

**MERRY GO ROUND CONCEPT AND INFORMAL
FINANCIAL MARKETS IN KENYA**

BY

ANDREW AGWARO LADEDE

**UNIVERSITY OF NAIROBI
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DECLARATION

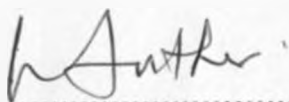
This financial project is my original work and has not been presented for a degree in any other university.

Signed: 

Date: 28th OCTOBER, 2007,

**ANDREW AGWARO ADEDE
D61 / P / 7015 / 05**

This financial project has been submitted with my approval as University of Nairobi supervisor.

Signed :..... 

Date : 2-11-2007,

**MR. LUTHER OTIENO
School of Business
Finance Department
University of Nairobi**

DEDICATION

To my dear parents, my siblings and my special friends,

For all their love, support and advice.

ACKNOWLEDGEMENTS

I am forever grateful to my Dad Stanley and Mum Hilda for instilling in me a culture of continuous learning and fanning my craving to reach these heights.

I do sincerely thank my supervisor, Luther Otieno for his invaluable input, ever being available for consultations and open to ideas. You made the project that much easier and interesting.

Last, but not least, I give thanks to God for being there for me all the time.

ABBREVIATIONS

No.	Short Name	Full Name
1.	CGAP	Consultative Group to Assist the Poorest.
2.	IFI's	Informal Finance Institutions.
3.	MFI's	Micro Finance Institutions.
4.	MGR	Merry Go Round
5.	MSE's	Micro and Small Enterprises
6.	NGO's	Non Governmental Organisations
7.	RFI	Rural Financial Institutions
8.	ROSCAs	Rotating Savings and Credit Associations
9.	SACCOS	Saving and Credit Co-operative Organizations

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ABSTRACT

This study is a survey of informal finance sector efficiency, adequacy and economical viability with an in depth on merry go round concept (Chama) in Kenya. Sources of financing MSEs, policies and channels through which concept of merry go round can enhance financial engineering are explored. A comparison of informal finance practices in other countries is noted.

Informal Finance Institutions among them the ubiquitous Merry Go Round are of ancient origin. Initially they provided mutual support during funerals and weddings. The study, however, revealed that they are increasingly being involved in financial services, mobilize their own resources and finance their growth from their profits.

In Kenya majority of research has been on formal Micro Finance Institutions. This study forms a new platform for exploring informal finance sector in Kenya. Key features of merry go round finance forms crux of the study hence able to generalize practical principles of informal finance.

An exploratory study of merry go round with aid of a questionnaire was used to collect primary data from fifty randomly selected MSEs in Nairobi with bias on those embracing merry go round spirit. Data was analyzed using descriptive statistics with measures of central tendency applied. First hypothesis was inferred using mean, second using mode and median for third hypothesis.

This study upholds hypothesis that services offered by Chamas are highly valued and MSEs owners mainly raise funds from Chamas apart from personal savings, only turning to external funding as last resort. Respondents felt that some services are efficiently provided by informal finance sector better than by formal finance sector. Chama members felt that money they save or invest is not taken away to pay salaries, rents or operating costs as in case of MFIs or Saccos.

Important policy implication is the need to link emerging informal institutions with formal ones so as to capitalizing on the later positive values. With expansion of money economy, Chamas if assisted to upgrade operations and integrated into wider financial market their impact will be phenomenon in any economy. Dynamics in economic activities and difficulties in meeting financial needs of the poor urges for revising laws in Kenya such as Banking Act and enactment of Credit and Savings Act. Until then it comes as no surprise of the rise of pyramid finance schemes and bogus credit lending agencies in Kenya.

CHAPTER 1

INTRODUCTION

1.0 Background Of The Study

The history of merry go round is ancient, dating back at least to 16th C, when Yoruba slaves carried it to the Caribbean, as part of their institutional buggage – social capital. Both the term “Esusu” and the practice have persisted to this day, as esu in Bahamas, susu in Tobago or sou in Trinidad.¹ A recent UNDP report² states that with a population of 33 million people and a per capita income of Ksh.35,480 more than two million Kenyans were not gainfully employed. The report states that 50% of Kenyans are living below the poverty line. High levels of poverty combined with slow economic growth in the formal sector have thus forced many Kenyans into self-employment and informal activities, yet access to financial services remains a challenge.

Article posted on Global Envision web site (April 14, 2006) states that in the 1800s, various types of larger and less informal savings and credit institutions began to emerge in Europe, organized primarily among the rural and urban poor. These institutions were known as People's Banks, Credit Unions, and Savings and Credit Co-operatives.

Meanwhile, starting in the 1970s in Bangladesh, Brazil and a few other countries extended tiny loans to groups of poor women to invest in micro-businesses. This type of micro enterprise credit was based on solidarity group lending in which every member of a group guaranteed the repayment of all members. These “micro enterprise lending” programs had an almost exclusive focus on credit for income generating activities (in some cases accompanied by forced savings schemes) targeting very poor (often women) borrowers.

In Bangladesh through Grameen Bank, Professor Muhammad Yunus in 1972 to 1980 attempted to address the banking problem faced by the poor through a programme of action-research. Using special relationship with rural banks, he disbursed and recovered thousands of loans, but the bankers refused to take over the project at the end of the pilot phase. They feared it was too

¹ Hans D. Seibel, paper titled “Mainstreaming Informal Finance Institution”, published in Journal of Development Entrepreneurship (ISSN - 1084 – 9467), Vol 6, No. 1 (April , 2001) .

² United Nation Development Program (UNDP), Kenya National Human Development Report 2006. Daily Nation of 28th February, 2007 page 1 and 5.

expensive and risky in spite of his success. Eventually, through the support of donors, the Grameen Bank was founded in 1983 and now serves more than 4 million borrowers. The initial success of Grameen Bank also stimulated the establishment of several other giant microfinance institutions like Proshika and Bangladesh Rural Advancement Committee (BRAC). As a reflection, the 2006 Nobel Peace award was won by Mohammad Yunus and Grameen Bank he founded. This was for pioneering use of tiny seemingly insignificant loans (micro credit) to lift millions out of poverty .Its worth noting that 97% of all loans were given to women. In the statistical tables of human development Bangladesh ranks 139th, with 49.8 percent of its population of 150 million below the official poverty line. In the homeland of the Grameen Bank, about 80 percent of the people live on less than \$2 a day. World Bank in its World Development Report, 2003 categorized Kenya as the 20th poorest country in the world. Bangladesh and Kenya are example of informal finance thriving in poor populations.

In both rich and poor countries Schreiner¹ found out that research work done has mainly been on rotating savings and credit associations (RoSCAs), money-guards, hire/purchase stores, moneylenders, pawn shops, trade finance, check cashing outlets and loans among family and friends. However MFIs have limited outreach to MSEs due to limited financial resources among other reasons. They only reach 3.5 % of the country's poor (CGAP).

Merry go rounds exist in many parts of the world where it is integral part of the local micro economy and referred to with local vernacular terms like in Kenya they are called "Chama". In Uganda they are referred to as Your-Friend-in-Need groups, while in Argentina they are known as Rotating Savings and Credit Associations (ROSCAs). Egyptians call them "Gamiyas" (Self help financial groups). "Susu" is in Tobago and Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, and "pasanaku" in Bolivia while in Ethiopia they have "Iddirs" (for social security during mourning), "Iqqub" (for money saving) and "Meskel Aksiyon"-for collecting and saving cash to purchase meat during Christmas, Meskel and Easter festivals. Merry go rounds lifeline lays in the existence of a group with common interest and how compatible members are.

¹ Mark Schreiner ,A Paper in Development in Practice, Vol II, No. 5 pg 637-640. " Informal Finance and the Design of Micro Finance", November 2006.

1.0.1 Overview Of Kenya Formal And Semiformal Financial Intermediaries

In 2006 the Micro Finance Bill 22 was passed and enacted into Act in January 2007. This signaled the recognition of Micro finance services to stimulate productivity and economic self-reliance. This Act thus provides a framework for supervision of micro-finance businesses but informal finance sector is yet to have a bill encompassing its practices may be this is due to the wide diversity of informal finance operations.

The microfinance sector comprises a very large and diverse group of institutions providing a range of loans and savings products to their clients. As per World Bank, World Development Report, 2003, it is estimated that there are 3.8 million Kenyans depending entirely on financial NGOs for financial services, while another estimated 1.1 million depend on informal associations and groups for similar services countrywide.

The microfinance bill is aimed at providing a legal and regulatory framework for the industry. The law it's hoped will allow MFIs to mobilize and intermediate savings from the public, thus providing them with access to low cost commercial capital. The law provides a regulatory framework under the Central Bank of Kenya, which ensures that all deposit-taking MFIs adhere to prudential standards. It also seeks to protect depositors by requiring deposit-taking MFIs to contribute to the deposit protection fund.

As a result of the Economic Research Strategy by the current Kenya government, a Rural Finance Department has been created at the Central Bank of Kenya, while a microfinance unit has been established at the Ministry of Finance. Microfinance mapping process, funded by the UK's Department for International Development and undertaken by Association of Micro Finance Institutions in Kenya is in progress. It's hoped this will enhance policy formulation that are in touch with informal practices on ground.

Policy makers in microfinance ought to note that poor people, especially those in rural areas, slums and/or other low income settings already have access to an immense variety of informal financial institutions. This is a good way of reminding ourselves that people can sometimes find solutions to their own needs that are better than anything we can dream up and that poor people fashion their own financial instruments in the absence of formal services.

1.1 Statement Of The Problem

There has been paucity of literature on merry go rounds in Kenya. Majority of researchers on informal finance sector have studied the formal MFIs in relation to credit policies (Dondo,1994), (Yoder ,1993) and (Parker,1993). Others have studied the MFIs on the cost of various credit programs, sustainability development, training, technical assistance methodologies, client drop out from MFIs and repayment rates (Khandker and Pitt 1996: Guargard, Pederson and Yaron 1994: Yoder 1993) .The findings of this study will add to existing literature on micro finance sector besides forming a new platform for exploring the different facets of merry go round concept.

There is a need to establish dynamics of merry go round financial channel in Kenya, factors that are barriers to informal finance and motivations for informal finance participants. This will go miles in formulating finance products by finance engineers which will meet financial needs of people especially of low incomes.

The study will endeavour to highlight key features of the informal finance in Kenya and make comparison of these features with those in other developing countries. By identifying similarities, generalized principles of informal finance can be developed and even practical principles of efficient informal finance sector be derived.

Nature of enterprises established with owners embracing “chama” concept will be evaluated in order to find out what is the survival rate of enterprises conceived from merry go round spirit? Can the concept be useful to formal finance sector and to what extend are services by informal finance substitutable with those of formal finance?

Further this study besides exploring the extent of satisfaction people perceive to achieve from informal finance services it will seek to provide indicators that act as motivation for revolving funds and hence build a case for policy makers to establish guidelines that will protect members of chamas from exploitation in order to enhance mobilization of savings and wealth

1.2 Statement Of The Hypothesis.

Hypothesis can be formulated relating to satisfaction of services offered by informal finance, more so in merry go round setting. Here the hypotheses set are to investigate and either confirm or reject:-

1.2.1 Value of Service.

Ho: There are no adverse factors affecting the conclusions that people are satisfied with services offered by Merry go round, an informal finance channel in Kenya.

Hi: There are significant adverse factors affecting conclusions.

1.2.2 Merry Go Round Is The Major Source Of Funding MSE's.

Ho: Majority of Micro and Small Enterprises (MSE's) owners mainly raise funds from Merry go round.

Hi: Majority of MSE's owners mainly to raise funds from formal finance institutions.

1.2.3 Efficiency Of Informal Finance Sector.

Ho: Transactions and services offered by informal finance sector are completely replaceable by formal finance sector.

Hi: There are some services which are efficiently provided by informal finance sector better than by formal finance sector.

1.3 Objective Of The Study

The objectives of this study are as follows:-

- i. To determine whether people feel satisfied with services offered by informal finance sector in Kenya in terms of range of products, service efficiency, adequacy of the services, interest rates levels on credit facilities, accessibility and economic soundness of the services.
- ii. To determine the major sources of financing for MSEs ventures and reasons for there preference (if any).
- iii. To determine if the transactions of informal finance sector are replaceable by formal finance.

1.4 Importance Of The Study

The study is important to the following:

- i. All Finance Engineers and Consultants in understanding factors vital when formulating financial packages designated for persons with low incomes and women in general—point in case Standard Bank “Diva Account” and “Chama Account” by Development Bank of Africa. Furthermore by identifying features of informal finance capital market intermediaries can be able to design optimal investment channels for their clientele.
- ii. Students of Finance who will be able to enrich their Knowledge on Behavioural Finance.
- iii. The study will be useful for revision of regulatory framework, establishing a bill for informal finance sector and advancing prudence in the management of the business of informal finance organizations like merry go rounds and other micro-finance set ups.
- iv. NGO's, capital ventures and donors to micro credit enterprises will find this study useful in establishing policies and channels through which concept of merry go round can be applied by MSE's in order to enhance funds accountability and effectiveness.
- v. Researchers /Academics will use the findings as a basis for further research more so in field of informal finance sector in Kenya.

1.5 Scope Of The Study

The study concentrates on financial and behavioral features of informal finance of MSEs. The aspects of finance considered include channels of funding, adequacy of services rendered, economical and efficiency of merry go round services. The behavioral aspects cover traits influencing perceptions towards informal finance and how satisfied people are with existing merry go round finance systems. The research data is collected from at least of 30 MSEs, which have at one time embraced merry go round spirit and are based in Nairobi. A survey method is used to collect the data. Analysis of MSE entrepreneurs' perception towards Chamas and finally evaluate the pro and cons of informal finance sector is inferred from data collected.

1.6 Organisation Of The Study

This research project constitutes five chapters. Chapter one consists of background and scope of the study. Chapter two is a review of literature on informal finance both from Kenya context and scenarios from other countries. Chapter three elaborates the research design and methodology with emphasis on the design, population, sampling plan, data types and data collection procedures. Chapter four presents a qualitative evaluation of the data obtained from the sample. The last chapter dwells on conclusions and recommendation based on the data analysis. Potential areas of future research are also suggested.

CHAPTER 2

LITERATURE REVIEW

2.0 Informal Finance Sector In Kenya

Ardener and Burman (1995), define informal finance as contracts or agreements conducted without reference or recourse to the legal system to exchange cash in the present, for promises of cash in the future. Merry Go Round are self help organizations which mobilize their own resources mainly from members periodical rotating savings, cover their costs and finance their growth using profits arising from credit to members.

While both informal finance and microfinance serve poor, unbanked people, informal finance derives from the grassroots, bottom-up demand of the poor for appropriate financial services, whereas microfinance derives from donor-driven, top-down supply. The common wisdom is that informal finance is a mine of lessons to inform the design of microfinance as elaborated by Ardener and Burman, 1995; Bouman 1995; Burkett, 1988; Caskey, 1994; Christen 1989; Graham 1992; Von Pischke 1992.

2.0.1 In Accessibility To Formal Finance.

A study by Riar Consult (February 2007) shows that informal financial sector will continue to thrive as long as there is demand for financial services from people who can not get loans from formal financial institutions. The external sources of finance are limited due to inability of the masses to gain access to funds from the mainstream formal financial system in Kenya (Parker, 1993). Alternative sources of external funds in form of self savings are almost impossible to accelerate in Kenya. This is due to factors inhibiting the saving rate for example, the poor economic status of most of the people owing MSEs arising from lack of initial steady employment, high cost of living and inadequate services provided by the government. In early 1990's there was rapid development of informal finance in form of Micro Finance Institutions. These Institutions provided credit to MSEs. The 1999 National MSE Base line survey identified various sources of MSEs Finances. They included family sources, money lenders, banks and NGOs among many others. This survey left out merry go round as a major source of financing.

2.0.2 Weak Financial Muscle In Women.

Mathenge (2001)⁴ found out that women had been restricted almost exclusively to low-paying, monotonous jobs involving little responsibility and few opportunities for advancement. Even though equal employment opportunity and affirmative action programs have led to more women managers, statistics indicate that women still earn lower pays and they are few in management positions. In 1988, women made up to 48% of the total labour force in U.S.A: but only 16% of all professional employees in U.S.A were women, Carrel (1995). Female labour force in Kenya was estimated at 2 million or 35% of the total labour force in Kenya in 2000. Lack of good self finance incomes could be the propeller for majority of women to form *chamas* in order to consolidate their meager incomes.

2.0.3 Group Factor.

Blau and Scott (1962)⁵ states that Informal group is one that does not have officially prescribed goals and relationships, where as the formal group does.

Rukwaro(2001)⁶ in her study established that group membership, savings, business profitability, location of the business, ability to pay and the frequency of the borrowing were some of the criteria used by MFIs to ration credit. The research found out that loan applicant with group guarantee, ability to pay, high savings and potential profitable venture received more than one loan from the MFIs or substantial amount. The fact that women socialize more frequently, they tend to form groups easily, this makes them be able to attract more credit facilities from MFI's. Merry go rounds incorporate group factor principle in order to mobilize more financial resources.

2.0.4 Regulatory Framework.

Oriare (2007)⁷ in his study concludes that “ The government and central bank of Kenya should hasten development of a regulatory framework for informal finance sector since legal and regulatory framework influences the functional efficiency of banking institutions thus defining their financial stability, this should not be any different to ensure the stability of the informal financial sector.” In essence then existence of a regulatory framework for informal finance will safeguarding people who are participants hence encourages their financial stability.

⁴ Mathenge Nyawira Wamuyu (2001) , “Characteristics Associated with upward mobility of Women in Organizations: A survey of Women Employees in Banking Sector in Nairobi.” Mba U.o N.

⁵ Peter M. Blau and W. Richard Scott, Formal Orgainsations , Chandler , San Francisco , 1962, p. 6.

⁶ Credit Rationing by micro finance institutions and its influence on the operations of small micro enterprises, 2001.

⁷ Peter Oriare, University of Nairobi Lecture, lead study on “ Public Perceptions, Attitude and Motivations of Revolving Funds in Kenya”, extracts published in The Standard, 5th March 2007, Shilling and Senses page 20.

2.0.5 Personal Drive.

Njoroge (2003)⁸ found out that certain venture capital companies clustered around certain types of financial instruments and certain industries segment .This indicated that financial decisions were highly personal. Inferring from these, the reasons for one to prefer informal financing instead of formal financing will vary from one individual to another, but initially members of merry go round tend to have low incomes and this drives them to form groups. Such preference can not be generalized for all participants in informal finance.

2.1 Models For Funding Micro And Small Enterprises In Kenya

Yoder, 1993 found out that MFIs in Kenya use diverse methods of microfinance molded from the Grameen Bank model. This model administers credit and savings. MFI's organize clients into groups for purpose of attaining economies of scale from the small scale transactions and instituting small group guarantee mechanism. credit appraisal is based on character assessment and trust of the group rather than viability of projects to be financed and collateral and the focus is on financing very small business and the poor (Khandker et al , 1995).Thus one can be denied credit if he/she does not belong to a group even if has ability to repay.

Study by Oketch (1993) on the demand and supply of MSE's finance in Kenya identified four methodologies mainly individuals credit, individual credit with technical assistance, group credit and group credit with technical assistance. The last two in my view are based on merry go round concept hence major source of financing MSE's has roots in merry go round spirit.

According to Dondo (1994) organizations give credit in two ways, individuals or through groups. Dondo, Oketch ,Yoder and Rukwaro studies are consistent on approaches used in Kenya to finance MSEs. Though the Kenyan situation is consistent, Gurgand (1994) did not identify any one single model for successful rural financial intermediation, rather a variety of operating models to improve savings mobility, provide credit and increase flexibility in service delivery were being used.

⁸ Factors affecting venture capital finance in Kenya (November 2003) , Henry Njoroge , Mba U.o .N

2.2 Selected Case Scenarios Of Informal Sector.

2.2.1 Formal And Informal Finance In Egypt⁹

Adams Dale's study looked at documented formal and informal finance in five representative villages. He noted that many people regularly use both formal and informal loans at the same time. It is not uncommon for an individual to have a loan from a commercial bank e.g. bank and still have other loans from merchants and also participate in a self-help financial group (gam'iya).

His study showed that overall there are dense networks of finance operating in these villages. All of the villages had an office of the government-owned e.g. bank and postal savings facilities. None of the villages had commercial bank branches, but many of the villagers worked in adjacent towns with ample banking facilities. Money keepers, numerous merchants who sold on credit, and many gam'iyas provided further financial services in the village. Furthermore, relatively large numbers of families in these villages had relatives working elsewhere who regularly sent them remittances. Overall, the annual magnitude of these rural remittances likely amounted to twice or more the total amount of new lending done yearly by the banks!

Finally Adams Dale study found out that informal and formal finance in these villages was interwoven. A merchant who lends informally may have a bank loan. A money keeper who accepts informal deposits may also have a savings account with a bank. A woman may organize a gam'iya to collect money to pay off a loan taken by her husband from say a bank. A merchant who makes informal loans may also receive goods on credit from a wholesaler who, in turn, has bank loans. A man may deposit his *winnings* from a gam'iya in a bank account.

He concluded that "When one has information on the entire financial system that operates in these villages it is difficult to argue--in my opinion--that large numbers of people have a pressing need for credit." Perhaps one of the reasons why so many credit-driven projects fail is because they are based on assumptions about credit needs that are incorrect.

He noted that in Egypt, little emphasis is placed on collateral, borrowers are allowed only small loans initially, and loans are repaid in small installments over relatively short periods of time. As borrowers prove their trustworthiness the size of loan is increased and the loan term is extended.

⁹ By Dale W. Adams, Univ. of Ohio

Adam Dale suggested that grafting this type of micro lending technology into existing development banks could prove beneficial. That they will require more use of computers, changes in employee incentives and charging higher rates of interest than development banks typically charge.

2.2.2 Rural Finance In Ethiopia: Assessment Of The Financial Products Of Microfinance Institutions (Mfis)¹⁰

The study's objective was to assess the roles of informal finance sector in Ethiopia. It was conducted during November and December 2004 in four regions of Ethiopia, namely Oromia, Amhara, Southern Nations and Tigray. There were a total of 849 households of which 629 borrowers and 220 lenders were covered in the study. Twenty five percent of the borrowers were female who received credit from different sources. The majority of the samples were from rural areas.

In the study areas, among the borrowers from informal sources, 35 percent borrowed from friends or relatives, 48 percent from private lenders, 15 percent from Iddir and two percent from Iqqub. Only three percent of them borrowed from both relatives and other informal sources. In fact, 10 percent of the borrowers borrowed from multiple informal financial sources.

The average loan size per client from the different informal sources was noted to be generally higher in the urban than in rural areas. The informal sources of finance were found to be less restrictive in terms of financing different needs of the clients. Money lending by private lenders took different forms. These were cash-for-cash lending, commodity-for-cash lending and commodity-for-commodity lending.

In the study areas, the share of informal finance in terms of borrowers and loan size is estimated to reach 69 percent and 61 percent, respectively, showing significant contribution of the informal finance in the financial service delivery. Processing of loan from informal moneylenders takes from one to 15 days. According to the survey results, 31 percent of the borrowers reported that loan processing takes only one day.

¹⁰ By Assefa Admasie (Ph. D), Gebrehiwot Ageba (Ph. D) and Mulat Demeke (Ph. D) in the Ethiopia Occasional Paper No. 12, January 2005.

Moneylenders, Iddir and Iqqub take rich persons as guarantor. Personal relationship also helps. Equally valid is other forms of guarantees such as written promise that is legally binding to enforce repayment. Some specialized moneylenders who particularly loan to pensioners keep the pension card needed to collect income as collateral.

Eighty three percent of the borrowers have repaid loan obtained from private moneylenders on time. The other flexibility indicator of informal finance is debt rescheduling. The lenders can extend the payment period either with payment of interest or free of interest depending on the situation.

Eighty four percent of the borrowers reported that loan size from informal sources is not adequate. The major reasons identified for inadequate loan size are demand for high collateral, fear of repayment capacity of borrowers, low fungibility of the lenders and lenders' decision of upper limit of loan.

There were some risks associated with informal finance this included death of the debtor, death of the guarantor, transfer of the debtor, change of residence area of the debtor etc, which negatively affect the informal finance providers. These factors also contribute to bad debt of the informal finance. The informal finance providers had limited financial resources, low level of skill and education background to expand the service.

The community prefers getting credit from friends or relatives. The basic reasons are the requirement of less or no collateral and often absence of interest paid on the loan. However, private moneylenders are the most preferred source of credit in terms of easiness of accessibility to loan and in getting relatively bigger loan size as compared to the other lenders.

Age of the head of the household was one of the variables that had strong and positive relationship with the probability of borrowing. Also religion was another factor affecting the functioning of credit system. The results of the study are consistent with the hypothesis that following the Islamic faith has negative influence on the probability of borrowing from the informal financial sector. However, followers of all religions were found to involve in informal financial services at different intensities.

Regarding spatial difference in borrowing, the result shows that living in the urban area had positive and significant influence on the probability of informal borrowing. Informal finance functions in urban and rural areas including remote areas not served by formal institutions. In areas served by formal financial institutions, informal also exist. The co-existence of informal and formal has strong policy implications.

The client screening and credit policies applied by the formal and informal financial sectors differ. The formal finance is rigid in client screening, lending procedures, collateral requirements, etc. On the contrary, informal finance services are more flexible in terms of loan purposes and repayment scheduling, collateral requirement, fast client screening, and easy procedure of loan processing. Despite the high interest rate charged by the private moneylenders, a number of clients still seek the services due to its merits. This shows that informal finance can not be fully substituted by formal finance and that people are satisfied with services offered by informal finance sector even if the rates are high.

2.2.3 The Microfinance Industry In Uganda¹¹

While Uganda boasts of a long history of informal finance, semi-formalised microfinance began emerging as an industry in the early 1990's. The microfinance industry is therefore still young, but the growth and development of its institutions has been dramatic over the past decade. From a few social welfare- oriented organisations, microfinance has grown into a dynamic private sector industry serving Uganda's economically active poor. This growth has been mirrored by changes in philosophy and increasing coherence based on 'good practices'. The four key principles guiding the industry today are;

Outreach: The need to expand financial services to an increasing number of Uganda's low-income entrepreneurs, particularly in rural areas. MFIs have adopted innovative ways of delivering financial services, especially credit, to target group originally considered "unbankable" by the conventional banking sector. Use of group lending and village banking models with peculiar variations has allowed MFIs to reach a large number of clients who previously had no access to financial services.

¹¹ An Article from Uganda Financial Services Distribution based on an idea from Henk Van Oosterhout

Sustainability: To carry the business in a financially sustainable way, full-cost pricing and strategic alliance of MFIs with insurance companies are emerging as elements of microfinance best practices.

Commercial Viability: Increasingly, the heightened need for capital along with pursuit of strategies of commercial sustainability is opening up the once sheltered microfinance industry to the more competitive and formal financial market place. Competition in the general financial sector has seen commercial banks entering the microfinance market.

Legal framework: Realizing the need for a regulatory framework, parliament passed the first ever microfinance law in Uganda in October 2003. The regulatory framework will allow eligible institutions to intermediate savings from the public under central bank supervision, thus enhancing their viability while safeguarding people's deposits.

According to the study undertaken by the Ministry of Finance Planning and Economic Development in 2002, most of the MFI's surveyed (63.7%) were found to be small groups (category F) and small institutions including multipurpose NGOs, cooperatives and informal organisations (category D). These MFI's are limited by liquidity hence unable to provide their clients with bigger sums of credit for a longer period, a fact that affects the ability of the non-farm activities to expand.

A formal microfinance sector operates across urban, peri-urban and rural areas and concentrates on the lower income levels of society (the economically active poor), which comprise the overwhelming majority of the population. More than 70% of clients of MFIs are women.

Enhanced coordination through the microfinance forum still remains the biggest strengths of microfinance industry in Uganda. Donor coordination is equally strong through the private sector donor subgroup and capacity building initiatives. The formation of the rural microfinance committees at the district level through the Government supported outreach plan is expected to further strengthen microfinance coordination in rural areas in 2003.

Challenges are still in the areas of building the capacity of MFI's and increasing outreach, in terms of under-served areas (esp. the North and North-East of Uganda) and under-served sectors (esp. agriculture). The development of appropriate financial services beyond credit (e.g. savings

and insurance products, with specific attention to the active poor especially women) also remains a challenge. The recently enacted MDI law brings a few MFIs under the purview of the Central Bank. Many MFIs therefore continue to operate without any statutory or mandatory regulations and supervision. There is need for a law to regulate the operation of Tier 4 financial institutions.

2.2.4 Micro Finance In Bangladesh And India¹²

Grameen model of microfinance has evolved in Bangladesh and is the most dominant model prevalent there. Centrally managed dedicated microfinance institution which consist of groups of five, highly disciplined organizational structure - these is Grameen model. The focus is primarily on lending, but every group member must save a certain amount.

In contrast, in India, the most popular model is Self-help groups. SHGs are groups of between 15-20 people. Scheduled banks provide the loans and manage the savings for the group. But the banks do not directly interact with the SHGs. Instead, non-governmental organizations (NGOs) get involved, help in forming groups, but then empower the groups to manage their own affairs. The focus is primarily on saving. Lending to group members is first sought from within the group savings and then from the bank.

An example from Bangladesh¹³

Safe Save, a young microfinance program in the slums of Dhaka, Bangladesh, exemplifies many of the above points. Its design explicitly used insights from informal finance [Rutherford, 1998a and 1998b; Matin, Rutherford, and Maniruzzaman, 2000]. SafeSave offers both saving services and loans. Balances in its passbook savings accounts earn interest, and clients can make deposits or withdrawals at any time in any amount. Loans are collateralized by savings balances; clients can borrow up to 1.5 times their savings, and savings balances are frozen (pre-repossessed) until the debt is repaid.

Like credit-card debt, debt from SafeSave does not have a fixed repayment schedule; as long as a borrower pays monthly interest and semi-annual fees, the loan is outstanding as long as the borrower wishes. Interest rates are high-3 percent a month on outstanding balances.

¹² The Indian Express, October 27th, 2006. An interview with Malcom Harper chairman of Basix , a livelihood promotion institution based in India on micro credit in India.

¹³ Mark Schreiner ,A Paper in Development in Practice, Vol II, No. 5 pg 637-640, " Informal Finance and the Design of Micro Finance", November 2006.

Employees at Safe Save work out of simple, one-room branches with minimal furniture and no motorcycles or other vehicles. As combination money guards/loan officers, employees visit each client each day in their home or business to transact deposits, withdrawals, disbursements, and repayments. Such home visits are especially important because most clients are women and because the custom of *purdah* severely restricts the movement of Bangladeshi women in public.

2.2.5 Micro Credit In China

Like India, China also has regulatory problems which are preventing growth of Microfinance. An article by You Nuo in *The Brunei Times* on how there was a state controlled experiment in microcredit in China in the 11th century which failed resulting in the Prime Minister Wang Anshi who introduced it almost destroying the dynasty he was working for. Wang Anshi (1021-86), the reform-minded prime minister of the Northern Song Dynasty (960-1127), practised it when he began to tinker with the imperial financial system and render credit to all farmers.

Wang had a plan of changing his office into some sort of a national agricultural bank. What a good thing, he thought, if the empire could, by rendering credit to its subjects, reap a healthy inflow of interest income to finance the defence and the endless need for luxury by the court.

He failed thus shattering both his career and, to some extent, the empire. The idea was noble. Farmers or any other grassroots-level business owners deserved financial support. However the failure occurred in converting a clumsy bureaucracy into a direct service to millions of farmers and small business owners.

2.2.6 Other Studies Done On Informal Finance

Bruce R. Bolnick on a survey paper on (*Katapila*) money lenders & Informal Market in Malawi done in July 1989 to July 1990.¹⁴ The study by calculation shows that the interest charges on *Katapila* loans are not justified by economic costs of doing business. That though credit services command center stage in most informal finance markets, deposit services are at least as important. The paper reviews work of Van Velsen's (1964) that a traditional debt relationship existed among Tonga people of lakeshore even before semiformal finance.

¹⁴ Bruce R. Bolnick, July 1989 to July 1990, Harvard Institute for International Development, Cambridge. A survey of Informal finance markets in Malawi. With bias on *Katapila* moneylender in Lilongwe, Malawi.

Here half bride wealth payment (dowry) remained outstanding during the marriage creating a social bond between families. Bolnick concludes that informal finance markets tend to expand in response to repression of the formal market. This conclusion is a contrast to current Kenya situation where the economy is liberal and yet informal market –informal finance- is thriving

Servet¹⁵ in his book summarizes that “Unknown at the beginning of the 1990s except by a small circle of specialists, microfinance today enjoys an increasing popularity. Nevertheless, its media coverage and the hopes that the public authorities rest in it are often founded on an erroneous vision of its impact and the services that it provides to the masses. This vision presupposes the following: That the essential need of most impoverished populations is the need for credit, since they strongly prefer to start their own small entrepreneurial activities, rather than earn wages. That the main limiting factor in the expansion of micro credit is the lack of resources for lending and that solidarity loans are the most common form of micro credit. That the main clients of MFI’s are women from the poorest sections of society. That micro credit institutions that are both profitable and can serve a poor or very poor clientele, can be put in place very rapidly. So many common misconceptions, except in exceptional circumstances.”

The Hawthorne studies on informal organizational structure¹⁶ theorized that there was a key variable that managers had been ignoring, which had to do with workers' relationships, attitudes, feelings, and perceptions. By separating people into groups and then making lots of changes in working conditions, the researchers inadvertently did two things:

1. Made workers feel like management actually cared about them. They felt important and special.
2. **They created bonds among people in the test and control groups** - in effect turning them into true groups as described above. People work better when they are part of a clear social structure.

So an important conclusion was that people did not necessarily behave according to models of economic rationality. Social processes within the group that they formed were more important than purely material gains. Also even material goods, physical events, wages, work hours etc.

¹⁵ Jean-Michel Servet in his book *Banquiers aux pieds nus: la micro finance*, Paris: Odile Jacob, 2006.

¹⁶ Fred Luthans (1985), *Organizational Behaviour*, 4th Edition, Page 10-16.

were perceived differently by different people in different situations and so it's not so much the money or the hours themselves that matter, it's what meaning they hold for people and meaning is something that is socially mediated. The group affects the cognitive aspect of how individual interprets things. Cognitions constitute input into a person's thinking, perception, or problem solving. It precedes behavior in that its the act of knowing the basic unit of the cognitive framework. Most discussions cited the women's unanimous preference for working in test room instead of the regular department. In order of preference the women gave the following reasons:- Small group. Supervision type. Earnings and Attention they receive.

It will be safe to deduce that due to preference of women to form groupings coupled with fact that most have lower incomes compared to men and they prefer attention to themselves then these factors tend to contribute immensely on why women participate in informal finance.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

This section discusses the research design, population, sampling method and data collection.

3.0 Research Design

An exploratory study of merry go round was used with the aim of establishing features of informal finance sector in Nairobi and comparison with the characteristics of those in other developing countries done. Survey method was applied in this study. A semi structured questionnaire was used to collect data from micro and small entrepreneurs.

3.1 Population

The population of micro and small enterprises is very large due to their informality nature. The study considered fifty MSEs that use informal finance channels with bias on those that have embraced the merry go round spirit and are based in Nairobi.

3.2 Sample Plan

A sample of 50 MSEs was selected from various parts of Nairobi. This was preferred as it ensured wide capture of different facets of informal finance under varying settings hence minimize sampling bias.

Due to the large number and informal nature of MSE's in identifying those entities that embraces merry go round concept, snowball sampling technique was used where by few identified MSEs after collecting data from them they were used to introduce the researcher to the other MSEs.

3.3 Data Type And Collection Procedures.

The study used mainly primary data obtained from MSE's including MSE's background (name, gender, location, year of establishment, type of business, ownership and source of funding).

A semi structured questionnaire was prepared and administered to both MSE's entrepreneurs embracing merry go round concept and those not. The four part questionnaire encompassed factual data in part A (e.g., location, ownership form, nature of business and gender of the entrepreneur), part B constituted questions that tries to gauge if people are satisfied with services offered by informal finance sector, part C focused on preferred sources of funding for MSE's and lastly part D covers issue of whether IFI's services can be replaceable by formal finance sector. Semi structured, open-ended and guided questionnaires will be given out during field visits to MSE's business / premises and the researcher collects them afterwards.

3.4 Specification Of Variables

Indicators of people satisfaction with services offered by merry go round will be based on their perception as to how valuable the services offered are (i.e. highly, moderate or least valuable), views on how economically efficient the services are and how short loan processing period is.

The most preferred sources of financing MSEs' ranking from highly preferred (5) to least preferred (1) will be used to ascertain if majority of MSEs' owners raise funds from informal finance institutions and how accessible is funding by merry go round compared to bank funding. Ranking will be based on arranging the percentages in descending order as per respondent's view with highest percent being allocated 5 while least source of funding receiving lower value based on number of sources utilized by the respondent. Sources of funding considered include foreign donors, banks, profits plough back, merry go round/ chama, friends, relatives and personal savings.

Merry go round transactions will be evaluated on whether are can wholly (100%), partially (50 - 80%) or sparingly (20%-40%) replaceable by formal finance intermediaries. Respondents view on if advantages of merry go round outweigh disadvantages or disadvantages of merry go round outweigh advantages will be indicators of their outlook towards merry go round.

CHAPTER 4

DATA ANALYSIS AND FINDINGS

4.0 Data Analysis.

Data analysis was first done using descriptive statistics as this was an exploratory study. All the respondent answers were summarized in schedules (Appendix B, C, D and E). Inferential statistics was used to test the set hypothesis. Measures of central tendency – mean, median and mode was used. First hypothesis was inferred using mean, second hypothesis using mode and finally median for third hypothesis. Analysis of MSE entrepreneurs' perception towards Chamas and finally evaluate the pro and cons of informal finance sector was inferred from data collected.

Data was edited in order to impose some minimum quality standards in raw data and validate the field results. Tabulation was done in order to facilitate data comparison and reduce outliers in results. Descriptive analysis of major variables as well as econometric estimation of determinants of the merry go round was used using different indicators similar to those applied in 'Rural Finance in Ethiopia : Assessment of Financial Products of MFIs' a study mentioned earlier.

The data was presented using tables, charts and descriptive statistics. The data was analyzed using descriptive statistics (mode, mean, frequencies and percentage). Descriptive statistics enabled description of the distribution of various variables in the study.

4.1 Respondent's Views On Factors Perceived To Back The Study Hypothesis.

4.1.1 Value of Service

People were moderately satisfied with merry go round based on their perception as to how valuable the services offered were. Considering 62% of respondents were moderate, 18% felt the services were highly valued while 20% were not satisfied with the services. The test rejected the alternate hypothesis as no extreme values neither high nor low were found hence no adverse factors to affect conclusions.

Informal finance services were slightly viewed as being economically efficient with 56 % of respondents agreeing while 44% felt the services were non economical efficient. The test supported the null hypothesis.

Collateral for loans advanced by merry go round were not sufficient as 82% of respondent felt the guarantors and ones savings in a merry go round was not adequate for loans taken while only 18% felt the collateral was enough.

The study found out that on average duration for a loan to be processed took one month for 24% of respondents, one week for 6% of respondents, two months for 2% of respondents, three months for 2% of respondents, six weeks for 1% of respondents, 12% of respondents stated they had never taken loans while 3% felt the duration was flexible as it depended on factors such as emergency, size of loan and amount of shares one held.

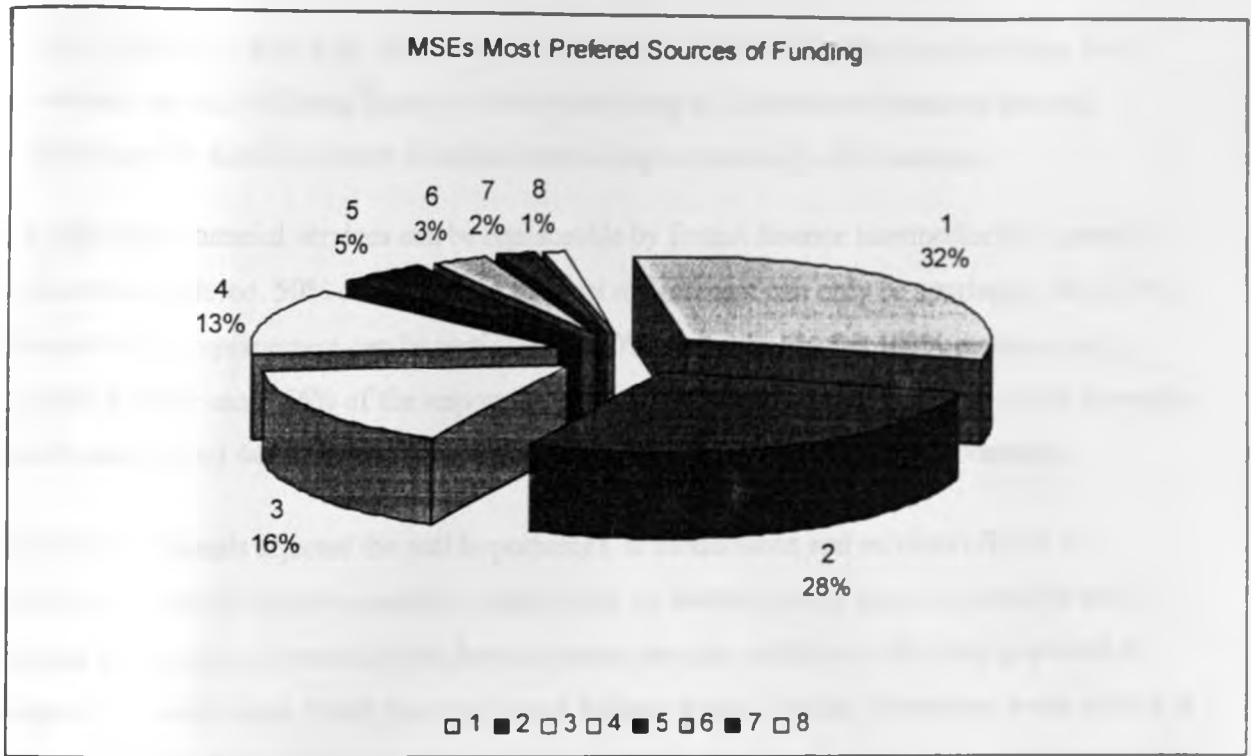
Inferred from respondents' value of services by merry go round and economical efficiency the null hypothesis holds, that there are no adverse factors affecting the conclusions that people are satisfied with services offered by Merry go round, an informal finance channel in Kenya.

4.1.2 Merry Go Round Is The Major Source Of Funding MSE's

Responds pertaining to sources of financing from initial capital to current operations of MSEs, indicated that self savings was the most preferred at 32 % and followed by internal profits plough back at 28% and Merry go round funding at 16%. Others were relatives at 13%, banks funding at 5%, friends at 3%, donations at 2% and lastly Saccos with 1%.

The null hypothesis that majority of micro and small enterprises owners mainly raise funds from merry go round is accepted by that fact that apart from personal savings of the MSEs' owner and internal ploughing back of profits the first external funding is sourced from merry go round. This finding is in agreement with the study by Riar Consult (February 2007) that informal financial sector will continue to thrive as long as there is demand for financial services from people who can not get loans from formal financial institutions. So merry go round could be the major source of funding MSEs by default as other formal funding are not easily accessible.

Chart 1



Key:

- 1 = Self Savings 2 = Profits Ploughing Back 3 = Merry Go Rounds/ Chama 4 = Relatives
5 = Banks 6 = Friends 7 = Donations 8 = Sacco

Null hypothesis was further supported by 68 % of respondent who felt that funding from merry go round was more accessible than sourcing funds from bank (32 %).

Its worth noting that 76% of respondents were members in a merry go round and only 24% stated they were not in any merry ground. Merry go round sizes varied from two to five members where 16% of respondents belonged, 40% of respondents where in chamas consisting six to fifteen members and 20% of respondent were in merry go rounds of sixteen plus members. The rest were non members. Respondents agreed that 66% of informal finance lenders were exploitative, while 34% disagreed.

4.1.3 Efficiency Of Informal Finance Sector.

Services offered by merry go round include receipt of members' contributions/ savings, loan advancing, sharing/ offering financial advice pertaining to business one ventures into and pooling together funds to invest in capital demanding undertakings for members.

Though these financial services can be replaceable by formal finance intermediaries, extend of replacement differed. 50% of respondent thought replacement can only be sparingly (20- 40 %), while 44% felt replacement can be partially (50-80%) and only 6% felt 100% replacement is possible. Further more 56% of the respondents stated that advantages of merry go round outweigh disadvantages and 44 % viewed disadvantages of merry go round outweigh advantages.

The above responds rejected the null hypothesis that transactions and services offered by informal finance sector are completely replaceable by formal finance sector. Instead the study accepts the alternate hypothesis that there are some services which are efficiently provided by informal finance sector better than by formal finance sector. Similar deductions were arrived at by Dale in his study of formal and informal finance in Egypt where rural remittance from informal finance amounted to more than twice money lending by banks (Study cited earlier.) That some services were well served by informal finance than by formal finance sector.

Channels Of Micro And Small Enterprises Financing Comparatives With This Projects Findings.

Finance	Kenya As per World Bank Web Site	Region As per World Bank Web Site	The Research Findings as per MSEs
Internal finance for investment (%)	52	68	28
Bank finance for investment (%)	32	18	5
Informal finance for investment / Merry go round (%)	1	3	16
Supplier credit financing (Relatives, Friends, Donations) (%)	16	12	19
Self savings (%)			32
Loans requiring collateral (%) as collateral is not sufficient	86	85	82

4.2 Other Important Findings.

4.2.1 Importance Of Merry Go Round Concept.

The merry go round service addresses areas not covered by the formal financial sector. For instance, loan needed by individuals for meeting immediate financial needs to cover health and consumption expenses. The private moneylenders too cover this gap and provide credit for different purposes but at higher interest in a relatively shorter repayment period. This case supports Oriare (2007) study that Kenya Government should hasten development of regulatory framework for informal finance sector. It could be due to such demands that the indigenous saving and credit associations are evolving in terms of their purposes and functioning hence indirectly encouraging saving practices.

Merry go rounds were established to provide social services and mutual support, including economic, during special social events such as funeral, mourning, wedding, etc. The study, however, revealed that such associations are increasingly involving in financial services by providing credit to its members even charging interest on loan. The loan processing period is short, simple, cheap, collateral requirement is low and social ties are strong enforcement mechanism. Yet, the capacity of such institutions to cater the lending services, building saving capacity and financial management is low. One of the important policy implications is the strong need for linking such emerging informal institutions with formal ones so as to effectively serve the needy by capitalizing on the positive values of the informal institutions and building their capacities.

Merry go rounds provide efficient financial services to a broad clientele that was badly served by formal sector financial intermediaries. They bridge the gap created when formal finance sector - banks- have failures. They also offer financial services with personal touch as members know each other.

Facilitated generation of investment ideas through social interactions among members and at same time creating an impute for people to work hard least they let down the group. These enhance financial discipline which tends to lead to improvement in financial status of members.

Self finance is the pre-dominantly source of funds for start ups and expansions of enterprises. Merry go rounds for a reliable channel for self finance by creating fragmental saving flows.

4.2.2 Case On Why Merry Go Round Thrive.

The study inferred merry go round thrive on basis of

- i. Low interest rate on deposits in banks companied by
- ii. High risk level of investment .example volatility of Nairobi Stock Exchange returns.
- iii. Time and traveling costs are low hence convenience.
- iv. Minimum balance requirements low collateral on loans.
- v. No withholding taxes on dividends/ profits and no tax on loan.
- vi. Withdrawal restrictions and cultural factors (discomfort in dealing with formal institutions)
- vii. Absence of loans from formal deposit institutions.
- viii. Low default due to guarantee by known third parties who encourage borrower to meet up obligation beside fear of social backlash.

4.2.3 Problems Of Merry Go Rounds

Problems of merry go round have their roots in the fact that they are friendship based. Their formation is based on close associates. Clique membership/ostracism acted as a form of social control, forcing people to conform to group desires. Once the friendship is tempered with the merry go round starts to deteriorate and eventually cease operation.

Limited volume of loans is common among merry go rounds as cash inflow is mainly from members' contributions. A solution to this could be by increasing MGR outreach to serve the unmet demand for financial service, more members will join hence increasing financial base to lend more.

Most merry go rounds have poor records keeping practice as their operations are more informal. MGRs have to improve and standardize financial reports to promote transparency in the sector. Beside better records leads to well informed decisions based on true facts concerning chama.

Troublesome arrears problems face merry go rounds as repayment may be defaulted due to members' low incomes. By improving their financial performance and undertaking credit rating defaults will be reduced. Collateral should be equal or more than loan applied for by a member.

Lack of trust among members makes many to shy away from merry go round and more so due to few and in some cases no regulations and law, to instill management discipline. With growth the unifying factor(s) why members formed merry go round may dwindle this in turn hampers trust among members leading to split.

Merry go rounds are deterred them from providing efficient and prudent financial services, due to poor access to markets, lack of credit and a poor policy environment. To counter this merry go rounds have to build staff capacity and knowledge in order to keep pace with changing environment.

Short range of services offered by merry go round do not encourage people to join. To change this merry go round need to research and develop new, demand-driven products, and ensure conducive operating environment for merry go rounds.

The Micro Finance Bill 2006 of Kenya scope totally has nothing on informal finance sector instead its solely centered on deposit taking formal micro finance institution licensed under the Act. Yet need exist to prohibiting usurious loan, private moneylenders provide loans at higher interest rate than those by formal finance intermediaries. Merry go round plays significant roles in the economy of the country.

There is a need assess practicality of the Civil Procedure Code and Penal Code Banking Act and enactment of Credit and Savings Act and possible revisions so as to create credit services that may capitalize on acceptable, flexible and more adaptable credit policies for the rural poor who cannot access credit from formal sources. The more formal the operations are, more lenders enter into financial market and competition may push the interest rate down and create conducive environment for the borrowers. Dynamics in economic activities and difficulties in meeting financial needs of the poor urges for revising such laws in Kenya. Until then it comes as no surprise of the rise of pyramid finance schemes and bogus credit lending agencies in Kenya.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Summary

While merry go round institutions are not perfect, and sometimes lead to lost savings, many of them are well run, convenient, safe and inexpensive institutions. Their members are quite satisfied with them and prefer them to other sources of financial services. Informal structures have the advantage, from the members point of view, that none of the money they save or invest is taken away to pay salaries, rents or other operating costs as in case of MFIs or SACCOs. Also, informal institutions usually meet within short walking distance of where members live and they are able to deal with very small transaction sizes, without putting pressure on members to save or borrow more than they can afford through joint-liability groups that tap into social capital.

Merry go round cannot contribute to the reallocation of purchasing power throughout the economy, critical for increases in the productivity of available resources. In this sense, merry go round finance is not socially "efficient" and cannot contribute to economic growth as much as formal finance (wider in scope) could contribute if it is made available. Informal finance leaves too many opportunities to improve resource allocations untouched.

5.1 Discussion.

5.1.1 Efficiency Of Informal Finance.

Are The Services Provided By Merry Go Round Sector "Valuable" For Their Clientele?

The answer is a strong "yes" and for this reason researcher opposes the repression of informal financial arrangements. They should not be viewed as "evil" but rather as providers of valuable services actually demanded by their clientele. Without those informal arrangements, many times these services would not be provided at all. The study shows that these informal services are welfare-improving for those who use them.

Are The Services Provided By Informal Lenders "Sufficient" From Their Clientele Perspective?

Under many circumstances, the answer in this case is possibly "no." Merry go round lenders typically do not provide a sufficiently wide collection of the services for which a demand exists (e.g., deposit facilities, money transfers, certain types of loans). There are exceptions, of course. Several of these "missing" services, however, are demanded by the poor and if they were available they would also be welfare-improving.

Moreover, merry go rounds financial services are either a part of a larger network of relationships (friends and relatives), which carry particular (but difficult to measure) costs, or are (clearly with justification, but still) quite costly. It is not surprising, therefore, to observe a demand for those semiformal and formal financial services that are cheaper and that are at the same time permanent and reliable. Increasing access to less costly services will also be welfare-improving.

Are Informal Financial Services "Efficient" From An Economic Perspective?

The answer here is a weak yes. Reasons for this include fact that merry go round financial arrangements are competitive mostly within small market segments. Beyond the local boundaries, informal finance is "prohibitively expensive" (and for this reason, one hardly ever observes these types of finance among agents who are "far away" from each other). The information costs for screening and monitoring borrowers are low.

Can Informal Financial Transactions Be Replaced And/Or Complemented With Formal Financial Intermediation?

The answer is "potentially yes," but not fully replaceable as the task is not easy at all. The development of financial systems in many countries is an illustration of how this process takes place. Since the provision of formal financial services is very costly, the process takes a long time and requires major improvements in infrastructure and institutions.

5.2 Conclusions

Merry go round finance mostly takes place in extremely fragmental transactions at zero interest but more has to be done through enactment of laws in order to develop more effective deposit and loan services for small savers and borrowers e.g. innovating programs that enhances merry go rounds groups to bank and access banking services at minimal cost.

Behaviorally merry go round arises when human beings interact with each other over a long period of time, they develop a social structure that is only partly based on the formal organizational structure.

The research has unearthed six basic virtues of informal finance:

- Slashed transaction costs
- Supply of not just loans but also savings and implicit insurance
- Services sensitive to constraints faced by small or low income earners.
- Substitution of confidence in character for physical collateral
- Socially enforced and/or self-enforced contracts
- Sequences of repeated transactions.

To the Kenyan economy merry go round spirit bridge the gap created when formal finance sector - banks- have failures. They supplement income to the members and supplement credit sources besides helping members to increase their financial savings. Establishing of a clear and proper legal environment to boost the development of micro credit and supervision mechanism will glue the bridge between informal and formal finance.

In reaching the poor one would require, in addition, innovations in financial technology which often tend to lean on formal finance segment. On the other hand, informal finance will never disappear, but it will occupy an increasingly less important niche as formal finance is developed.

Valuable financial services are provided by merry go round arrangements. Economic development requires, however, the provision of additional formal financial services (to replace or complement the informal). The real challenge for informal finance is to discover the appropriate combinations of technologies, organizations and policies needed to develop formal financial systems at the national level.

Merry go round concept provide framework for informal finance with undertones of a social system just like shipwrecks and coral reefs create habitats for millions of fishy creatures, merry go round organizations provides utility to its members that formal finance sector does not fully satisfy.

5.3 Recommendations

Way forward for merry go round finance sector.

5.3.1 Technical Support

The results of the study revealed that the role the merry go round service plays in serving the community members is considerable. However, they have limited financial resources, low level of skills and knowledge to expand effective services. Giving sufficient financial services to the community, enhancing the capacity of the informal finance providers could be an important intervention to improve the sector's performance. Further more assisting merry go rounds to establish networks and enlisting more members, then register the networks under a suitable legal form will boost trust levels and improve management practices for merry go round.

5.3.2 Tentative Areas For Improvement

Merry go round units need a defined business plan with clear objectives and outputs at each stages of their planning period. installed/improved accounting system compatible to prudent financial management and performance appraisal to ensure institutional profitability/sustainability.

Introduction of internal control system sensitive to risk mitigation filling gaps in risk prone areas in their operations. Managers of merry go round finance set ups at all levels should be sensitive to risk prone activities and applying risk mitigation measures at all levels.

Embarking on product diversification that used to be pegged to only group based lending and limited savings facilities. Most MFIs have started to include individual lending and other income earning service and eased savings withdrawal. They have also opened their savings service to non-clients that among others improved their loanable fund mobilizations, thus even merry go round should be heading in such a direction.

Enhancing management skills and operational practices will go miles in strengthening merry go round units. By transforming merry go round and non rotating saving and credit associations, funeral societies, deposit collectors, also money lenders and similar informal institution into financial intermediaries with a permanent loan fund.

Upgrading MGR to regulated financial institutions and mainstreaming into formal financial sector. This can be through entering into linkages with commercial banks example, depositing savings in co-operative and bank. Merry go rounds can then tap into opportunities that may arise.

Much research has tended to overlook some important weaknesses of informal finance (Christensen, 1993) and by extension merry go round weakness: These are

- No deposit insurance
- No large loans
- No long loans
- No recourse to legal systems to enforce contracts.

Merry go round finance, by its very nature, it's outside the influence of formal laws. For example, laws probably have little effect on whether parents make loans to their children. Some people do get trapped in vicious debt cycle due with unscrupulous lenders, but these lenders are unlikely to disappear by decree, and legal restrictions discourage mostly the fair lenders, weakening competition and strengthening the monopoly power of the predators. Probably the best course is what Meyer and Nagarajan (1992) call "benign neglect": do not attempt to regulate or outlaw informal finance, because it would increase costs for the government and have little or no positive effect on financial services for the poor.

5.3.3 Policy To Enhance Growth Of Merry Go Round Units

A national body for merry go round should be establish for the purpose of accomplishing tasks like information, research and knowledge dissemination, setting standard for best practices. lobbying for better working environment ,public awareness and facilitating access to fund, that are best handled by a specialized/professional institution. With maturity, the body could be source of technical support and consultancy services that include financial and management audit of member merry go round finance organizations and being self-regulating nucleus of the informal finance sector.

Allow people to form their own joint-liability groups. A central innovation in microfinance is the joint-liability group in which all borrowers are liable for each other's debts. The success of such groups at the Grameen Bank in Bangladesh and at Banco Sol in Bolivia has led to widespread replication. The clones usually are less successful than the models. Often, this is because staff of the micro lender places members in groups (often with strangers) rather than letting groups form on their own. Although members may exclude the poorest, only self-selection can ensure that members screen for risk, trust each other, and believe that they have power to enforce repayment through social sanctions. Without self-selection, groups are mere façades.

5.4 Limitations For The Study.

1. The MSEs were entrepreneurs in the informal sector. Because of the nature of the business they keep varying their operation, location and being widespread, it was not possible to get a systematic random sample of the MSEs studied. This might have introduced limited bias of the data collected.
2. Some MSEs owners declined from taking the questionnaires as they were afraid of exposing their operations and also fear that may be the data collection process being a ploy to aid the researcher develop his business proposal for possible funding from government Youth fund initiative.

5.5 Suggestions For Further Research.

1. A study need to be undertaken to determine if merry go round institutions have positive correlation with poverty. Robert Pollin an economist says, "Bangladesh and Bolivia are two countries widely recognized for having the most successful micro credit programs in the world. They also remain two of the poorest countries in the world." In my view poverty drives flourishing of IFI's as formal banking is unaffordable to masses who are poor.
2. Need to study the group social dynamics in merry go round finance units in order to establish early signals of disintegration of the group and counter measures. Most respondents reported that initially when the groups are being formed they are very cohesive but when they start defaulting or getting different amounts of loans ,animosity tends to develop among the group members and this affected the social interactions of the members involved as well as their businesses.
3. In future a study should be done on the possibility of applying merry go round spirit in ways that create alternative investment vehicles besides the traditional equity investment. For example can merry go round concept be a vehicle for one to investment in NSE Stock index? In Kenya trading in stock index is yet to be practiced.
4. Finally, there is an important opportunity for conducting research that integrates emerging knowledge regarding informal finance into macroeconomic models. Given the demonstrated quantitative importance of informal sector borrowing, particularly in rural areas, it is essential to begin to build models which can account for the interrelations between key macroeconomic policy variables (formal sector interest rates and banking regulations, in particular) and the status of informal finance in Kenya. It seems that the links and the empirical evidence currently are poorly understood no wonder we do not have any act pertaining to pure informal finance

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APPENDICES

- 7.1 **Attachment 1** : Channels of Micro and Small Enterprises Financing Comparatives.
- 7.2 **Appendix A** : Questionnaire
- 7.3 **Appendix B** : Schedule of Micro and Small Enterprises from which data was collected.
- 7.4 **Appendix C** : Schedule of MSEs' answers for part B of questionnaires.
- 7.5 **Appendix D** : Schedule of MSEs' answers for part C of questionnaires.
- 7.6 **Appendix D** : Schedule of MSEs' answers for part D of questionnaires.

ATTACHEMENT

Channels Of Micro And Small Enterprises Financing Comparatives.

Source : The World Bank Group Web Site ©2006

Finance	Kenya Region		All countries
Internal finance for investment (%)	52.66	68.98	62.60
Bank finance for investment (%)	32.40	18.65	18.06
Informal finance for investment (%)	1.52	3.56	4.32
Supplier credit financing (%)	16.70	12.04	8.81
Value of collateral needed for a loan (% of the loan amount)	172.45	140.39	139.92
Loans requiring collateral (%)	86.14	85.16	81.70

Statistics from © 2006 The World Bank Group web site

Country	Internal finance for investment (%)	Bank finance for investment (%)	Informal finance for investment (%)	Supplier credit financing (%)	Value of collateral needed for a loan (% of the loan amount)	Loans requiring collateral (%)
East Asia & Pacific	33.81	23.85	11.58	6.21	94.06	78.58
Europe & Central Asia	69.58	14.08	3.57	5.55	154.49	83.68
Latin America & Caribbean	50.43	22.91	4.23	13.77	136.53	81.28
Middle East & North Africa	68.30	16.51	3.97	6.40	162.09	81.27

OECD	60.26	20.03	1.47	8.69	127.38	67.91
South Asia	56.00	17.17	6.65	6.28	90.16	78.17
Sub-Saharan Africa	68.98	18.65	3.56	12.04	140.39	85.16
<u>Bangladesh (2002)</u>	59.85	29.71	4.61	4.17	92.50	69.85
<u>Benin (2004)</u>	77.14	13.65	2.67	5.71	118.68	90.57
<u>Botswana (2006)</u>	72.80	21.37	5.19	31.21	133.36	84.78
<u>Brazil (2003)</u>	56.32	14.30	2.25	15.23	119.92	67.08
<u>Burkina Faso (2006)</u>	57.66	29.69	2.34	20.92	104.43	85.00
<u>Burundi (2006)</u>	67.02	16.35	15.19	15.03	274.90	100.00
<u>China (2003)</u>	15.24	20.37	7.73	2.27	80.80	66.93
<u>Egypt (2004)</u>	86.15	6.93	0.90	1.43	123.60	89.41
<u>Ethiopia (2002)</u>	69.78	21.24	5.05	3.81	128.57	62.03
<u>Germany (2005)</u>	50.64	22.60	0.83	11.01	124.95	90.92
<u>Greece (2005)</u>	71.32	13.32	0.41	12.04	130.97	57.79
<u>India (2002)</u>	94.00	86.27
<u>Indonesia (2003)</u>	41.89	16.34	24.47	3.54	116.32	87.17
<u>Kenya (2003)</u>	52.66	32.40	1.52	16.70	172.45	86.14
<u>Malawi (2005)</u>	60.76	22.83	3.99	5.94	90.25	73.91
<u>South Africa (2003)</u>	58.45	16.53	1.06	11.65	123.82	61.11
<u>Tanzania (2003)</u>	67.95	16.34	3.70	5.59	110.61	91.23
<u>Uganda (2003)</u>	71.41	13.54	3.50	5.31	112.94	93.22

APPENDIX A

Questionnaire Administered To Micro And Small Enterprises

Part A

- 1. Name of the Micro small enterprise.....
- 2. Nature of business.....
- 3. Geographical location
- 4. Number of employees in your organization.....
- 5. When established.....
- 6. Tick the form of ownership.
Sole Partnership Company Others specify.....
- 7. Gender of the owner Male Female

Part B

- 8. In your view services provided by informal finance sector based on how they fulfill your needs are :-
 - Highly Valuable
 - Moderately Valuable
 - Less Valuable
- 9. Informal financial services are "efficient" from an economic perspective?
 - I Strongly agree
 - Agree
 - Disagree
 - Strongly disagree
- 10. For finance acquired from Chama (Merry go round) to what extent is the collateral.....

	1 st Loan	2 nd Loan
Adequate (i.e. it's more than 100% of Loan)	<input type="checkbox"/>	<input type="checkbox"/>
Inadequate (i.e. it's less than 100% of Loan)	<input type="checkbox"/>	<input type="checkbox"/>
- 11. How long does it take after applying for your loan to be processed? (Loan from your major finance source).

One day	<input type="checkbox"/>	One week.	<input type="checkbox"/>
One month.	<input type="checkbox"/>	Others (Specify).....	<input type="checkbox"/>

Part C

12. Indicate the percentage of your sources of finance for your business.

Foreign donors.....% Banks% Internal Plough Back Profits.....%
Chama% Friends /Relatives.....%. Others specify.....%.

13. Give reason(s) why you have preference to above major source of financing

.....

14. How accessible is funding from merry go round compared to bank fund. (Tick one)

Funds from merry go round are -:

- Very difficult to access
- Slightly difficult to access
- Slightly easy to access
- Very easy to access

15. If you are in a chama (merry go round) how many members are in your group.

Two to Five. Six to Fifteen Members are Sixteen and more.

16. Do you feel informal finance lenders are exploitative? Yes No

17. If yes in above specify the group of lenders who are exploitative.

.....

Part D

18. Informal financial transactions can be replaced with formal financial intermediaries

- Wholly (100%)
- Partially (50 to 80 %)
- Sparingly (20 to 40 %)

19. Tick one - Advantages of informal finance - merry go round- outweigh disadvantages.

- Disadvantages of informal finance - merry go round - outweigh advantages.

20. What's your view on the future growth of Chama -merry go round.....

Thank you for your assistance

APPENDIX B
SCHEDULE OF SMALL ENTERPRISES FROM WHICH DATA WAS COLLECTED.

Source : Raw Data from Questionnaires administered.

	Name of Enterprise	Nature of Business	Geographical Location	Number of Employees	Year Established	Form of Ownership	Gender of Owner
1	Fasa Beuty Shop	Hair Salon & Beuty Shop	Umoja II Jua Kali	2	2004	Sole	Female
2	Star Hair Saloon	Hair Salon	Eastlands	2	2002	Sole	Female
3	Brown Hair & Barber	Barber	Heshima Rd 1st Eastliegh	2	2003	Partnership	Male
4	Jambo Butchery	Meat Selling	Ziwani Shopping Centre	2	1994	Sole	Male
5	Keyo Group	Clay Manufacturing	Kariokor Market	27	1992	Partnership	Both
6	Kiosk	Retail Kiosk	Shauri Moyo	Self	2005	Sole	Male
7	Maida Kiosk	Retail Kiosk	Ambira Rd- Shauri Moyo	Self	2001	Sole	Male
8	TOT Flowers	Florist	City Market - Nairobi	2	1999	Sole	Male
9	Matatu	Transport Route 111/24	Ngong- Town Centre	3	2004	Sole	Male
10	Jack Fumitures	Wood work	Pipeline	5	1999	Sole	Male
11	Nyotas	Florist,Cake making & Outside catering	Kileleshwa near Kenya High	42	1998	Partnership	Both
12	Highway Dry cleaners	Dry cleaning & Sale of Music CDs	Embakasi	2	2006	Sole	Male
13	Rafiki General Shop	Retail Kiosk	Embakasi	1	2004	Sole	Female
14	Julce Corner- Stall 49	Selling of Juice & Fruit Salads	Cianda Market Mfangano Street	4	2006	Company	Male
15	Magstel Hair Creations	Hair Salon	Embakasi	5	2005	Sole	Female
16	Meat Point Butchery	Meat Selling	Embakasi	3	2006	Company	Male
17	PPNet Cyber Café	Internet	Pipeline	2	2004	Sole	Male
18	Judy's One Shop	Fruit Parlour	Uhuru Shopping Centre	Self	2004	Sole	Female
19	Kamakazi - Matatu	Transport Route 105	Kikuyu- Town Centre	2	2003	Sole	Male
20	Kiuru Msingi Bora School	Education	87 - Waiyaki Road	10	1999	Partnership	Both
21	Muthiga Supermarket	Retail Shop	Muthiga	6	2005	Partnership	Both
22	Butchery Ya Symo	Meat Selling	Muthiga	3	2004	Sole	Male
23	Kinoo Fumitures	Carpentry	Kinoo	16	1998	Partnership	Male
24	Thukia Farmers Centre	Agrovet	Uthiru	2	1998	Sole	Male
25	Sarlt Bar	Pub - selling Alcoholic drinks & Sodas	Muthiga	1	1997	Sole	Female
26	Undugu Groceries	Grocer Shop	Umoja	1	2001	Sole	Female
27	Mic Montage	Printing Business	Jogoo Road, Trafalgar Square	2	2006	Sole	Female
28	Nameless	Selling of Scratch cards, Simu ya Jamii	Industrial Area	Self	2007	Sole	Female

SCHEDULE OF SMALL ENTERPRISES FROM WHICH DATA WAS COLLECTED.

	Name of Enterprise	Nature of Business	Geographical Location	Number of Employees	Year Established	Form of Ownership	Gender of Owner
29	Perozie Funeral Services	Funeral Services, Coffins, Transporting	Muthiga	5	1995	Sole	Male
30	Central Bureau	Selling of Scratch cards	Quarry - Dornhom Road	Self	2005	Sole	Male
31	Rhodwill	Hair Salon & Kinyozi	Savana Estate	Self	2006	Sole	Male
32	Fine Arts & Promotion Centre	Graphics & Arts designing	Industrial Area- Bamburi Road	Self	2001	Sole	Male
33	Mac A- Delic Caterers	Catering	Nairobi West - (Nairobi)	3	2006	Partnership	Male
34	One Man Shop	Retail Shop	Ziwani	1	2005	Sole	Female
35	Gaus Oplyo	Battery Charging	Majengo	1	2005	Sole	Male
36	Bar	Selling Beer	Jogoo Road	10	2004	Sole	Male
37	Kasoko Iron Makers	Ironing	Majengo	1	2007	Sole	Male
38	Riziki Chemist	Drug Selling	Muranga Road	4	2005	Partnership	Male
39	Jomboma Investments	Selling Plasticwares & Kitchen Equipment	Kibera	2	2003	Sole	Male
40	La Kuuka	Selling and Charging Batteries	Ngara	2	1999	Partnership	Male
41	Bedrock Saloon	Hair Salon	River Road	2	2006	Partnership	Female
42	Njeri Hair Saloon	Hair Salon, Hair Dressing	Ziwani	1	2004	Sole	Female
43	Canan Radio Repair	Radio Repair	Meriu Road	3	2006	Partnership	Male
44	Caso Bakers	Sale of Snacks, Cakes , Beverages	Shauri Moyo	2	2007	Sole	Female
45	Mama Mboga	Groceries- Vegetables, Tomatoes	Shauri Moyo	2	2006	Sole	Female
46	Cam World	Video Production	City Centre- Sheikh Karume Rd	5	2006	Partnership	Both
47	Zuri Creation	Mats Making	Maasai Market	1	2006	Partnership	Female
48	Maasai Decos	Maasai beads, Chains, Earrings	Maasai Market	1	2005	Sole	Female
49	Photocopy Corner	Photocopy Services	W.Centre Stalls-Tom Mboya Street	2	2004	Sole	Female
50	K.B Bicycle Repairs	Bicycle repairs	Bahati Shopping Centre	2	2000	Sole	Male

DATA FEATURES

✦ On average the 50 MSEs sampled in Nairobi , where established in year 2003.

✦ Ownership of MSEs - Sole 35, Partnership 13 and Company 2

✦ Gender of owners - Male 28, Female 17 and Both Male & Female owners 5

✦ Nature of Business sampled

- Hair salon, Barber shop, Beauty Shop	7.	- Funeral services, Coffin selling	1	- Agrovet	1	- School	1
- Retail Kiosks	5	- Butchery	3	- Chemist	1	- Iron making	1
- Florist, Outside catering, Cake making	4	- Clay Manufacturer	1	- Carpentry, Woodwork	2	- Grocery	2
- Plasticware, Kitchen equipment	1	- Maasai beads, Mats making	2	- Radio repairs Service	1	- Video production	1
- Fruit Parlour	2	- Cyber Café	1	- Battery Charging	2	- Matatu Pev	2
- Printing, Photocopy , Graphic designs	3	- Laundry Service	1	- Simu ya Jamii, Scratch cards	2		
- Bicycle Repairs	1	- Pub/ Bar	2				

APPENDIX C

SCHEDULE OF MSE ANSWERS FOR PART B OF QUESTIONNAIRES.

	Name of Enterprise	Nature of Business	Value of Services by Informal Finance Sector			Informal finance services are Economically		Loan Collateral is Sufficient		Duration for a loan to be processed				
			High	Moderate	Low	Agree	Disagree	Yes	No	A Day	A Week	A Month	Others	
1	Fasa Beuty Shop	Salon & Beuty Shop		✓		✓		✓					✓	
2	Star Hair Saloon	Salon			✓		✓		✓				✓	
3	Brown Hair & Barber	Barber		✓			✓	✓					✓	
4	Jambo Butchery	Meat Selling		✓		✓			✓				✓	
5	Keyo Group	Clay Manufacturing		✓			✓		✓				✓	
6	Kiosk	Retail Kiosk		✓										
7	Maida Kiosk	Retail Kiosk		✓					✓					
8	TOT Flowers	Florist			✓				✓					
9	Matafu	Transport Route 111/24		✓									✓	
10	Jack Furnitures	Wood work		✓		✓								
11	Nyotas	Florist,Cake making & Outside catering	✓				✓			✓			✓	
12	Highway Dry cleaners	Dry cleaning & Sale of Music CDs		✓				✓					✓	
13	Rafiki General Shop	Retail Kiosk			✓				✓				✓	
14	Juice Corner- Stall 49	Selling of Juice & Fruit Salads	✓			✓								
15	Magstel Hair Creations	Hair Salon			✓				✓				✓	
16	Meat Point Butchery	Meat Selling		✓		✓								
17	PPNet Cyber Café	Internet		✓				✓		✓			✓	
18	Judy's One Shop	Fruit Parlour			✓	✓			✓					
19	Kamakazi - Matatu	Transport Route 105	✓			✓			✓				✓	
20	Kiuru Msingi Bora School	Education		✓		✓			✓					Depends
21	Muthiga Supermarket	Retail Shop	✓			✓			✓			✓		
22	Butchery Ya Symo	Meat Selling			✓	✓			✓					Depends
23	Kinoo Furnitures	Carpentry	✓			✓			✓			✓		
24	Thukia Farmers Centre	Agrovet			✓		✓							
25	Sarit Bar	Pub - selling Alcholic drinks & Sodas	✓			✓			✓				✓	
26	Undugu Groceries	Grocer Shop		✓				✓		✓			✓	
27	Mic Montage	Printing Business		✓		✓			✓				✓	
28	Nameless	Selling of Scratch cards, Simu ya Jamii		✓				✓		✓		✓		

SCHEDULE OF MSE ANSWERS FOR PART B OF QUESTIONNAIRES.

	Name of Enterprise	Nature of Business	Value of Services by Informal Finance Sector		
			High	Moderate	Low
29	Perozie Funeral Services	Funeral Services, Coffins, Transporting		✓	
30	Central Bureau	Selling of Scratch cards		✓	
31	Rhodwill	Salon & Kinyozi		✓	
32	Fine Arts & Promotion Centre	Graphics & Arts designing			✓
33	Mac A- Delic Caterers	Catering			✓
34	One Man Shop	Retail Shop		✓	
35	Gaus Opiyo	Battery Charging		✓	
36	Bar	Selling Beer		✓	
37	Kasoko Iron Makers	Ironing		✓	
38	Riziki Chemist	Drug Selling	✓		
39	Jomboma Investments	Selling Plasticwares & Kitchen Equipment		✓	
40	La Kuuka	Selling and Charging Batteries		✓	
41	Bedrock Saloon	Salon		✓	
42	Njeri Hair Saloon	Hair Dressing		✓	
43	Canan Radio Repair	Radio Repair		✓	
44	Caso Bakers	Sale of Snacks, Cakes , Beverages	✓		
45	Mama Mboga	Groceries- Vegetables, Tomatoes		✓	
46	Cam World	Video Production		✓	
47	Zuri Creation	Mats Making			✓
48	Maasai Decos	Maasai beads, Chains, Earrings	✓		
49	Photocopy Corner	Photocopy Services		✓	
50	K.B Bicycle Repairs	Bicycle repairs		✓	
	Total		9	31	10
	Percentage		18	62	20

Informal finance services are Economically		Loan Collateral is Sufficient		Duration for a loan to be processed			
Agree	Disagree	Yes	No	A Day	A Week	A Month	Others
✓		✓				✓	
	✓	-	-	-	-	-	-
	✓	-	-	-	-	-	-
✓		-	-	-	-	-	-
	✓	-	-				Two Months
✓			✓			✓	Three Months
✓			✓			✓	
✓			✓			✓	Three Months
✓			✓			✓	
✓			✓			✓	Six Weeks
✓			✓			✓	
✓			✓			✓	Two Months
✓			✓			✓	
✓			✓			✓	Depends
	✓		✓			✓	
✓			✓			✓	
	✓		✓			✓	
	✓		✓			✓	
✓			✓			✓	
28	22	7	31		6	24	
56	44	18	82				

APPENDIX D

SCHEDULE OF MSE ANSWERS FOR PART C OF QUESTIONNAIRES.

Name of Enterprise	Nature of Business	Most preferred sources of financing MSEs ranking 5 (Highly preferred) to 1 (Least preferred)										Reasons for Preference of the major source of Financing		Accessibility of Funding from Merry Go Round vs		Membership in Merry Go Round				Finance Lenders are Exploitative		Exploitative Lenders
		A	B	C	D	E	F	G	H	Difficult	Easy	2 to 5	6 to 15	16 plus	Non Membe	Yes	No					
1 Fasa Beuty Shop	Salon & Beuty Shop	3	4	5							Reliable		✓		✓			✓				
2 Star Hair Saloon	Salon		4	5							Not enlighted about others		✓		✓							
3 Brown Hair & Barber	Barber	4	5						3		Accessible & Cheap	✓			✓			✓		Money Lenders		
4 Jambo Butchery	Meat Selling	5	3		4						Accessible & Cheap		✓		✓							
5 Keyo Group	Clay Manufacturing		4	5					3		Reliable		✓		✓			✓				
6 Kiosk	Retail Kiosk	4	5		3						No interest charged		✓				✓			Friends		
7 Maida Kiosk	Retail Kiosk	5	4		4						Can't borrow no security		✓		✓			✓		Pyramids		
8 TOT Flowers	Florist	4	5								Fear of failure with others						✓					
9 Matatu	Transport Route 111/24	5	4		3						No formal conditions		✓				✓					
10 Jack Furnitures	Wood work	4	5								Safe, No security need		✓		✓							
11 Nyotas	Florist, Cakes & Outside cater	4	4					5			Quickest to get funds	✓					✓			Pyramids- Deci		
12 Highway Dry cleaners	Dry cleaning & Sale of Music CDs				4			5			Amount is large		✓				✓					
13 RaBki General Shop	Retail Kiosk	5		4							Secure and Safe		✓		✓							
14 Juice Corner- Stall 49	Selling of Juice & Fruit Salads		5		5						Repay back period ok						✓					
15 Magatei Hair Creations	Hair Salon	5						5			F-Efficient, Accessible, Safe		✓		✓							
16 Meat Point Butchery	Meat Selling	5	5								Safe, No threats on failure		✓				✓					
17 PPNet Cyber Café	Internet	5	4	3							Secure, No pay back						✓			Unregistered groups		
18 Judy's One Shop	Fruit Parlour	4	4		5						Easy, No interest nor Formalities		✓		✓			✓		Friends / Relatives		
19 Kamakazi - Matatu	Transport Route 105	4		5							Quickest to get funds		✓		✓			✓		Money Lenders		
20 Kiuru Masingi Bora School	Education	5			5						Amount is large & Sufficient		✓		✓							
21 Muthiga Supermarket	Retail Shop			5							Easy to get and low intrest		✓		✓			✓		Some Pyramids		
22 Butchery Ya Symo	Meat Selling	5	4	3							Unsure of repaying thus no loans		✓		✓			✓		Deci Pyramid		
23 Kinoo Furnitures	Carpentry			5							Reliable		✓		✓							
24 Thukia Farmers Centre	Agrovet	5	4								No interest, No Formalities		✓				✓			Pyramids		
25 Sarit Bar	Pub - Alcholic drinks & Soda	4	5	3							No commitments		✓		✓			✓				

Key
 A = Self Savings B = Profits Ploughing Back C = Merry Go Rounds/ Chama D = Relatives
 E = Banks F = Friends G = Donations H = Sacco

SCHEDULE OF MSE ANSWERS FOR PART C OF QUESTIONNAIRES.

	Name of Enterprise	Nature of Business	Most preferred sources of financing MSEs ranking 5 (Highly preferred) to 1 (Least preferred)							Reasons for Preference of the major source of Financing	Accessibility of Funding from Merry Go Round vs		Membership in Merry Go Round				Finance Lenders are Exploitative		Exploitative Lenders
			A	B	C	D	E	F	G		H	Difficult	Easy	2 to 5	6 to 15	16 plus	Non Member	Yes	
26	Undugu Groceries	Grocer Shop	4	5	3	2				No Intrest , Easy to get		✓	✓					✓	Relatives
27	Mic Montage	Printing Business				5	5			Reliable, Available		✓	✓					✓	
28	Nameless	Scratch cards, Simu ya Jamii	4	5	3			4		Banks charge high interest		✓		✓				✓	Saccos, Trust funds
29	Perozie Funeral Services	Funeral Services, Coffins, Transport	5							Reliable		✓		✓				✓	Pyramids - Decl
30	Central Bureau	Selling of Scratch cards	5	4		3				Its safe	✓						✓	✓	Merry go rounds
31	Rhodwill	Salon & Kinyozi	5	4						Self reliance	✓						✓	✓	Shylocks
32	Pine Arts & Promotion Centre	Graphics & Arts designing	5	4						No Interest	✓						✓	✓	Money lenders
33	Mac A- Delic Caterers	Catering	5	4				3		No conditions nor restrictions	✓						✓	✓	Pyramids
34	One Man Shop	Retail Shop	4			5				Always available	✓			✓					
35	Gaus Opiyo	Battery Charging	4	4		5				Cheap & Available	✓				✓				
36	Bar	Selling Beer	3			4		5		Luck	✓			✓					
37	Kasoko Iron Makers	Ironing	4	5		4					✓			✓					
38	Riziki Chemist	Drug Selling		4	4	5	4			Easily available	✓			✓					
39	Jomboma Investments	Selling Plasticwares, Kitchen Equip	1	5	4	2	3			Available, No interest		✓		✓					
40	La Kuuka	Selling and Charging Batteries	5	3		4	2			Easily available	✓			✓					
41	Bedrock Saloon	Salon	4	3	5					Cheap, easy to get, affordable		✓		✓					
42	Njeri Hair Saloon	Hair Dressing	5		4	4				Available and cheap	✓			✓					
43	Canan Radio Repair	Radio Repair	4	4	5					Cheap	✓			✓					
44	Caso Bakers	Sale of Snacks, Cakes, Beverages	4	3				5		Payment period well spread		✓					✓		✓
45	Mama Mboga	Groceries- Vegetables,	4	5	3					Cheap		✓				✓			✓
46	Cam World	Video Production	4	5				4		Its economical	✓			✓					✓
47	Zuri Creation	Mats Making	5	5						Easily available		✓		✓					
48	Maasai Decos	Maasai beads, Chains, Earrings	5	4	4	4				No bothering people, No interest		✓		✓				✓	Money lenders
49	Photocopy Corner	Photocopy Services	5	3	4					Easily available		✓				✓			✓
50	K.B Bicycle Repairs	Bicycle repairs	4	5	4			4		Easy to get, No interest		✓		✓					✓
PERCENTAGE OF PREFERENCE			32	28	16	13	5	3	2	1	32	68	16	40	20	24	66	34.04	

Key
 A - Self Savings B - Profits Ploughing Back C - Merry Go Rounds/ Chama D - Relatives
 E - Banks F - Friends G - Donations H - Sacco

APPENDIX E
SCHEDULE OF MSE ANSWERS FOR PART D OF QUESTIONNAIRES.

Name of Enterprise	Nature of Business	Gender of Owner	Informal Financial Transactions can be replaced by Formal Finance Intermediaries			Merry Go Round Pro vs Cons	Respondant Attitude towards Merry Go Round
			Wholly (100%)	Partially (50-80%)	Sparingly (20-40%)		
1 Fasa Beuty Shop	Hair Salon & Beuty Shop	Female		✓		D	Good
2 Star Hair Saloon	Hair Salon	Female	✓			D	Make loans accesible, Lower intrest rates than bank rate
3 Brown Hair & Barber	Barber	Male			✓	A	Good
4 Jambo Butchery	Meat Selling	Male		✓		D	Chamas are going to be swallowed by banks
5 Keyo Group	Clay Manufacturing	Both		✓		A	Laws need to be imposed to govern management
6 Kiosk	Retail Kiosk	Male		✓		A	Lack of advice on chamas
7 Maida Kiosk	Retail Kiosk	Male			✓	A	Loan repayment failure is an issue
8 TOT Flowers	Florist	Male		✓		D	No trust in chama hinders joining
9 Matatu	Transport Route 111/24	Male		✓		A	Not located a suitable Merry go round
10 Jack Furnitures	Wood work	Male			✓	A	Aid saving, Fear of losing savings when getting out
11 Nyotas	Florist,Cake & Outside catering	Both			✓	D	Merry go rounds are not reliable
12 Highway Dry cleaners	Dry cleaning & Sale of Music CDs	Male			✓	A	MGR will continue growing among women,Improves Living standards
13 Rafiki General Shop	Retail Kiosk	Female		✓		A	MGR will continue growing especially among women with low income
14 Juice Corner- Stall 49	Selling of Juice & Fruit Salads	Male			✓	D	Its waste of time, No Intrest is paid on one's Investment
15 Magstel Hair Creations	Hair Salon	Female			✓	A	Will continue to grow as people pool resources together
16 Meat Point Butchery	Meat Selling	Male			✓	A	Serching for MGR to join,Growth depends on members desire
17 PPNet Cyber Café	Internet	Male		✓		D	MGR will dliminish due to Insecurity as many are not registered
18 Judy's One Shop	Fruit Parlour	Female			✓	A	Banks will finally take over, Problems when one is exiting
19 Kamakazi - Matatu	Transport Route 105	Male		✓		A	Excellent
20 Kiuru Msingi Bora School	Education	Both		✓		A	Most depend on close people who understand each other
21 Muthiga Supermarket	Retail Shop	Both			✓	A	MGR are good as they help one when thay are broke
22 Butchery Ya Symo	Meat Selling	Male			✓	A	Growth depends on members contribution
23 Kinoo Furnitures	Carpentry	Male			✓	A	MGR depends on group members co-operation
24 Thukia Farmers Centre	Agrovet	Male			✓	D	Lack of registration & fear of exploitation deters one joining
25 Sarit Bar	Pub -Alcholic drinks & Sodas	Female			✓	A	No intrest makes them good

Key
A = Advantages of Merry Go Rounds outweigh Disadvantages.
B = Disadvantages of Merry Go Rounds outweigh Advantages.

SCHEDULE OF MSE ANSWERS FOR PART D OF QUESTIONNAIRES.

Name of Enterprise	Nature of Business	Gender of Owner	Informal Financial Transactions can be replaced by Formal Finance Intermediaries			Merry Go Round Pro & Cons	Respondant Attitude towards Merry Go Round
			Wholly (100%)	Partially (50-80%)	Sparingly (20-40%)		
26 Undugu Groceries	Grocer Shop	Female			✓	A	Its good
27 Mic Montage	Printing Business	Female		✓		A	Government should give them loans to encourage them
28 Nameless	Scratch cards, Simu ya Jamii	Female			✓	D	Positive future, Open womens eyes,MGR reach local people
29 Perozie Funeral Services	Funeral Services, Coffins, Transpo	Male	✓			A	Well
30 Central Bureau	Selling of Scratch cards	Male			✓	D	Honesty and Laws are required for them to succeed
31 Rhodwill	Hair Salon & Kinyozi	Male		✓		D	Lack of funds makes people not to join, MGR are beneficial
32 Fine Arts & Promotion Centre	Graphics & Arts designing	Male	✓			D	Lack of trust makes most people not to join
33 Mac A- Delic Caterers	Catering	Male		✓		D	Be taken by transparent,legitimate & answerable formal sector
34 One Man Shop	Retail Shop	Female		✓		D	If well maintained they can manage
35 Gaus Opiyo	Battery Charging	Male		✓		D	Should be abolished
36 Bar	Selling Beer	Male		✓		D	Should be stopped
37 Kasoko Iron Makers	Ironing	Male		✓		D	MGR should reduce there rates of intrest
38 Riziki Chemist	Drug Selling	Male		✓		D	Should not be recommended
39 Jomboma Investments	Selling Plasticwares,Kitchen Equip	Male			✓	A	If well managed, it will be long lived and will replace banks
40 La Kuuka	Selling and Charging Batteries	Male		✓		D	Should be improved if not should be burned
41 Bedrock Saloon	Hair Salon	Female			✓	D	Not recommended
42 Njeri Hair Saloon	Hair Salon, Hair Dressing	Female		✓		D	Should be supported by banks
43 Canan Radio Repair	Radio Repair	Male		✓		D	MGR should be abolished
44 Caso Bakers	Sale of Snacks, Cakes , Beverages	Female			✓	A	Very helpful they boost common mwananchi
45 Mama Mboga	Groceries- Vegetables, Tomatoes	Female			✓	A	Its good and MGR help people to save
46 Cam World	Video Production	Both		✓		A	Its future is bright as it helps MSEs
47 Zuri Creation	Mats Making	Female			✓	A	MGR will grow as people prefer them to banks
48 Maasai Decos	Maasai beads, Chains, Earings	Female			✓	A	More laws & education needed to improve MGR growth
49 Photocopy Corner	Photocopy Services	Female			✓	A	More people will join,increase saving as economy grows
50 K.B Bicycle Repairs	Bicycle repairs	Male			✓	A	MGR are good for saving , but banks give more interest
PERCENTAGE OF REPLACING IFI SERVICES			6	44	50		
Key							
A = Advantages of Merry Go Rounds outweigh Disadvantages.						28	56%
B = Disadvantages of Merry Go Rounds outweigh Advantages.						22	44%
							100%