Low Income Lives

MicroSave

Market-led solutions for financial services

What do informal groups teach us about what poor people want in their financial services?

Author: Susan Johnson

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A 2016 FinAccess study indicates that 41% of Kenyan adults use informal financial groups such as merry-go-rounds or *chamas* whereas only 32% of the population held ordinary bank accounts. Analysts often stress on their unreliability and the risk of loss of money when members of the group default[1] . So, why do so many people continue to use them? What is their enduring appeal?

The research undertaken for Financial Sector Deepening (FSD) Kenya over the last six years demonstrates how Kenyans want their money to help them live well.

1. Wright, G. A. N. and Mutesasira, L. (2001) 'The Relative Risks to the Savings of Poor People', Nairobi: MicroSave-Africa.

Centrally, they enable people to maintain and develop their resources by encouraging saving and making lump sums available, which can be used for small-scale investments or household needs, school fees, and so on. In this way, they make money 'work' because small amounts can be contributed and these are made available to everyone. But through this process, the funds become a collective asset rather than an individualistic one, thereby resulting in an improvement of the community. Indeed, the number of group names which contain references to visions of development is notable. For example, 'Mosa Women Vision Group', *Wikwatyo Wanoliwa* (Hope for the Widows) and *Kanini Kaseo* – referring to the few, but good women who are in the group, as well as the little, but good money the members are getting.[2]

Certainly, it is these visions and a broader understanding of development that make them appealing. The groups build social relationships which develop a strong sense of identity and belonging.

While groups vary considerably in terms of their level of discipline and strictness, borrowing from them is 'negotiable' as it is usually flexible in response to need. Moreover, repayments can also be adjusted to the circumstances of the borrower whose situation is likely to be understood by other members. In such groups, it is seen that "money is always available".[3]

Indeed, the groups that are most valued are the ones in which the hardship of members is likely to provoke additional support when emergencies strike. It is the fact of being "understood" by the group when problems strike that makes them so important. When emergencies strike, support often also runs beyond financial to other forms of material assistance and may take the form of the relationships involved that provide moral support. Groups are also a place where people can learn from others, share their experience and seek as well as give advice to each other.

Moreover, they have zero fees, low transactions costs due to their proximity, promote a savings discipline and have the benefit of social interaction as well as investment returns (*chamas*). However, analysts tend to emphasise their strictness and the risks of loss involved. In Kenya, we have found that they have a high degree of flexibility and responsiveness to the needs of their members. While there are clear risks of losing funds through mismanagement, people are always endeavouring to find a 'good' group that can serve their needs—that is, which delivers both discipline and response to need—as well as the underlying values of a collective organisation that strongly support wellbeing.

2. Johnson, S., Storchi, S. et al. (2017). Finance and living well: insights into the social value Kenya's seek from their financial services. Nairobi, Kenya: FSD Kenya.
3. Storchi, S. and Rasulova, S. (2017). Impact evaluation of FSD Kenya's savings groups project. Nairobi, Kenya: FSD Kenya.

As a result, informal groups embody a set of relationships that formal services are not able to offer. They show how managing money involves more than financial management and leads to the creation of significant social value. This is why they are of enduring importance in people's lives.

Author: Susan Johnson

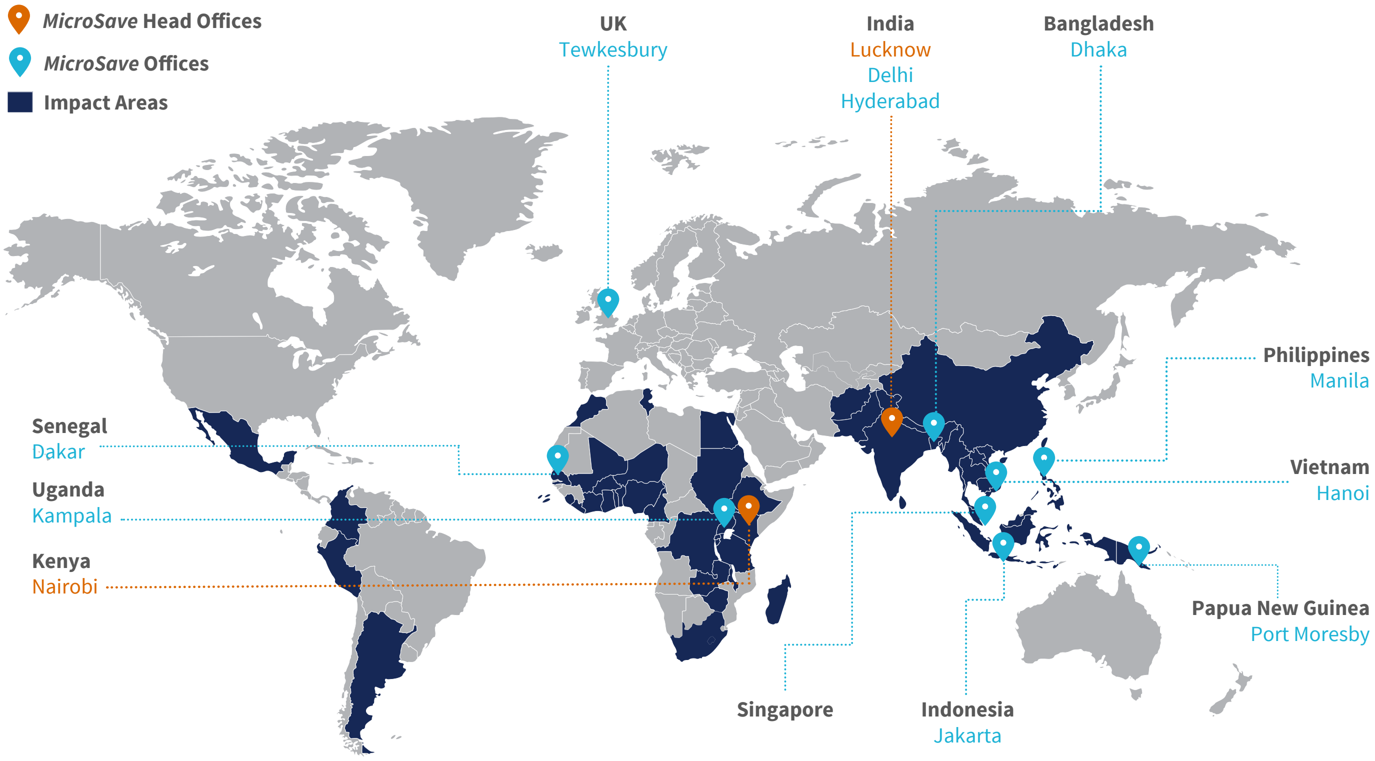
Susan Johnson is a Senior Lecturer in International Development at the University of Bath and Director of the Centre for Development Studies. She has a background in Economics and Agricultural Economics and worked in development organisations for eight years before joining academia. Susan has researched and written extensively in the field of microfinance expanding the analysis in this field to the institutional analysis of local financial markets, in particular examining their social embeddedness.

Susan has undertaken extensive research into microfinance and financial access, particularly focussed on its gender dimensions, the role of informal financial services, and the impact of interventions on poverty. She has worked on a number of major impact assessment studies for DFID and the Ford Foundation, and undertaken research on financial access and the development of decentralised financial systems with the Financial Sector Deepening Trust in Kenya.

This blog is the product of a research undertaken for FSD Kenya. Click here to see the related research findings.

About *MicroSave*

MicroSave is an international financial inclusion consulting firm with nearly 20 years of experience, operating in eleven offices across Asia and Africa. Our mission is to strengthen the capacity of institutions to deliver market-led, scalable financial services for all. We guide policy, provide customised strategic advice and on the ground implementation support.



www.MicroSave.net

Asia Head Office

28/35, Ground Floor, Princeton Business Park, 16 Ashok Marg,
Lucknow, Uttar Pradesh, India 226001

Tel : +91-522-228-8783 | Fax : +91-522-406-3773

Email: Manoj@MicroSave.net

Africa Head Office

Shelter Afrique House, Mamlaka Road, P.O. Box 76436,
Yaya 00508, Nairobi, Kenya

Tel : +25-420-272-4801 | Fax : +25-420-272-0133

Email : Isaac@MicroSave.net