

The role of informal groups in the financial market: evidence from Kenya

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Abstract

While the scale of informal finance in many developing countries has long been known to be extensive, data at the national level and particularly in Africa has been scarce. Moreover, financial sector development policy has firmly shifted its attention away from informal finance and towards working with the formal sector to provide inclusive financial services. However, some donors and policy makers are concerned that this approach is inadequate and will leave the poorest people unserved with even basic financial services, and are as a result experimenting with savings-led group-based approaches. This paper uses data from the 2006 Financial Access Survey carried out in Kenya to examine the scale, scope and nature of informal groups in order to assess the context for this alternative strategy. This survey provides the first significant nationally representative dataset to exist offering a much more detailed analysis of informal group operation than has so far been possible. First, we demonstrate the extent of use and estimated scale of savings currently flowing through these systems. Second, we examine the profile of use via socio-economic characteristics through the use of logistic regression analysis. We then turn to the reasons users give for engaging in groups, the way they are organised and the experiences reported by users having engaged with them. We conclude by drawing out the policy implications of this analysis for the new focus on savings-led group-based approaches and for policy towards the development of the informal financial sector.

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