Understanding Informality and Mutuality in Kenya's Digital Finance Landscape

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1 Introduction

Financial inclusion has increased throughout the developing world over the last 30 years with the growth of banking, microfinance, and digital finance. One common expectation that observers and financial inclusion advocates often hold is that formal financial services from licenced providers, such as banking and mobile banking and credit services, will eventually replace informal finance. Informal finance has a long history, and includes such practices as family and friend borrowing, informal savings groups, or informal or unlicensed lending ("loan sharks"). Many advocates for financial inclusion see this eventual replacement as a good thing. They cite the exploitative relations of informal lending and the lack of security and regulation of many informal practices such as savings groups.

In the Republic of Kenya, consumer digital finance has been widely implemented. Services like Safaricom's M-Pesa mobile money service and digital loans are broadly popular. Not surprisingly, Kenya is often cited as an example of successful digital financial inclusion for the Global South. In this paper, we consider the emerging, and perhaps unexpected pattern in Kenya. Here, formal financial services like M-Pesa and digital banking are growing not by replacing the informal sphere, but by growing along with it.

Our paper grapples with this paradox—the persistence of informality. We will use the FinAccess data from 2006 to 2021 and ethnographic data we collected from Focus Group Discussions (FGDs) and participant observational studies of women's savings groups in June, July, and August of 2022 to explore the value of informal

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finance. Using this study, we will argue that policymakers must see formal financial services not as a superior or more preferred to the financial practices and traditions of informal finance in countries like Kenya. Rather, formal products play an important role in supporting and enabling the informal sphere. We use the concept of mutual finance to explore the importance of relationships to successful financial services both formal and informal. We argue that policymakers should consider how formal and digital services can address the weaknesses of informal finance—especially transparency and communication challenges. At the same time, providers and policymakers have a lot to learn from informality—especially its basis in mutuality.

1.1 The Kenyan Financial Landscape as Three Icebergs

Let us begin with the data from the FinAccess survey, a demand-side survey of financial usage that has been conducted in Kenya every 4 years since 2006 by the Central Bank of Kenya, the Kenya National Bureau of Standards, and FSD Kenya, a development trust, along with other partners. In 2022 the survey included 22, 024 households and probed important questions.[1] Does accessing financial services provide value? Do customers understand the services they use? While the focus of FinAccess is on formal finance, the survey does provide important evidence about informality.

The FinAccess data from 2006 to 2021 confirm a broad pattern—significant gains in financial inclusion in Kenya. The use of banking, mobile money, and digital credit services has expanded dramatically. For example, usage of banking increased from 14% in 2006 to 44% in 2021, supported by mobile and agent banking; and mobile money usage increased from 28% in 2009 to 81% in 2021.[2]

1. However, the formal sector is not the only part of the financial landscape, and formalization is not happening in a vacuum. Formalisation is both influencing and being influenced by change across the financial and economic landscape beyond formality. Consider the three major sectors of consumer finance in Kenya: Traditional formal finance, digital finance, and mutual finance. For the purposes of this paper, we define these forms in the following way: Traditional formal finance is brick-and-mortar banking and financial services, which expanded considerably from 2006, but nonetheless only reach 23% of the population by 2021 (down from 29% in 2019).
2. Digital finance uses communications technology to deliver banking services. Digital finance accounts are enabled via mobile devices such as digital money transfer, mobile banking, and digital lending and overdraft services. Digital finance has become a hallmark of Kenya's financial inclusion strategy and a major driver in broadening the reach of financial services.

[1] https://www.fsdkenya.org/category/finaccess/finaccess-household-surveys/finaccess-2021/

[2] https://FinAccess.knbs.or.ke/usage

3. Finally, mutual finance is finance that leverages social relationships to mutualize risk and investment. Mutual finance in the FinAccess data includes social network borrowing and lending, savings groups, and SACCOs. SACCOS are savings and credit cooperatives that are member owned and are similar to credit unions. As we expand below, mutual finance is often informal in nature. However, some forms of mutuality are formal. SACCOs are Savings and Credit Cooperatives are under the purview of formal regulations. For the purposes of this paper, we do not include shopkeeper credit, another informal source of credit in the FinAccess, in our analysis. See Table 1.

Thinking About Mutual Finance

In mutual finance, people form relationships to share risk and to share investments. Kenya's mutual finance sphere is, like its success with mobile money services, a thriving set of practices, services, and long-held traditions. Mutuality has been a key player in finance for everyday people in the face of a banking industry that historically served White settlers and other elites. Because the concept of mutuality in finance is somewhat poorly understood, we will now discuss the history of family and friend borrowing, savings groups, and SACCOs in Kenya. Mutuality is found in informal practices like family and friend borrowing, as well as regulated forms like SACCOs, and gets us beyond formal/informal binary thinking.

Mutuality has been central to the way that Kenyans think about money. Kenya has a longstanding local culture of caring with money as an 'everyday economic project'[3] for both men and women.[4] Since the early twentieth century, money has been an important medium of care in East Africa.[5] Kin and friends help each other

Table 1 Three sectors of Kenyan consumer finance

Financial sector	Definition	Examples	Number of Kenyan accounts or users in 2021 (M)
Traditional	Brick and mortar and face-to-face consumer financial services	Bank accounts, mortgages	6.6 Million accounts
Digital	Mobile and digital services offered by	M-Shwari, M-Pesa, Fuliza, Equipay	29.1 Million accounts
	MNOs and bank-MNO partnerships		
Mutual	Financial groups that leverage social relationships and assets	Savings, investment, and other informal financial groups ("Chamas"), SACCOs	10.5 million users

[3] Brown (2020, p. 246).

[4] Gray and Gulliver (1964).

[5] Ross and Weisner (1977) and Schmidt (2017).

to acquire food, medicine, and school fees or to marry and bury elders.[6] Money donations at life cycle rituals and in times of crisis have long been important expressions of care and belonging; furthermore, they establish claims to collective assets and family property such as land.[7] In recent years donating activity takes place increasingly through digital platforms such as mobile money and WhatsApp. Indeed, the very success of mobile money rests on its ability to provide a digital channel for these long-held traditions of mutual aid and mutual care, as money is sent for school fees, burials, help buying food, looking after farms, and so on. As Chris Yenkey, Susan Johnson, and Sibel Kusimba have argued, Kenya's digital revolution is informalizing formal services around social networks of mutual aid.[8]

Savings groups are another important form of informal finance. These groups are known by many names globally, and in Kenya are often referred to as chama (singular) or vyama (plural). In the simplest ROSCA (Rotating Savings and Credit Association) model, several individuals get together and contribute to a pot of money at regular intervals, which is then given to each member in turn. If the group has twelve members, it might collect money once a month, giving each person the assembled total in turn and disbanding at the end of a cycle. Cycles vary greatly in terms of the amount of money contributed and length of time the ROSCA will be run; but most ROSCAs have less than 25 members, are short-lived, and have members who are like each other in employment, age, gender, or other characteristics. Another model is catching on, known as the ASCA (Accumulating Savings and Credit Association), in which a group of individuals not only makes regular contributions which are distributed to members, but also accumulates a savings fund which members and even outsiders may borrow from at set interest rates. Members pool their resources, access lump sums at regular intervals, save and borrow with each other, and set the terms and costs of loans and credit.[9] ASCAs normally exist for much longer periods of time and have many more members who are often diverse in social standing, because they also take on banking functions. They are generally more complex to manage and require bookkeeping and recording of loans and repayments in addition to regular contributions and disbursements of a pot of money. In Kenya, there are tens of thousands of ROSCAs and ASCAs, and many Kenyans are members of many groups simultaneously. The Kenyan government requires the registration of groups, although many—especially ROSCAs—are likely to be unregistered.

Both ROSCAs and ASCAs have been crucial to the ways that many communities around the world have accommodated, adapted, and embraced the rise of market economies, the monetization of economies and of value, and the widespread adoption of financial services and financial behaviour over the past one hundred years,

[6] Hakansson (2019).

[7] Gray and Gulliver (1964) and Kusimba (2021).

[8] Johnson (2016), Kusimba (2021), and Yenkey (2015).

[9] Ledgerwood and Jethani (2013).

and possibly earlier.[10] In a classic 1995 paper that is an excellent review, Bouman[11] notes that the proliferation of ROSCAs and ASCAs has led to quite a diversity of different kinds of groups. They may have various financial functions including groups aimed at retirement savings, insurance, burial and funeral savings groups, everyday household needs, savings for assets or school fees, and so on.

The final common model for mutual finance in Kenya is the most formalized and is legally required to operate under government regulation: The SACCO or Savings and Credit Cooperative. SACCOs were begun in Kenya in the mid-1960s, around the time of independence and based in large part along a German model of a savings and credit cooperative.[12] They were begun among salaried employees with help from external stakeholders including the Konrad Adenauer Foundation, the Catholic Church, and the United Nations. In a SACCO, members save through buying shares with the group.

Members buy shares, take out loans up to three times the value of the shares they own, receive dividends, and even form ROSCAS to draw large loans from the SACCO, which they pay back together. SACCOs are much larger than savings groups, often having thousands or tens of thousands of members. In 2022 there were close to 7000 SACCOS with 11 million members regulated by SASRA, the SACCOs Societies Regulatory Authority. Many others are regulated by the Ministry of Cooperatives.

Historically they have been organized at workplaces and have been very popular with civil servants. Over time SACCOs have been an important source of credit and a savings vehicle for Kenyans often poorly served by formal banking, although SACCOs are often plagued by liquidity shortages, poor management, and even fraud and ponzi schemes.[13]

In all mutuals, members are all owners of the fund and the group, and it is members who set and negotiate financial terms such as interest rates and penalties. This is very different from commercial banks, where bank management makes these decisions.

Susan Johnson (2004, p. 267) has drawn attention to the importance of decision making and agency of mutual members. She calls this advantage of agency voice:

"Mutuals as user-owned mechanisms give their members voice in setting the rules, and members can pledge their own savings and gain guarantees from their friends as collateral". As Johnson notes, setting the rules "is a collaborative process that every member has a right to negotiate" (p. 267). Successful mutuals cultivate a sense of belonging, trust, and agency, and in so doing they further financial competency. Mutuals encourage money accounting practices like planning, earmarking,

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[10] Bouman (1995).

[11] Bouman 1995).

[12] Willis et al. (2024).

[13] Lockwood (2024); https://www.anthropology-news.org/articles/non-existent-plots-land-fraud-in-nairobis-construction-boom/

and saving (Oware, 2020). By contrast, many Kenyans continue to have a deep distrust of banks and their profit motives (Johnson, 2016).

The role of gender in Kenya's mutual sphere bears some reflection. Women have long been active in various kinds of informal financial groups. Men's groups also exist but are less popular and different in character. SACCO membership has involved both men and women. An important question for our research was to understand the appeal of informal groups to women.

What is the relationship among these three sectors—the traditional, the digital, and the mutual? We know that they serve the same clients; in fact, FinAccess data shows that more and more Kenyans are using multiple financial instruments at the same time. We can think about the relationship among these sectors, then, using the metaphor of an iceberg. Icebergs have a small visible portion, above the ocean surface, and a much larger, invisible portion submerged below the ocean surface. If we view Kenyan consumer finance of an iceberg including its 50 million strong population, we can imagine that traditional, digital, and mutual finance are three peaks that emerge from an ocean surface. But beneath the surface is a much larger substrate where the iceberg is a unified frozen block. Underneath the surface, then, of what these types of finance might be called or categorized as, the distinctions between these three financial spheres are more murky, interdependent, and interconnected.

Since 2006, FinAccess shows how the rise in digital finance has spread through other, more traditional layers of the financial landscape. Mobile banking has expanded and offers savings and credit through mobile enabled accounts; whilst social network finance has been transformed through the success of money transfer services, which improve the speed, density, and efficiency of family, friend, and other money sharing networks.

Indeed, digital financial services may intensify and support the preference for informal financial groups. One can say that digital finance has 'made visible' a layer of the financial landscape which was previously largely unrecognized—the importance of mutuality (Johnson, 2016). Digital finance may intensify the support and preference for financing risk, consumption and investment via family and friends. At the same time, since 2016 there has been a significant decline in financial institutions which have remained largely outside the purview of the mobile financial revolution. These include banks, SACCOs, chamas, and MFIs, institutions which continue to drive finance for investment, in contrast with digital finance which has largely supported consumption and risk management (Fig. 1).

Informal and semi formal financial institutions may appear to be disappearing—but another possibility turns this picture on its head. It could also be that informal finance is in fact persisting and thriving. According to this view, hidden informality shores up the success of formal products and vice versa.[14] The fungibility of credit markets highlights the interdependence of digital, traditional, and mutual spheres, evident in the diverse credit portfolios of individuals. In these portfolios, the viability of digital or formal credit often depends on the flexibility of offered by informal

[14] Yenkey et al. (2015).

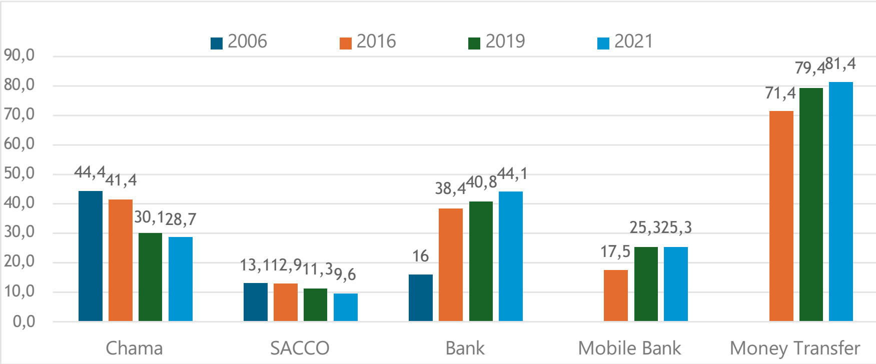

Fig. 1 Relative sizes of chama, SACCO, banking and money transfer user bases over time. Source: FinAccess

credit embedded in social institutions, and *vice versa*. For example, the continued popularity of shopkeeper credit may hinge on the expanded credit and payment opportunities for retailers and their customers in the digital space.

Understanding the hidden importance of mutuality across the financial landscape means moving financial inclusion research away from a longstanding focus on individual access and customers (Johnson, 2016). For many users, financial agency and efficacy may be especially related to social capital, mutuality, networks and group connections and relationships. Many people form groups to mutualize risk and investment, seeking out financial agency through these mutual arrangements through which individuals are interdependent.

Managing financial life, aspirations, and decisions, then, can be a relational, group, or mutual practice that strengthens financial efficacy and the ability to invest in valued outcomes and manage risk. Furthermore, mutual, group and networked finance may be particularly important for marginalized and women users. Women prioritize their social networks, where they play unique and important roles, and may use digital tools to support their informal groups more than men.[15]

In other words, mutuality represents an opportunity for formal providers to provide tools and support to customers who value social benefits and mutual projects. We need to look below the surface to model mutuality as a thread running throughout the financial sector. How does financial behaviour depend on social assets?

The 2021 FinAccess shows evidence of a persistent, and gendered informal sphere. Chamas remain popular with women, showing a gender gap of −21 in 2016 and −15 in 2019 and 2021.[16]

It may also be reshaping the mix of formal and informal financial tools for individuals—for example, 51% of the formally included continue to use informal

[15] Kusimba (2021) and Yenkey et al. (2015).

[16] https://FinAccess.knbs.or.ke/gender-gap

finance.[17] These FinAccess patterns suggest persistent informality is important for understanding issues of value, quality, and capability, especially for marginalized and women users.[18] Persistent informality may support and reassert gendered differences, as it centres on social relationships and social networks.

The following sections will focus on chamas—informal savings and lending groups—to explore these themes further and understand how mutual finance adds value and persists as a significant pillar of Kenya's financial landscape.

2 Methodology

This paper employs a mixed methods approach to understand persistent informality. We used both qualitative and quantitative methods to collect data. Quantitative data was sourced and analysed from the FinAccess database to quantify broad trends and patterns in usage and behaviour, complementing the qualitative research which sought to understand in more detail how informal groups add value and for whom.

Qualitative data was collected using focus group discussions (FGDs). A total of nine FGDs were conducted in Uasin Gishu, Bungoma, Trans-Nzoia, Kilifi, and Nairobi counties. Focus groups were constituted of women who are in chamas and each FGD had seven–ten participants to allow for in-depth discussions. The interviews were conducted from June to August 2022 (Fig. 2). The researchers explored the impact of digital connection and digital media on financial groups and were especially interested in looking at differences between urban and rural groups, especially since urban groups have, theoretically at least, greater access to digital media and internet-based social media applications through which they can form financial relationships.

3 Findings

3.1 Chama Demographics: Myth-Busting

The informal landscape of chamas is often mistakenly linked with low-income individuals, less educated customers, and women. However, according to the findings of FinAccess, chama membership is equally prevalent among both men and women and is not restricted to any wealth or education demographic. Below are some descriptive statistics drawn from FinAccess data.

Figure 3 shows the composition of chamas by gender recorded in previous FinAccess surveys. In 2016, most chamas (51.4%) had female members compared

[17] Cook, Reflecting on the 2021 FinAccess Numbers. FSD Kenya Blog, January 7 2022.

[18] Ledgerwood and Jethani (2013).

Fig. 2 Members of savings group Laini Moja, a group of twelve women who sell fruits and vegetables in Kimilili, Bungoma County in Kimilili, Kenya, July 2022, along with Sibel Kusimba on the right and researcher Christabel Waluse on the left. Photograph by Chapurukha M. Kusimba.

to those with male members (30.9%). This data supports the traditional beliefs that have associated chamas with women as they have been viewed as a means for them to gain access to financial resources and support each other's economic activities. However, changes are observed in the 2019 and 2021 data which shows an equal prevalence among both men and women. This change in trend may be driven by several factors, including limited access to formal financial services, the need for social support networks, and the desire to pool resources for various purposes including business or investment. More research, therefore, is needed to fully understand the extent and nature of this trend (Fig. 4).

Surprisingly, the data shows the lowest participation (14.8%) of chama membership is found among the least educated and high participation among the most educated (30.9%). Chamas have traditionally been more prevalent in low-income communities where formal banking services may be limited or inaccessible. However, chamas have gained popularity in urban areas among the middle class and educated individuals to access credit and save money. More educated individuals are turning to chamas to avoid high fees and interest rates or to access credit without a lengthy credit assessment (Fig. 5).

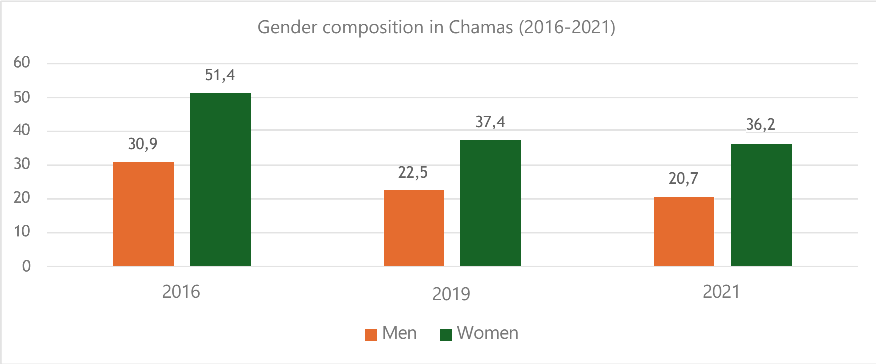

Fig. 3 Gender and chama membership. Source: FinAccess

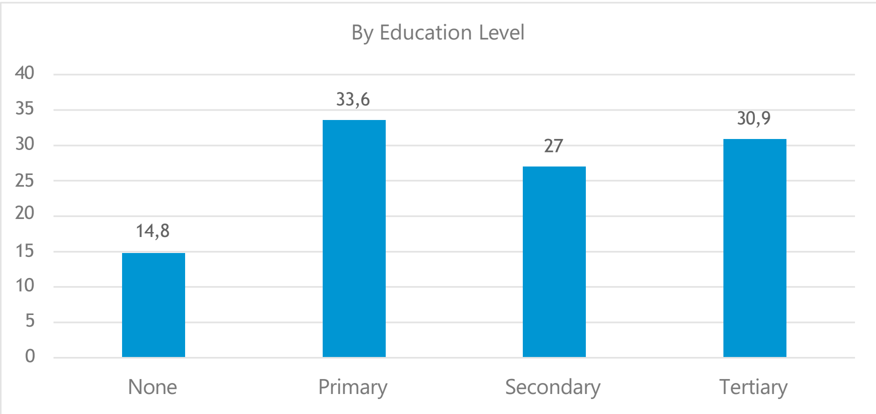

Fig. 4 Education and chama membership. Source: 2021 FinAccess

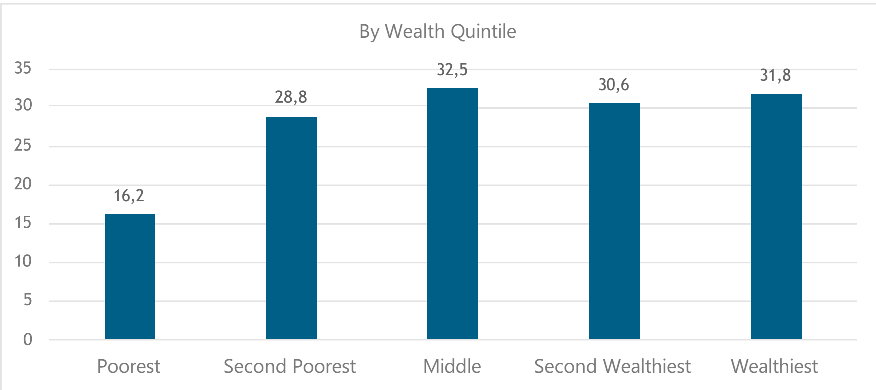

Fig. 5 Wealth and chama membership. Source: FinAccess

Case Study: Bridge Women's Group in Uthiru
Bridge is a women's group whose members contribute money on a regular basis to help each other out in times of need. The group is currently investing with a SACCO but is open to approaching a bank for additional investments in the future. The group collects money physically when they meet although members who must be present can also send their contributions through M-pesa. The members feel that part of the reason why they have been successful is because they as women have a vision, commitment and discipline. The group meets once a month at a member's house where they interact, dine together and contribute money. Members of this group have their own businesses, and they have benefited by getting money to pay school fees for their children and other family members as well as pay medical bills through their welfare fund. Members contribute 20,000 shillings when they joined and the money although intended to be used to build their mothers homes has helped them in other ways as well. "If your mum doesn't have a house." "We contribute Ksh. 20,000 and we are ten so that's 200,000 we collect it for 3 months then we give number 1," said the chairlady, "Now if your mum has a house, you can glam yourself. You can get yourself a car as now days cars are not a luxury, you need it."

Similarly, chama membership is highest among middle-income groups (32.5%) compared to the poorest wealth quintiles (16.2%). Chamas provide credit and a means for saving which is increasing in popularity among the urban middle class and even the wealthiest quintiles (31.8%), who may have greater access to formal banking services. From our FGDs, some wealthier individuals access chamas to finance a specific project or investment.

3.2 Chama Functions

Because chamas often prioritize long-term relationships, they are able to meet a variety of financial needs for members. Chamas' main functions include Rotating savings and credit associations (ROSCAs), Accumulating Savings and Credit Associations (ASCAs), and Welfare functions.

Rotating Savings and Credit Associations (ROSCAs)

ROSCAs offer access to a lumpy sum without the need for collateral or a credit history, which can cover unexpected expenses or help a business investment. Furthermore, regular contributions help members save and build financial resilience over time.

ROSCAs can also foster a sense of community and social support among members who share similar financial goals and challenges.

ROSCAs are often flexible in terms of the size and frequency of contributions, as well as the repayment terms. This makes them a more accessible financial tool for those with irregular incomes or financial constraints.

Transparency is a key feature of ROSCAs, as all members are fully aware of the contributions, loans, and repayments being made. This system of mutual trust and transparency helps to build trust and accountability among members.

ROSCA merry go rounds enable the accumulation of needed lumpy sums.

> If you had school fees coming up you made your contribution—you have peace of mind—even though you are spending the remainder of what you earn on a daily basis —Nairobi FGD Participant

Accumulating Savings and Credit Associations (ASCAs)

ASCAs provide access to credit without the need for collateral or a credit history. This can be particularly important for people who have difficulty accessing traditional financial institutions. ASCAs, like ROSCAs, also require members to commit to regular savings contributions, furthering financial resilience. Members can earn interest on their savings contributions, helping them accumulate wealth and achieve their financial goals.

In addition to financial benefits, ASCAs can also function as social networks, providing members with a sense of community and support. Members can share financial knowledge and advice, as well as help each other in times of need.

ASCAs are flexible in accommodating different contribution amounts or frequencies—making them well adapted to irregular incomes. Voice and agency again come into play—ASCA members have control over their savings and credit activities, and decisions are often made democratically among the members. This can be empowering for people who may feel excluded from traditional financial systems and provide them with a sense of community and belonging.

Welfare Groups

Welfare groups, or social welfare organizations, help members save for illness, a death in the family, or other crises. They can provide a wide range of benefits to their members, including counselling, financial assistance, housing assistance, job training, and other types of support services.

In addition to access to support services, welfare groups also offer members a sense of community and social support. Members can connect with others who share similar experiences and challenges and receive emotional support and encouragement from their peers.

Welfare groups also offer advocacy efforts and policy initiatives, and provide information about health, finances, education, and other issues. In FGDs, members explained that they gain a sense of agency and control over their circumstances.

Finally, welfare groups often provide opportunities for members to volunteer and take on leadership roles within the organization. This can help members develop new skills, gain experience, and build confidence.

We were surprised by the importance of welfare groups to our FGD participants. They perform key insurance functions in a precarious world, and help members improve their lives, connect with others, and make positive changes in their communities.

Chamas often serve more than one of the above functions. Over time, ASCAs and Welfare models have grown, indicating the increasing sophistication of accounting practices and the greater financial capabilities of these groups in the case of increasing use of ASCA models, as well as the increasing importance of Welfare models in sustaining resilience (Fig. 6).

Welfare groups have small, or sometimes no contributions—but members come together to assist each other with funerals, family emergencies, and other shocks.

> In misfortune members contribute 300 shillings each for her traveling to her rural home —Kajiado FGD Participant

3.3 The Benefits of Chamas

Slow Finance

Chamas can be considered a type of slow finance that prioritizes the nurturing of member relationships over time and the attainment of specific objectives. Members of a chama work together towards a variety of goals, including social and spiritual

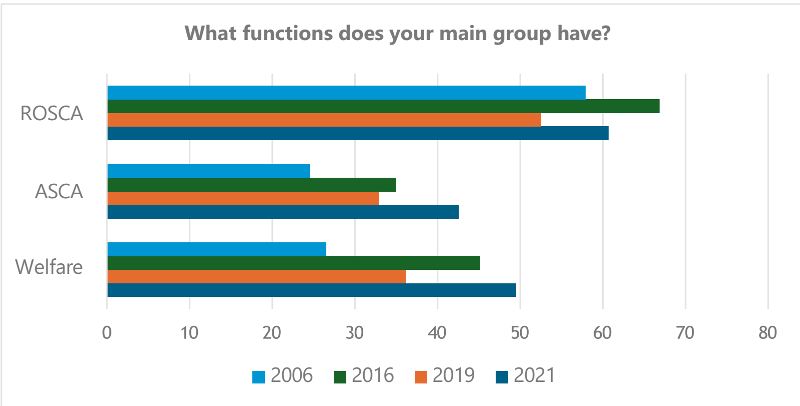

Fig. 6 Main functions of Kenyan chama groups over time. Source: FinAccess

support, savings, credit, welfare/insurance, investment, or savings earmarked for food, appliances, or education. Chamas are adaptable, with relaxed rules governing contributions, loan repayment, chama purposes, and other areas that can be negotiated based on members' expressed needs. By joining a chama, individuals commit to, plan for, and allocate resources towards specific objectives within defined time frames.

Additionally, chamas emphasize the value of social support and leverage religious and spiritual practices and language to promote savings and repayment discipline.

Case Study: Businesswomen in Upper Kabete

The members of this group are all businesswomen who contribute a small amount of money (300 shillings) every week. They have established rules and regulations to ensure that the group functions smoothly, and they have a system in place to lend money to members who need it. Members of the group benefit from interest generated by the loans.

The group has been in existence since 1st of January 2021 and was initially made up of 6 members. The members then recruited their friends through word of mouth. They use zoom application to hold meetings when they are unable to meet physically and also have a WhatsApp group where members can communicate with each other and request loans directly from the treasurer.

The contributions can be sent through M-Pesa or bank transfer. Members feel that the group is important to them. "There are benefits because sometimes you may lack funds to pay school fees in that case you can request for a loan and get it immediately," said one member.

They value groups because they believe that working with others in a group is more beneficial than working alone because groups offer financial support to members, "The reason why we love these groups is because when you work with others you can do great things. Unlike when you do things yourself," said one member of the group.

According to the women, the difference between the group and the banks or other financial institutions is that groups are formed by people who know each other and are part of a social network. Another advantage that they stated was the ease of accessing loans since the process was simpler and understood by all members of the group. "Our group has a process that we have come up with, so everything is in the open. At the bank there's a lot of calculations that are done and you are sometimes told you have defaulted, and this is the money you are going to pay. For us the process is very simple. If you need money, you post it in the WhatsApp group. You can say in need 20,000 shillings and the treasurer will reply to you immediately to let you know if the money is available because we issue loans on a first come basis," said the chairlady.

Effective Pooling and Sharing of Resources

Group and chama models of private capital access remain popular with Kenyan women, who have shown a longstanding preference for informal groups.[19] Informal finance relies on social relationships. Women often draw significant financial agency from their social relations. In this perspective, women connect to others through multiple overlapping economic ties in families, chamas, welfare associations, SACCOs, investment clubs, and in groups of friends, co- workers, church members, and so on. Their positions may be central and linked to numerous others, or marginal with fewer ties to others, or in between.

Informal groups, offer important value, from economic and social capital,[20] to voice and negotiability,[21] to saving and planning,[22] to risk sharing,[23] to monitoring, information sharing, verification, and trust.[24] When thinking about these networks, we discover again the connections between mutual finance, traditional finance, and digital finance. Much of the success of digital finance boils down to informal networks for pooling, sharing, and coordinating resources.[25]

Case Study: Focused Women Chama

Focused Women Chama has 22 women members, and they have been together since 2011. They maintain a variety of financial arrangements. They each contribute 1000 shillings a month to a merry-go-round and 200 shillings a month as shares to support Table Banking. They have an account with Cooperative Bank, a constitution, and they are registered with the Kenyan government. Members are diverse in ethnicity and economic class. Some are employed, and some are not. Flexibility allows members greater time to repay loans if they need it; fungibility allows members to contribute and repay with their time or labour if they do not have money. Finally, Focused Women's leadership includes a spiritual advisor who mediates all claims for help and allows women to be anonymous when facing hardships that they may not want the entire group to hear about. This group prioritizes social and spiritual support; they have not grown their balance as much as they have liked but have prioritized long-term relationships and the health of the group over time. They have, through registration, been able to apply for government assistance, including an Uwezo government business loan.

[19] Kimuyu (1999).

[20] Oware (2020).

[21] Johnson (2004).

[22] Johnson et al. (2015).

[23] Breza et al. (2019).

[24] Azam et al. (2001) and Yenkey (2018).

[25] Kusimba et al. (2015).

3.4 *Top Purposes of Chama Savings*

Chamas offer a disciplined savings approach, access to credit, social support, and a sense of community, flexibility, and transparency. These benefits can help individuals save money, build financial resilience, and achieve their financial goals.

The data from FinAccess shows that people use these savings and loans for different purposes. Figures 7 and 8 show the top uses of chama savings and loans.

Most respondents used chamas to save for farm needs (57.4%), to expand a business (52.7%), or to invest in a business (15.1%). Often, small businesses struggle with access to capital as formal financial services provider view them as risky ROSCAs and ACSCAs provide accessible means of credit our respondents used to maintain liquidity and build their stock.

"These groups are by people who know each other. I must know the members, I need to know where you live so just in case something happens, we can know how to handle it. Handle it means we take something that is of value that can be used to

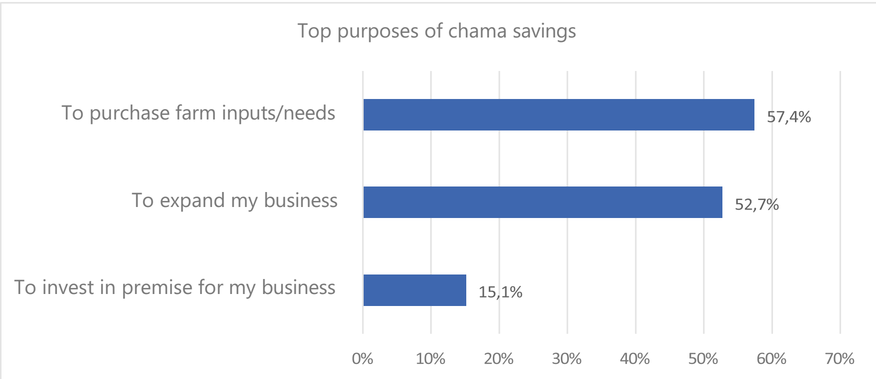

Fig. 7 Top purposes of chama savings. Source: 2021 FinAccess data

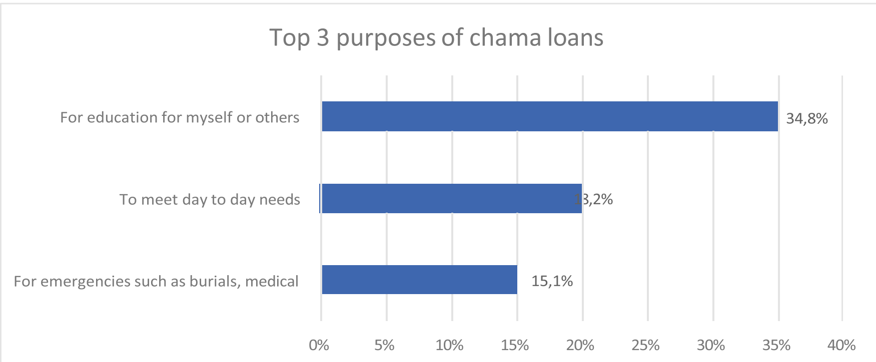

Fig. 8 Top purposes of chama loans. Source: 2021 FinAccess data

recoup our money, because you will not play with our money" FGD 1, Nairobi—Upper Kabete.

Chamas' top three reported purposes are education for themselves or others (34.8%), meeting day to day needs (18.2%), and emergencies such as medical bills or burial expenses (15.1%). Special purpose chamas focus on investment, or food and household needs.

"When you are in one group you find you can grow. So you can be in a savings group, there other groups for investments and then there are welfare groups. You ensure that you are in a chama because there are days when you may not have money. You can go and get a loan" FGD 1, Nairobi—Upper Kabete

3.5 Use of Technology

There is a noted increase in the rise of technology use in the country over the last couple of years. In 2019, 91.6% of chama users reported that they use a mobile phone. In 2021, data from the FinAccess survey showed that that percentage had increased to 93.5% of chama users (Fig. 9).

Chama members are increasingly using digital tools for transactions. Technology is proving to be useful in helping to ease process money transfer. It was noted during FGDs that some members in Nairobi made mobile money transactions to send their contributions. Slightly more chama members (92.9% of chama members) use mobile money, as compared to just 81.4% of the general population who use mobile money. Mobile and digital connections support the social connection and mutuality of chamas. The use of mobile and digital support for the mutual sphere again shows the base of mutuality in the iceberg of finance (Fig. 10).

Chama members use technology to communicate and organize meetings. Groups use WhatsApp and Zoom to share information and hold meetings, making communication more efficient. Younger urban women's groups use smartphones and internet-based applications more often than rural participants in our study.

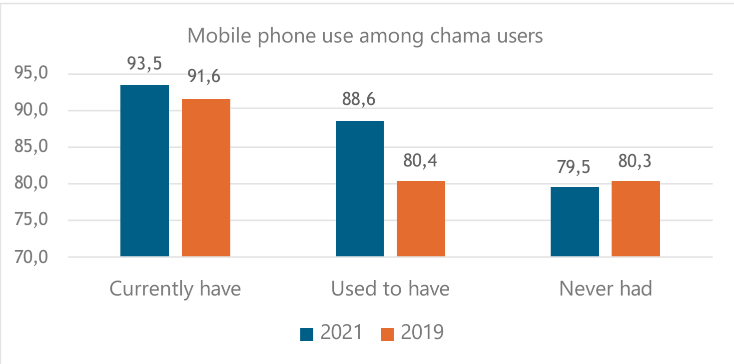

Fig. 9 Mobile phone use among chama users. Source: 2019, 2021 FinAccess data

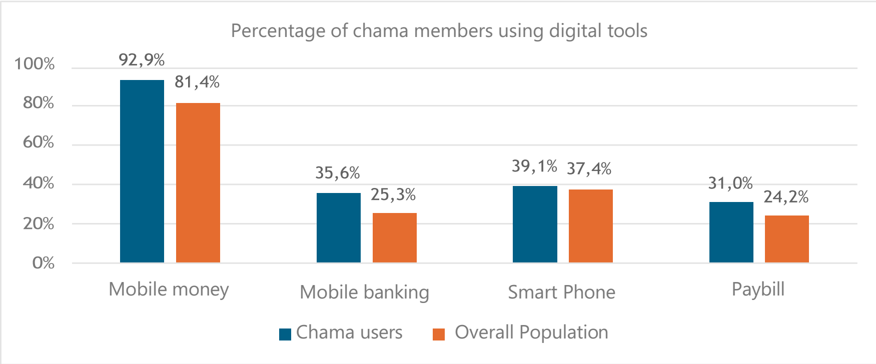

Fig. 10 Percentage of chama members using digital tools. Source: 2021 FinAccess data

Nevertheless, physical meetings remain important. Often, groups combine face-to-face meetings with occasional use of technological mediation. For example, a table banking group in Nairobi was able to meet through Google Meet, and used M-Pesa and WhatsApp to organize repayment and loan disbursement, with the assistance of a representative from a management NGO. During the Google Meet meeting, each member committed a repayment amount and/or requested a loan amount. The NGO representative then communicated with several members of the meeting separately via WhatsApp after the meeting, assigning each member an amount to send and another member of the group to send money to using M-Pesa. The group began using Google Meet for meetings during COVID and has now opted to use Google Meet on an occasional basis.

> The WhatsApp group is an official means of communication. Informing the members of what's happening currently or maybe something someone has a problem we share. When it comes to the collection of money, we collect it in the meeting. Again, for WhatsApp there are things you not going to wait until the meeting so we have a WhatsApp so we keep we can continue interacting sharing even ideas. FGD 2, Nairobi—Uthiru

> For us the process is very simple in this group in that if you need money, you post it in the WhatsApp group. You can say in need 20,000 shillings. The treasurer will reply to you right there telling you right now we have 10,000 shillings but because you are the first one to request you will be the first to be considered should money be available within the week as people keep on paying back. FGD 1, Nairobi—Upper Kabete

While digital tools seem very promising, phones, accounts, and services cost money. Cash is still by far the most popular channel for contributions, and is only marginally more popular among more educated people, especially women (Fig. 11).

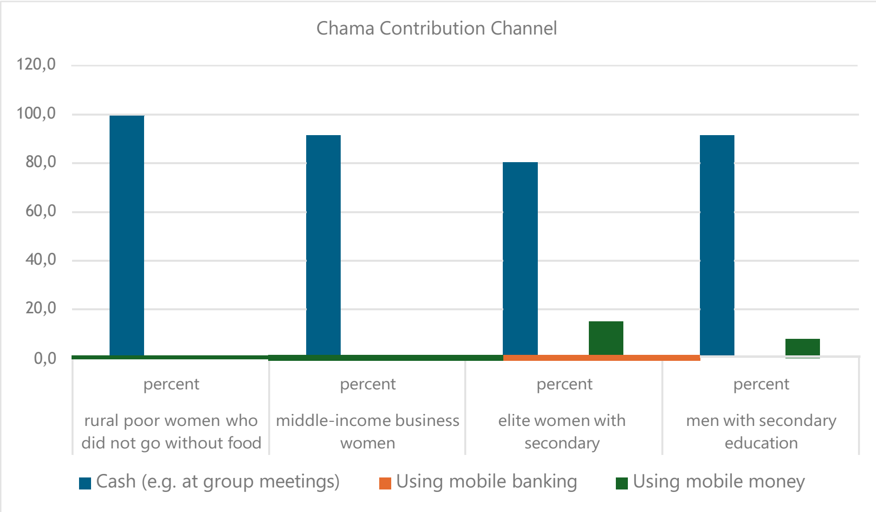

Fig. 11 Chama contribution channel. Source: FinAccess

3.6 Adverse Experiences

Adverse experiences are noted for chamas. These experiences include theft, miscommunication or lying, members who do not contribute, interpersonal conflict among members, and loss of face or dignity due to interpersonal conflict. Groups often encourage openness and communication to buttress faith and commitment to the chama. "When members don't communicate, contributions run dry. Remind each other that the chama is helping all", said a member of Focused Women Group, Naitiri.

Openness is important as a way of addressing concerns with procedures and accounting before mistrust takes over the chama: "Someone will start saying funds have been misused but cannot come and ask for the records. And then the officials will hear the rumours, and they will close the group", said a member of Laini Moja, a group of twelve women who sell fruits and vegetables in Kimilili, Bungoma County, Western Kenya.

Providing transparency regarding funds is key to preventing conflict and mistrust: "You will find a member who does not know how the money is kept saying funds have been misused. When the officials get to hear it, they won't be pleased and the chama will collapse" - Tabora B, Mtwapa, Kilifi County.

Interpersonal conflict often comes to the attention of the group, who try to mediate and resolve it: "With two conflicting members, one has to humble so as to solve the matter", suggested a member of Tabora B, Mtwapa, Kilifi County. As these quotations show, chama members are very mindful of the ways that social life can turn sour. Transparency and communication are key to maintaining trust.

3.7 Dealing with Shock

Engagement with financial institutions depends on having sufficient liquidity and economic opportunity. When there is a decline in sufficient liquidity, usage of financial services—formal and informal—will decline (Fig. 12).

FinAccess data shows that there has been a decline in reliance on informal groups in dealing with shocks. In 2019, 60.1% of respondents relied on informal finance to help them deal with shocks while in 2021, only 35% of respondents relied on informal finance.

Discussions with members of chamas revealed that several of them had to suspend their chama contributions because of COVID-19's impact on employment and incomes. COVID- 9 undermined not only the financial resilience of individuals, but also—significantly affected social investments and social relationships which take time to rebuild.

> "The first lockdown was a bit difficult because most of us are in business. So, businesses came to a standstill, so we suspended everything for some months…. When we resumed, we resumed slowly in that we suspended some contributions. We went with some just to remain a float we are still recovering up to now" FGD 2, Nairobi—Bridge Women's Group

This is also consistent with other studies that have shown that widespread shocks that affect a specific population affect an individual's ability to offer support to members of their networks. Indeed, the COVID pandemic highlighted the vulnerability of many Kenyans and the ways in which financial health came to over rely and strain the social network. Riding on these rails of desperation, many turned to Fuliza loans, Safaricom's overdraft service, to get by.[26]

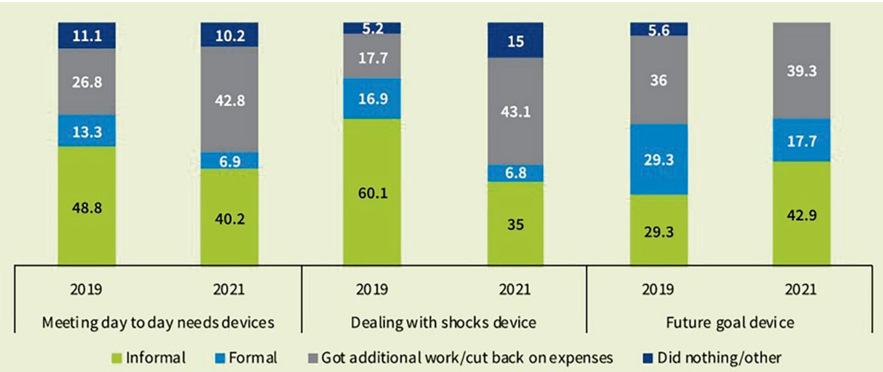

Fig. 12 Devices used to deal with financial needs. Page 57, 2021 Household FinAccess Survey December 2021 Report

[26] Gubbins and Heyer (2022).

4 Conclusion

This paper has suggested the concept of mutual finance to better understand the way that financial relationships of shared investment and risk underly many types of financial behaviour, both formal and informal. Mutual financial relations are financial relations of shared investment and shared risk. Mutual finance leverages social relationships and social assets. It allows members to make financial plans, earmark contributions for specific purposes and future goals, and create bonds of solidarity and mutual aid. This sector of the financial landscape builds social bonds, and as such is a crucial connector between people and financial services, both formal and informal.

Over and over again, our FGDs showed us that mutual finance prioritizes its infrastructure—the relationships through which financial risks and investment are shared. In the same way that mobile finance uses digital and mobile communication as an infrastructure to reach clients, the mutual sphere prioritizes and nurtures the social relationships it relies on for value to flow. This means that relations can be preserved even when financial transactions fail, lack sufficient value, are delayed, or are refused. Strategies to ensure preservation takes these forms:

Flexibility. While formal finance might penalize or drop a customer for failure to repay or for late repayment, mutual finance provides flexibility, such as more time to repay or even a change in the amount owed.

Transparency: In mutual finance, people understand the terms and the rules of their relations. Any changes are agreed upon and explained.

Agency and voice. Members set the terms for themselves and others. They stand and speak at meetings and participate in the financial terms that are negotiated.

While these ideals may not be achieved in every case, and savings groups may collapse, these values remain key to mutuality.

The importance of mutuality leads to several suggestions for policy and regulation. First of all, one can reflect on the tendency among economists and development professionals to assume that financial rationality and agency are an individualized process. Indeed, in building a justification for digital financial services, many policymakers have emphasized privacy, autonomy, and individual decision-making. Tropes like the overbearing mother-in-law or drunken husband who are unable to access a woman's PIN-protected mobile wallet are well known in the anecdotes of gender and digital finance professionals. On the contrary, our study shows that mutuality is highly valued and that digital finance is as much of a connector as it is a vehicle for privacy. Both are important in different settings.[27]

The struggles and conflicts that emerge when mutuality goes sour or when people disappoint each other bring out the weakness of mutuality: Accountability. As our FGD participants explained to us, savings groups can collapse when members abscond after taking their turn in a ROSCAs. They can collapse due to fraud or mismanagement or, our interlocutors noted, gossip and rumours of improper

[27] Kusimba (2018).

management. The importance of voice means that conflict and disagreement are tolerated to a point, but they can destroy trust if they are taken too far.

How can policy address and support accountability? New forms of technological mediation are supporting chama interaction and communication. Communication and shared ledger apps might help chama members build relationships and support transparency. However, it is important to remember that digitization of chamas is just beginning. For example, the use of non-cash contributions is still quite rare.

Furthermore, many of our interlocutors were highly effected by the fees of DFS and may not be willing to pay for a mere convenience.

An interesting non-digital intervention in support of accountability comes from CARE International, which has taken a great interest in supporting and scaling village savings and loan associations (VSLA)s with set interventions and tools. CARE developed a multi-keyed lockbox to store a group's fund. The lockbox requires several members with keys to be present to open it.[28] Such interventions may address and support accountability—and they don't need to be digital solutions.

An important lesson from COVID also emerged from our research. We found that many savings groups simply didn't have the money to keep their groups going during COVID lockdowns, when informal workers could not pursue their livelihoods. While well-off groups are innovating with technology like Google meet, the economy at the grassroots needs more support, lest the benefits of digitization only accrue to the most privileged chama groups. Given Kenyans' worsening financial health, as reported by Gibbons and Heyer's detailed research through FSD Kenya[29], it is time to acknowledge that digitization has not brought the development benefits that many boosters predicted. As with microfinance, it is time to step back from preconceived agendas, and to look to what people are actually doing and need. Mutuality is clearly a priority for Kenyans.

Finally, the persistence of semi-formal and informal financial institutions such as chamas and SACCOs provide diversity within the financial landscape, enabling choice and agency in the use of financial services. For example, SACCOs are popular for lower income people in wealthier counties of Kenya.[30] Studies of these informal groups have been fundamental to understanding what low income and other historically marginalized clients need and are important models of what a financial capabilities approach should prioritize.[31]

Mutual relations undergird finance of all kinds. Providers should bring flexibility, transparency, and voice to their customers whenever possible, and think of strengthening accountability checks if financial services, whether formal or informal, are to be useful for clients and profitable for providers.

[28] Green (2019).

[29] Gubbins and Heyer (2022).

[30] Barboni (2015).

[31] Johnson et al. (2015).

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