whose families 'never' suffer from lack of food to eat.

In summary, the most important features of organisation for all informal groups are: first, holding meetings on a regular basis; second, electing officials; third, having a constitution; and fourth having a certificate of registration and keeping account records. Overall investment clubs are the most well organised if the least used, and this is perhaps not surprising as they are more likely to be used by men and older people and the most educated (though not significantly so) and they deal with larger amounts of money.

On the other hand ROSCAs are the most numerous type of group used by far, but this data shows that they tend to be the least well organised. Moreover, it is clear that although they appear to have more organised features in the rural areas, they are also likely to be better organised where used by men than women although women are more likely to use them. This may reflect lower literacy and education levels among women but it may also reflect the fact that men contribute larger amounts to them and are less likely to trust each other and hence more likely to seek more formalised arrangements.

ASCAs and Investment clubs on the other hand demonstrate greater sophistication in urban rather than rural areas, but these features are more likely to occur in groups to which men rather than women belong.

2.6 EXPERIENCES IN INFORMAL GROUPS

Respondents were asked to report what episodes of mismanagement their group had experienced classified into five themes: theft, loss of membership, bad leadership, insolvency and poor service. This section examines the most important experiences across the groups.

The largest proportion (41.6%) reported members leaving the group, followed by 34.7 % who reported that some members do not pay contributions. The implication of this is that there would be strong effects on cash flow within the group and the reliability with which ROSCA members receive their payouts, or ASCA members can take loans (or withdraw their savings).

Death of member is the third major experience reported by 20.7 % and suggesting that one in five group members has experienced the death of a peer and this was more associated with WCGs and ROSCAs than other types of group. This underlines the importance of groups for support in emergencies. The fourth issue reported was lack of co-operation from group members in making decisions within the group (19.3%) and this was more highly associated with ROSCAs than other types of group. The fifth issue reported was not being able to get money immediately (11.5%). This can also be seen to reflect loss of membership in that when members pull out their contributions are lost and create cash flow problems. The remaining experiences related to administration, dishonesty causing loss of money (6.7%) and then theft or fraud by committee members (6.2%) – issues which start to concern internal management and their implications for losing funds. But if the various categories of theft and dishonesty within the groups are put together, close to 20% reported these incidents. However, the implication from these responses still is that theft and dishonesty are overall not as prevalent as members leaving and non-payment of contributions.

2.7 QUALITY OF LENDING FACILITIES IN ROSCAs AND ASCAs

Respondents who had borrowed from ROSCAs and ASCAs were asked about their views of these services relating to three areas: costs of getting a loan; the convenience of getting loans from these providers; and the risk associated with these services.

Table 11 shows that people who have used ROSCAs said that these are convenient lending facilities as 19.8 % reported being able to get quick loans. Interestingly this was also significantly more likely to be associated with women reporting than men. By age the youngest group of 18-24 year olds (the most excluded age group from financial services in section 1 above) also reported this as a key feature suggesting where they do have access, the groups are very important to them for this reason.

Only 4.1 % stated that they faced difficult requirements to qualify for a loan from these providers, and 4.2 % also pointed out that getting these loans implied high costs. The explanation for this latter point is not clear but it is

Table 10: Experiences in Informal Groups

Group 1	Group 1 18+ years old	n	%	Rank
Overall		1647	100	Rank
Theft	Lost money through theft or fraud from an outside party	71	4.7	10
	Lost money through theft or fraud from a committee member	102	6.5	8
Loss of membership	Members pulling out	665	41.6	1
	Members not paying contributions	570	34.7	2
	Members not co-operating in many decisions	313	19.3	4
	Death of many members	317	20.7	3
Bad leadership	Officials elected in a manner that was not transparent	86	5.4	9
	Poor administration	115	7.1	6
	Dishonesty by members causing loss of money	110	7.0	7
	Misuse of money by officials	57	3.6	11
Insolvency	Had to borrow extra money from a lending institution so as to continue operating	24	1.2	13
	Bad investment of funds	47	3.0	12
	Overspending on certain items	47	2.8	12
	Money/cash not available immediately	199	11.5	5
Poor service	Poor service with the bank or financial institution which serves the group	19	1.2	14

possible that new joiners have to build trust within the group; they may have to face stricter requirements and have to contribute in ways not reflected in the contribution and hence experience higher costs. As the individual gains the trust of the group, she may then get loans from ROSCAs more easily. 9.4 % reported that the risk of losing property/assets was a concern. While this is overall a relatively small proportion of those using them it was significantly different between urban (11.5%) and rural areas (8.4%) and may suggest that in urban areas such collateral is also more likely to be required because people do not know each other so well.

For ASCAs, the risk of losing assets or property was the most frequently reported response (18.3 %) and again may reflect the greater use of items of collateral. Nonetheless, 17.3 % stated that ASCAs provide quick loans particularly in rural areas (18.5%) as opposed to urban areas (14.5%). One in ten reported that credit from ASCAs requires high interest rates which tend to confirm the view that groups often do set their interest rates quite high. In addition, 8 % of ASCA users pointed out that qualifying for a loan involves difficult requirements, whereas 7.3 % reported that getting a loan entails high costs.

If ROSCAs and ASCAs are compared to MFIs, SACCOs and banks, it is much easier to qualify for a loan from a ROSCA or an ASCA compared with the more formal alternatives. Also the costs of getting a loan from ROSCAs and ASCAs is lower in compared to MFIs and SACCOs and much lower compared to

banks. However, in terms of quick loans, respondents reported that banks and SACCOs provided loans somewhat faster than ROSCAs and ASCAs. This might be because both in ROSCAs and ASCAs members have to wait for their turn to get the funds/loans whereas Banks and SACCOs often have enough funds to lend to all the qualified potential borrowers.

While these findings confirm the importance of ROSCAs and ASCAs as a quick and low cost way to obtain lump sums, the emergence of the issue of collateral is interesting as this has not tended to be regarded as a systematic feature of these types of informal groups and yet it certainly appears to be emerging as a feature. The prevalent view of such groups is that they operate on local reputation but the fact that almost 10% of respondents in ROSCA and almost 20% in ASCAs suggested a risk of losing assets/property indicates a more prevalent actual use of collateral in these groups – how formally this is organised is not clear. Anderson's et al (2004) findings from Nairobi slums confirm that even ROSCA members will go after a member's household items if she has not contributed. Moreover, the fact that people are concerned about the risk of losing their assets or property also mirrors the fact that they are not necessarily sure they are going to be able to make their contributions or repay the funds they have borrowed – so again reflecting the wider experience of people withdrawing or not making contributions mentioned above.

Table 11: Statements on the use of credit from ROSCAs and ASCAs, MFIs, SACCOs, banks and building societies

n= 2067 (18+ years old)	Costs		Convenience		Risk/trust
	High costs to get a loan	High interest rates on loans	Quick loans	Difficult requirements to qualify for a loan	Risk of losing assets/property
ROSCAs	4.2	3.6	19.8	4.1	9.4
ASCAs	7.3	9.9	17.3	8.0	18.3
MFIs	15.0	15.4	9.8	18.7	16.6
SACCOs	17.9	18.5	23.7	19.6	16.8
Banks and building societies	61.4	55.7	24.7	55.8	52.3

2.8 REASONS FOR STOPPING USING ROSCAs AND ASCAs

Respondents were also asked in more detail the reasons why they stopped using ROSCAs and ASCAs. Table 12 present a set of reasons classified into five topics: costs, convenience, risk/trust, communication and miscellaneous.

8.6% of the total sample reported reasons for stopping using ROSCAs: 20.3 % of these said that they did so because of not having money left to save. This issue is significantly associated with location, gender and food security: 24.9 % of people in rural areas do not have money left to save compared to 15.7 % in urban areas, there are more women (26.5%) without money to save than men (15.1%) and those whose families 'often' suffer from food insecurity (34.7%) are unable to save in ROSCAs. This reason was also by far the most important reason given for not belonging to groups amongst those who had used them in the past (see Table 13). In addition, this fits strongly with the fact that members often pulled out of groups as discussed above.

The second reason reported for stopping using ROSCAs was because their money was taken away or stolen (15.6 %). While this was more prevalent among those who had no education, this was not statistically significant. This ordering of reasons is also reflected in Table 13 in which 28.4 of those who used to belong to groups reported that they no longer used them because they didn't trust them and 19.8 % reported that they "steal your money".

The third reason was associated with convenience: 14.6 % of people pointed out that ROSCAs involve time and effort to attend meetings. 10.1% reported stopping because of the fear of losing money. Moreover, this was significantly associated with location: 20.1 % of those living in urban areas compared to 7 % in rural areas, suggesting greater problems of trust in groups in urban areas.

Only 2.1% of the sample reported reasons for stopping using ASCAs. The most frequently cited was high charges (18.1 %). This perhaps is not surprising as it is often the case that ASCAs charge high interest rates.¹³ The second reason

was the problem of finding money to save: 17.7 %. The third reason (15.5 %) why respondents stopped using them was because they feared losing money. This is significantly associated with people's level of education: 25.6 % of those with secondary education and above stopped using ASCAs for this reason compared to 10 % of those with no formal education – suggesting that it was a greater concern to better educated respondents. The fourth reason why respondents stopped using these financial services was the low interest rate paid on savings: one in ten stopped using ASCAs for this reason. This is a little curious as high interest on loans is usually related to high returns to savings – unless of course people don't repay, and given that fear of losing money was one of the more important reasons this suggests a link to poor returns.

2.9 REASONS WHY MEMBERS LOST MONEY IN ROSCAs AND ASCAs

Respondents were also more specifically asked about the reasons why they lost money in ROSCAs and ASCAs.

14% % of the current ROSCA members reported having lost money in ROSCAs, of which 61.2 % reported this as due to theft or fraud. This reason can be related to that of the previous section where having money taken or stolen was the second reason for stopping using these services. Theft or fraud is significantly associated with the age of the member, it being most prevalent amongst those aged 55+. Given the low numbers reporting in this question, this can be seen to fit with the proportions reporting theft/fraud in their experiences of groups.

The second reason for losing money in ROSCAs was reported as "went out of business/collapsed": 24.9 % reported this reason. However, the interpretation of this response is not entirely clear. The context of the question is that the place in which savings were placed went out of business or collapsed – rather than that the respondents own business collapsed. Interestingly, the

¹³ However, high interest rates produce high dividends on member's savings also, as long as payments are in fact made.

Table 12: Reason for stopping using ROSCAs and ASCAs

(18+ years old)		ROSCAs		ASCAs	
	N	363	Rank	91	Rank
Costs	High charges	3.0	7	18.1	1
	Erroneous charges	3.6	6	0.9	10
	Low interest rates on savings	5.3	5	9.6	4
Convenience	Closed nearest branch	0.7	10	6.4	7
	Better offer from another institution	2.3	9	2.3	8
	Time & effort to attend meetings	14.6	3	8.1	5
	Time & effort to do transactions	2.2	7	0.9	10
	Far away	3.2	8	1.1	9
Risk/trust	Money taken or stolen	15.6	2	5.4	6
	Fear of losing money	10.1	4	15.5	3
Communication	Staff did not treat well	3.2	7	2.3	9
Misc	No money left to save	20.3	1	17.7	2

responses to this questions are significantly associated with gender where a larger proportion of men (30.6%) reported this reason compared to women (16.4%) and this would be consistent with the view that men's ROSCAs are less successful than women's ROSCAs.

Curiously, 20.8 % of people reported that not yielding returns on savings was another form of losing money in ROSCAs. Finally, 2.7 % of people pointed out that being guarantor for someone who failed to pay was the reason why they lost money in ROSCAs.

However, given the above findings on the frequency of the problems of people pulling out of the groups or not contributing we might also expect people to

indicate that they lose money as a result of this. The question in the survey did not offer a response that captured this issue although there was a space for 'other' responses. Nevertheless it also raises the question as to how people regard losing money in this way and whether they actually regard them as losses. The nature of the groups as responding to emergencies and being a means of creating friends and social networks may result in a situation where people do not necessarily regard non-payment as losing their money. They may not get their money when it is their turn but recognize the difficulties members face in paying and hence this is not seen as not trusting them or creating a particular problem, more as a feature of the groups and a situation that you also might find yourself in.

Table 13: Reasons for not belonging to any groups among those who used to have them

n (18+ years old)=2567	Used to have ROSCAs		Used to have ASCAs		Used to have Group of friends	
Overall	9.4		1.5		2.8	
You bank formally	6.8	(6)	10.2	(4)	14.4	(5)
You don't have any money	50.3	(1)	39.3	(1)	43.3*	(1)
People steal your money	19.8***	(4)	18.5	(4)	10.6	(7)
You don't know about them	3.2***	(7)	7.5	(5)	10.9	(6)
You don't need any service from them	10.3	(5)	7.5	(5)	20.4	(3)
You don't trust them	28.4	(2)	22.6	(2)	20.2	(4)
It requires too much time	24.4	(3)	18.5	(3)	33.7	(2)

*, ** and *** significance at the 0.05, 0.01 and 0.001 level respectively. Chi-square was calculated on un-weighted data

Of the current ASCA members 15% reported having lost money from ASCAs. Similar to ROSCAs, the first reason for losing money in ASCAs was due to theft or fraud as 58.8 % reported this reason. This reason may also be related to the proportion of people who fear losing money from these financial services (previous section). The second reason was again “went out of business/collapsed”: 33 % lost money through this kind of event. Not having returns on savings was a further reason for 11.9 % reporting losses in ASCAs. Being guarantor for someone who fails to pay was the last reason that people reported (1.1%). It is interesting that unlike in the Wright and Mutesasira (2001) study, the risk of losing savings in an ASCA is not higher than in a ROSCA.

3.0 CONCLUSION

This analysis gives us a picture of informal group membership and use that confirms their overall importance in providing financial services for many who cannot otherwise access financial services in the semi-formal and formal sectors. It demonstrates the significant volume of savings being intermediated through them, but also points to the key problems that they face.

The findings on household possession and housing conditions indicate that informal groups serve poorer households than SACCO and Banks. The findings also demonstrate that key reasons for belonging to them extend beyond the key financial features of getting lump sums from ROSCAs and ASCAs to the fact that they enable people to obtain funds in emergencies and also provide social networks. The ways in which the groups provide for emergencies are not fully detailed, though for ASCAs this can obviously operate through the quick provision of loans. Research elsewhere¹⁴ indicates that ROSCAs respond to these situations through a range of ways: people swapping turns in ROSCAs in order to get money when they need it either with agreement from the whole group or just between individuals; social welfare funds that the group also contribute to helps in such cases, as well as spontaneous contributions from members in response to crises. It is this flexibility to respond to emergencies that is therefore highly important.

However, because they serve many who have little money to save, people often pull out of them or do not pay their contributions, the most frequent

experiences reported of these groups. However, what this data set does not fully capture is how this affects the operation of the group. Previous research undertaken by DFS¹⁵ shows that the delays people experience in receiving their ROSCA payouts or loans are not regarded as losing money but simply as others delaying payment. People often recognize the problems others face in paying – and indeed this data demonstrates that not having enough money to save was the main reason people stopped using them. This is perhaps also mirrored by the concern about losing property or assets in the groups as it implies a concern about one’s ability to repay the money taken.

The questions in the data set on the other hand tend to see losses as arising from money being taken, stolen or lost through fraud. While these clearly occur with some frequency, they are not the most frequently cited experiences in groups although they rate second highest among people who stopped using them. This suggests that there may be a lot of tolerance for non-payment of contributions which result in delays in others getting their money, but the key issue is that this does not mean that people do not trust each other or withdraw from the groups. Rather it underlines the inter-dependence of people in the group in seeking to create a financial mechanism that can cater to their needs when few other options are available.

The volume of funds involved is significant at Kshs5.9bn (US\$84.5m) at the last contribution. It is not unreasonable to suggest that the average frequency of these groups is monthly – some will be more frequent – many ROSCAs meet weekly, while WCGs may meet as infrequently as 6 monthly or annually. This suggests a total volume of some Kshs65bn (close to US\$1bn) being intermediated through these mechanisms on an annual basis. Given this, it is clear that there is a case for arguing that efforts could be directed to improving the internal organization of these groups to reduce the risk of losses through this highly prevalent form of financial intermediation.

Table 14: Reason why respondents lost money in ROSCAs and ASCAs

N=166 (18+ years old)	n %	Theft or fraud	Business failure or collapsed	Did not yield returns on savings	Guarantor for someone who failed to pay
ROSCAs	135	61.2	24.9	20.8	2.7
ASCAs	31	52.8	33.0	11.9	1.1

¹⁴ See for example Johnson, S. (2004). “Milking the Elephant”: financial markets as real markets in Kenya.” *Development and Change* 35(2): 249-275.

¹⁵ Johnson, S. and N. Sharma (2004). “Institutionalising suspicion”: investigating the role of social and cultural norms in the governance and management of user-owned microfinance systems. www.microsave.org/dfs, Decentralized Financial Services Project, Nairobi.

Chapter 3

POLICY IMPLICATIONS AND FUTURE RESEARCH

This section draws on the analysis presented above to discuss implications for policy and future research.

3.1 POLICY IMPLICATIONS

The analysis has clearly demonstrated the importance of the informal financial service sector. Through the informal financial sector 35% of the population, who would otherwise be excluded, have access to financial services. Informal groups also serve poorer clients compared to semi-formal and formal service providers as well as many small scale farmers that SACCOs may not be interested in serving.

Given these findings, the question for financial sector development policy is how to regard the role of informal sector groups. There are essentially two options. First, leave the informal groups alone and focus on the development of the mainstream financial sector, which is the predominant current stance. Second, engage directly with informal groups in a bid to improve their operations in ways that will deliver higher quality services to some of the poorest people who currently lack access.

Engaging with informal groups has clearly been demonstrated to be problematic. This analysis further illuminates that these groups face many challenges, in terms of delayed payments, management and governance of the groups, mismanagement of funds and theft. Interveners who have sought to produce disciplined and effective financial intermediation in such groups run up against their multiple functions as emergency mechanisms backed by social support which inherently contain considerable flexibility which users employ to cushion the vulnerability of their lives and livelihoods. Approaches to working with groups must therefore consider how to deal with this tension and allow for this negotiability by enabling groups to serve their member's needs effectively and respond to emergencies. Working with groups on the basis of their own savings alleviates the need for rigid external performance assessment but may be done in ways that improve their transparency and accountability and hence effectiveness for users.

Given their importance in overall access and the evidence of how much savings they mobilise, it is appropriate to consider how their services might be improved, especially in the light that many of these groups are not well organised. The Decentralised Financial Services project and Village Savings and Loan Association methodology have developed simple tools for groups to manage their own operations independently and more effectively. Policy should therefore consider how to further expand or support the development of these and other similar approaches.

The analysis has also demonstrated key barriers in the form of socio-demographic factors of age, geographical location, education and gender. Young people are more excluded from the formal and semi-formal services but ROSCAs and ASCAs do not provide enough services for the young to fill the

gap, findings indicate that youngest age groups are also more excluded from the informal groups. The reasons why it might be more difficult for the young to join groups are their higher level of mobility and weaker social networks. Nevertheless, because 18-34 year olds constitute a significant proportion of the population, policy should consider how to facilitate access to younger people in these groups.

Findings also demonstrated differential access to informal groups across provinces. People in Western, Coast and especially North Eastern are much more likely to be excluded even from informal groups compared to other provinces. This suggests that policy priorities for financial service development – especially in the semi-formal and informal sectors – could be more regionally specific.

The level of education did not significantly affect the likelihood of belonging to a WCG or ROSCA groups suggesting that people at all levels of education are similarly likely to use these services. However for ASCAs and investment clubs, the higher the respondent's education, the more likely he/she is a member of these groups. This implies that with higher level of education people are more likely to start using services that offer more features and increased flexibility.

In the long run Universal Primary Education will facilitate the movement towards use of more flexible services but the current adult population with only primary completed (46% of the population) or only some primary (26% of the population) need simple financial literacy education not only on the services on the formal end but also on the informal end of the financial market.

Women are significantly more likely to be included into the financial sector through informal groups than men. Men's demand for financial services tends to be lumpier than women and is more likely to occur at the same time e.g. to fund school fees, agricultural inputs; this makes ROSCAs unable to cater to these needs. Moreover, given what we know about gender norms, women's groups tend to function better than men's (although men's groups appear to be better organized – as this study found). Nevertheless, 36% of the ROSCA participants and 41% of the ASCA participants are men, indicating that they also value these services. If the informal groups, and especially ASCA groups, could be strengthened through simple tools that make them more transparent and easier to operate, more men might be more willing to participate and invest bigger sums in them.

3.2 FUTURE RESEARCH

- No studies on independent ASCAs in Kenya were found, even if the anecdotal evidence suggests that ASCAs in different part of the country operate differently. This requires further study to provide important background information for organisations like CARE, CRS and DFS that train in ASCA methodologies.

- Not enough understanding of why informal groups are so much more popular in some areas and do not exist in others. This study could be linked to e.g. CRS work on VSLAs on the Coast, where ASCAs have not been found, but CRS intends to form them.
- The theoretical debates about why people join groups (ROSCAs, ASCAs) are based on small samples and limited geographical coverage. It would be useful to test the validity of these different theories using data from a nationally representative survey.
- The evidence has suggested that age and education strongly influence usage of informal groups as well as formal financial services (see Johnson and Nino-Zarazua 2008). Young people are excluded from both formal and informal services. Moreover, given the high levels of use of groups, it is important to investigate how people learn financial literacy through informal groups and how they make the transition from informal groups to the use of formal financial services, and how this occurs over the lifecycle.

Research may indicate ways of improving product design. For instance, if the national survey finds that self-commitment problems are a central reason for the popularity of ROSCAs and ASCAs, this could provide opportunities for product designs that takes this into account.

ANNEX 1

To triangulate the group classifications the responses from question E2¹⁶ were compared with responses to questions E3 and E6.

Table 15: Triangulation of the group classification between Questions E2 and E3/E6

E2	E3/E6	E2 (for Group 1)	E3 (for Group 1)
WCG	Raise the money needed for funerals	7.5%	9.4%
ROSCA	Give one member all the monies collected in one round	23.5%	22.9%
Independent ASCA	Lend money out to members who borrow when need arises	4.0%	10.1%
	<ul style="list-style-type: none"> ▪ Lend money out to non-members. 		2.3%
Managed ASCA	Someone who is not a member of the group who manages it	0.8%	0.9%
Investment club	Invest the money in shares, company shares	2.4%	0.7%
	<ul style="list-style-type: none"> ▪ Invest in a business. 		3.6%
	<ul style="list-style-type: none"> ▪ Purchase fixed assets - land, houses as a group 		1.1%

Comparing the categorisation from Questions E2, E3 and E6 indicates that the categories for Welfare/Clan groups, ROSCAs and Managed ASCAs are fairly close to each other. Even the investment club categorisation based on questions E2 and E3 are fairly close, especially if we exclude the option 'Invest in a business' which does not indicate clearly whether it is the groups or the individuals are investing in a business.

Only in the case of ASCAs there is a substantial difference between the categorisation in questions E2 and E3, where 10% of the group members claim that they are in a group that lends money to its members and that 2.3% lend to non-members whereas based on E2 categorisation only 4% are in groups that lend group funds to members or non-members. The reason for the ASCA lack

of clarity might be that many groups are nested and run multiple activities. These delineations are likely to be least clear cut for ASCAs.

Since most of the groups assist members with emergencies, it is difficult to allocate the E3 option 'Raising the money needed for other emergencies' to any particular group category.

Further, we have to be careful also in interpreting the questions E3 and E6, since respondents were able to select several alternatives, it might well be that, for example, in the case of ROSCAs they select both the lump sum AND buying household goods option, even if they talk about the same group.

¹⁶ '... describe the group/s that you belong in terms of what they do with the money they collect.'

ANNEX 2

Table 16: Use of informal groups (logistic regressions - odds ratios)

18+ years old	ROSCA	ASCA	Welfare Clan Groups
Location			
Rural	1.10	1.18	1.24
Urban	---	---	---
Gender			
Men	---	---	---
Women	2.43***	1.55**	1.11
Marital status			
Single	0.64***	0.80	0.63*
Divorced	0.88	1.52	0.95
Widowed	1.22	1.49	1.26
Married/Cohabiting	---	---	---
Age			
18-24	---	---	---
25-34	1.25*	2.02**	1.25
35-44	1.33*	2.48***	1.26
45-54	0.92	1.96*	1.57
55+	0.89	1.67	1.75*
Education			
No formal education	---	---	---
Primary	1.18	2.17**	1.15
Secondary+	1.12	2.58**	1.28
Region			
Nairobi	---	---	---
Central	1.46*	3.50***	3.38***
Coast	0.49***	0.45	0.18***
Eastern	1.35	1.25	2.27**
North Eastern	0.03***	---	---
Nyanza	1.33	2.07	1.60
Rift Valley	0.72	1.30	0.60
Western	0.90	1.48	0.41*
Main source of income/money			
Pension/transfer from family or friend	0.54***	0.33***	0.75
Sell produced from farm, livestock & fishing	---	---	---

18+ years old	ROSCA	ASCA	Welfare Clan Groups
Employed on people's farm full time/seasonal	0.81	0.40**	0.71
Employed on domestic chores	0.53**	0.47	0.95
Government	0.97	0.76	1.44
Private sector	1.00	0.50*	1.02
Running own business	1.32**	0.69*	0.68*
Sub letting of land, house/rooms,	2.43***	1.55**	1.11
Dwelling general condition			
Permanent	1.21	0.38***	1.45
Semi-permanent	1.21	0.40***	1.54
Temporary	---	---	---
Traditional	0.88	0.28***	0.85
Main source of lighting			
Electricity, solar & gas	0.98	0.69	1.04
Kerosene	---	---	---
Firewood, candle & others	0.33***	0.82	0.38
Main source of water			
Tap	---	---	---
Well	0.91	0.73	1.11
Surface water	1.06	0.80	0.89
Toilet facilities			
Own flush toilet	---	---	---
Shared flush toilet	2.05***	0.51	1.52
Latrine	1.45	1.43	0.96
Household assets			
Radio	1.26*	2.67***	1.31
Television	0.91	1.05	0.84
Bicycle	1.30***	1.31	1.28*
Car	1.04	1.94**	0.75
Frequency of family without enough food to eat			
Often	0.90	0.49*	2.95***
Sometimes	1.00	1.05	1.45*
Rarely	1.04	1.07	1.49*
Never	---	---	---
Frequency of family feeling unsafe from crime inside home			
Often	1.13	0.99	0.96
Sometimes	0.92	0.98	0.96
Rarely	1.11	0.84	1.09
Never	---	---	---

18+ years old	ROSCA	ASCA	Welfare Clan Groups
Mobile phone usage			
Use own mobile phone	1.27*	1.59*	1.13
Use somebody else's mobile phone	1.11	1.05	1.24
Do not use at all	---	---	---
Number of obs.	4214	4084	4084
Pseudo R2	0.1051	0.1320	0.1311

*, ** and *** significance at the 0.05, 0.01 and 0.001 level respectively

ANNEX 3

Table 17: Features of ROSCA organisation vs. socio-economic characteristics with weighted data

		Location		Gender	
	Overall	Rural	Urban	Men	Women
ROSCAs Group 1 18+ years old					
n	998	708	290	307	691
Holds meetings on regular fixed intervals	75.0	76.3	69.7	73.2	76.1
Elect officials	46.1	48.4**	36.7**	51.6*	42.8*
Have a constitution	42.7	44.8**	34.4**	45.8	40.9
Keep accounts record	32.5	33.2*	29.5*	39.4***	28.5***
Have a treasury / finance person who is not also the chairman	28.7	29.7**	24.5**	33.3	26.0
Minute	30.8	30.4	32.2	37.3**	27.0**
Certificate of registration	20.9	23.2**	11.3**	26.6***	17.5***
Book for any money received	20.9	19.8	20.8	24.6**	17.3**
A bank account	13.5	13.8	12.6	15.2*	12.6*
Passbook for recording savings or loans for each member	11.4	12.1	8.6	13.3**	10.3**
More than one signatory on the cheque book	6.5	6.4	6.9	8.2***	5.5***
Have a group cheque book	4.1	4.0	4.1	4.6	3.7
A money box with more than one key	2.0	1.9	2.6	1.4	2.4
Have accounts checked by an external auditor	1.9	2.1	0.9	3.2	1.1
Non member manager	1.0	1.2	0.2	2.1	0.3

*, ** and *** significance at the 0.05, 0.01 and 0.001 level respectively

Table 18: Features of ASCA organisation vs. socio-economic characteristics; weighted data

ASCA Group 1 18+ years old	Overall	Location		Gender	
		Rural	Urban	Men	Women
n	203	150	53	81	122
Holds meetings on regular fixed intervals	79.9	79.3	82.7	77.7	81.7
Have a constitution	68.7	69.6	65.1	79.4	60.4
Elect officials	67.3	64.8	78.7	72.7	63.1
Certificate of registration	69.5	72.0	58.4	77.2	63.5
A bank account	65.3	63.4	74.2	84.9 ***	49.9 ***
Minute	64.7	61.0	81.3	67.1	62.7
Keep accounts record	63.3	61.8	70.3	71.2	57.1
Have a treasury / finance person who is not also the chairman	55.8	56.0	53.3	60.2	51.8
Book for any money received	52.7	48.8	70.6	69.0 **	39.9 **
Passbook for recording savings or loans for each member	43.3	38.6 **	64.4 **	51.1	37.2
More than one signatory on the cheque book	29.4	28.5	33.7	37.6	23.0
Have a group cheque book	18.5	16.6 *	27.1 *	19.7	17.6
Have accounts checked by an external auditor	10.4	9.9	12.3	12.4	8.8
Non member manager	3.5	3.9	1.5	4.5	2.6
A money box with more than one key	0.7	0.9	0.0	0.5	0.9

*, ** and *** significance at the 0.05, 0.01 and 0.001 level respectively

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