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Financial Landscapes Revisited: An Institutional Approach to Roots and Branches

by

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Introduction

While the complexity, diversity and detail of financial landscapes are now widely appreciated; this in turn gives rise to the need for a more systematic approach to their conceptualisation. This paper uses a conceptual framework for the analysis of a financial market, which sees different types of financial intermediary as a response to the collective action problem of financial intermediation. Each type of financial intermediary – whether formal or informal - has rules, monitoring and enforcement mechanisms as organisations and in respect of their deposits and loans. The key solutions to collective action problems are the state; the firm and co-operative based organisations and these therefore create distinct branches to the financial market.

The implementation of rules depends not only on legislated laws but also on customs and norms. The effectiveness of particular types of intermediary is dependent on the way in which rules and the monitoring and enforcement mechanisms they require function in a particular context. This framework therefore allows an examination of the way in which the political, economic, social and cultural context influences rules, monitoring and enforcement mechanisms.

The paper goes on to illustrate the use of the conceptual framework in relation to the financial market in Karatina in Kenya. There is a range of financial intermediaries in the market spanning the formal and informal sectors. The purpose of this paper is to demonstrate the usefulness of the conceptual framework by showing the importance of the social sanction of shame in disciplining ROSCA members. The way in which social sanctions operate is key to the effectiveness of many informal financial arrangements. In this case we find that shame is reported to be experienced differently by men and women and this helps explain why men are less able to mobilise themselves into

ROSCAs than women. Thus the way in which financial markets are rooted in social relations, such as gender, becomes clear.

The Need for an Institutional Framework

The research set out to investigate the financial market in a small market town, *Karatina, in Kenya. The first step was a survey of* financial service providers to determine the array of financial services available. This involved an analysis of savings and loan products that looked at prices, terms and conditions. The approach promoted by the New Institutional Economics (NIE) suggests the need to analyse prices in terms of the costs of funds, of administration and default and profit (return on stockholders equity). It argues that differences in interest rates between providers should therefore be explained by variations in the costs of funds, administration and default. Or put around the other way, differences in profitability should be able to be explained by differences in transaction costs and risk. However some of the features that arose from the overview of financial service providers in Karatina, suggested problems for utilising this analysis of differences in interest rates and profitability.

A wide range of financial services is available in Karatina: banks, building societies, savings and credit co-operatives, parastatals, NGO based microfinance, moneylenders, rotating savings and credit associations, accumulating savings and credit associations, informal insurance groups and so on. It became apparent that two forms of financial intermediary - SACCOs (Savings and Credit Co-operatives or Credit Unions) and Accumulating Savings and Credit Associations (ASCRAs) – do not conform to attempts to analyse savings and loan products separately. In these institutions the savers are the borrowers – demand is not independent of supply – you can only borrow from the *institution if you have first saved there and the loan to which you are* eligible is a function of your level of saving.

Second, the interest rate paid on loans in SACCOs and ASCRAs directly affects the dividend paid on shares. Hence, in ASCRAs we observe members willing to pay high rates of interest on loans compared to products elsewhere in the market. For example, often at 10% per month which when savings requirements of half the loan are taken into account represents some 240% on short term advances. But this is acceptable to members because at the end of the year the dividend on their shares (savings) reflects this interest rate and may be in the region of 20-50%. SACCOs are in a sense the converse of this. Members pay what they recognise as relatively low interest rates on loans (12% nominal per annum, but in the region of 30% once savings requirements are taken into account) but are willing to accept relatively low rates of return on their shares in the form of dividends as a result.

The reason why members join these systems is because they can get access to loans. Once you are in a SACCO, as long as you meet the conditions and funds are available, you are entitled to borrow. Similarly for an ASCRA – once you are a member, your ability to borrow is virtually guaranteed (unless and until you default). This feature is due to the fact that these organisations are based on a model of member ownership of the financial intermediary. So members save in order to be able to borrow and since they own the organisation they can trade off the cost of loans against the return on their savings.

A number of other observations flow from this starting point. The profile of transactions costs that a SACCO or ASCRA will incur in making a loan are different to those incurred by a bank. In the case of a SACCO, the borrower is usually a long-term member of the SACCO who has saved over a number of years. A number of the borrower's characteristics are already known. In the case of SACCOs in Kenya this is primarily the income source which forms the common bond of the SACCO. Further, the loan may be guaranteed by the member's shares and by the shares of other guarantors. These factors reduce the screening costs, as well as the potential enforcement costs that the SACCO will incur in lending to a member. Indeed the screening function has in effect already been carried out by the way the organisation has been formed and for ASCRAs which don't have a common bond this usually on the basis of individual members local knowledge of each other. Hence screening costs at the actual point of making a loan are negligible compared to the process that the bank has to pursue in lending to borrowers that it may not know. So that it does not make sense to apply an analysis of transaction costs independently of the types of institutional form that is being considered.

Data for formal and semi-formal financial institutions in Karatina indicates that SACCOs and managed ASCRAs account for some 20% of deposits but represent 52% of savings accounts and 31% of loans by volume. Nor does this take account of funds in and membership of, SACCOs at the national level, or in ASCRAs in the informal sector which are not captured by this data. The need therefore to have an analytical framework that can deal effectively with why individuals make decisions to engage with these types of financial institutions therefore appears crucial and critically related to the nature of their institutional form. The next section takes up this insight and seeks to develop an approach to analysing financial intermediaries, which is built on an analysis of their institutional form.

Financial Intermediation; an Institutional Approach

A significant range of financial institutions usually exists in any context including banks, savings and credit co-operative societies (SACCOs, and also known as Credit Unions), parastatals, NGOs offering credit, moneylenders, informal savings groups such as ROSCAs and ASCRAs. All of these are solutions to the problem of financial intermediation – how to match the supply and demand for funds - which is in turn a collective action problem. The way in which collective action problems are solved is through the creation of institutions

The Design of Institutions for Collective Action

In the broadest possible sense, people require rules of engagement to structure their interaction. Hence North describes institutions as "the rules of the game of a society, or more formally, as the humanly devised constraints that structure human interaction" (North 1990). He goes on to distinguish formal and informal rules, i.e. those which become codified in common and statute laws and regulation and those which do not, with informal rules often being referred to as norms. Thus the range of institutions stretches from the rules of etiquette to criminal law.

As Ostrom puts it in her ground breaking work on institutions for the management of common property resources, ""Institutions" can be defined as the sets of working rules that are used to determine who is eligible to make decisions in some arena, what actions are allowed or constrained, what aggregation rules will be used, what procedures must be followed, what information must or must not be provided and what payoffs will be assigned to individuals dependent on their actions... All rules contain prescriptions that forbid, permit or require some action or outcome", (Ostrom 1990, p51). This suggests a need to analyse the rules along with the procedures that are necessary to monitor conduct and enforce compliance.

Ostrom points out that theories of the firm and the state each provide a solution to the collective action problem. The firm operates by allowing an entrepreneur to negotiate contracts with a range of participants that specify the ways in which they will act in a co-ordinated way. In deciding whether or not to participate (assuming voluntary participation) each participant gives up some choices and as a result of this the entrepreneur can pay each of the agents retaining residual profits (or bearing losses). The implication of this model is that the entrepreneur is motivated to organise the activity efficiently and maximise profits. The state is another and particular solution to the collective action problem. The state by having a monopoly of the use of force can impose rules and enforce them using sanctions. Hence the state can organise a range of activities for collective benefit.

In highlighting the role of the state and the firm as collective action institutions Ostrom suggests that the "absence of a theory that would identify the mechanisms by which a *group of individuals* could organise themselves" (p40, my italics) become clear. Her work then seeks to identify the design principles that underlie successful attempts by groups of individuals to manage CPRs. The specifics of the design principles she derives do not directly apply to the case of financial institutions. There are fundamentally different features involved. For example, for CPRs there is a problem of non-excludability which does not apply in our case. Indeed, the discussion of collective action has tended to focus on cases of public good provision where the incentives to voluntary action are problematic (Olson 1987). However, Ostrom's case of CPRs managed by groups, contrasts with private and state ownership solutions to the management of environmental resources in similar ways that the case of SACCOs and ASCRAs represent co-operative solutions contrasting to private and state ownership in the case of financial institutions. The main institutions for financial intermediation present in most contexts therefore mirror the three core types of institutions which have been developed to address the core collective action problems that economic interaction produces: the state, the firm and co-operative solutions.

Developing a Conceptual Framework for the Analysis of Financial Institutions

If we take the range of financial intermediaries that usually exist (and do so in Karatina – see below), we can locate them within particular approaches to solving the collective action problem as indicated in table 1. Institutions have been classified into 5 categories:

1) Firm based financial intermediaries such as banks and non-banking financial institutions (NBFIs) which produce a solution to the financial intermediation problem which results in bi-lateral contracts between the institution, savers and borrowers independently of each other
2) Co-operative solutions, which are by definition mutually, owned institutions for financial intermediation e.g. SACCOs, ASCRAs and ROSCAs. In these institutions borrowers from the institution must first be members (i.e. savers) in the institution and hence contracts to borrow are contingent on membership.
3) State based mechanisms of financial intermediation such as parastatal lenders. These are based on the state's ability to tax and transfer resources from one group to another. These are very similar to
4) NGO originated MFOs[1], which are also a vehicle in the first instance for the transfer of funds– in this case donor funds (public and private) and which are based in a collective action institution which has a charitable intent.
5) Direct lending i.e. moneylending and reciprocal borrowing between friends and relatives. While these can be seen as

[1] MFOs have come to refer to all types of organisations offering finance to poor people including e.g. credit unions. Here we therefore distinguish NGO originated MFOs from other institutional forms.

financial institutions, they are not collective action institutions as the intermediation of funds is between a single saver and one or more borrowers and in this context - while there are still a broad set of rules involved - this *involves bi-lateral contracts* and does *not represent a form of* collective action.

Table 1: Classification of financial institutions by form of collective action

Form of collective action	Type of financial institution	Nature of the institution
FIRMS	Banks / NBFIs	Financial intermediaries which operate according to the theory of the firm. They can take savings and give loans independently of each other because saving and borrowing from the bank is essentially independent contracts with the bank. Objective of the institution is to intermediate funds and make profits for owners / equity shareholders. Ownership may be by the state or private investors.
CO-OPERATIVE	SACCOs	Co-operatives are a collective action institution and have clearly defined boundaries of membership, rules, monitoring and enforcement mechanisms.
	ASCRAs and ROSCAs	Similar to co-operatives, they are a collective action institution for financial intermediation based in local understanding of mechanisms for monitoring and enforcement

STATE Transfer based	Parastatal lending institutions	Intermediates funds on behalf of the state - thus an indirect form of financial intermediation. The collective action problem of intermediation is solved by the state in a very specific way and this may be due to an analysis of "market failure". The parastatal's remit and ability to make profit is in part a function of the incentive structure imposed upon it by the state.
NGOs Transfer based	NGO originated MFOs	NGO based MFOs usually intermediate funds from donors and often use group based lending thus imposing a collective action solution on borrowers but their origins as NGOs are in a completely different type of collective action institution, i.e. usually a charity and these are privately owned institutions.

Direct lending i.e. does not involve collective action	Moneylenders	Private individuals, who lend their own money, hence are not a collective action institution because they do not take savings. Alternatively may be formal companies but operate under the theory of the firm with an objective of making profits. However their function as a financial intermediary is limited to their intermediating shareholder funds, as they do not take savings to on-lend.
	Lending to friends and relatives (reciprocal lending)	Private agreements, between friends and relatives whose rules, monitoring and enforcement mechanisms are mutually understood and agreed. These are bi-laterally negotiated and are not therefore collective action institutions.

MFOs, with state based financial institutions, are special cases of the financial intermediation problem which partly arise out of the view that collective action solutions to the financial intermediation problem based in banks have failed at the local level and these failures are usually referred to as "market failures". However, MFOs utilising group based lending attempt to use the collective action of borrowers in order to solve one aspect of the intermediation problem, which involves information and transaction costs in the making of lending decisions. Parastatals, on the other hand, have tended to utilise individual lending approaches based in the same principles as bank loans.

It should be noted that government owned banks fall in the first category rather than that of the state as their primary collective action form is that of a firm as the rules, monitoring and enforcement mechanisms are the same as they are for privately owned banks.

In order to analyse these institutional forms further; we can examine the rules, monitoring, and enforcement mechanisms that operate in each of these institutional forms. In her investigation into the design principles for CPRs, Ostrom proposes that rules for the operation of institutions are nested in levels and these are 3 tiered –

1) Operational rules - affecting day to day decisions regarding access to resource units, monitoring and sanctions and the operational level therefore involves processes of appropriation, provision, monitoring and enforcement

2) Collective choice rules which indirectly affect operational rules - they are the rules used in making policies and the management and adjudication of policy decisions

3) Constitutional rules - affect operational activities and results through their effect in determining who is eligible and determining the specific rules to be used in crafting the set of collective choice rules that in turn affect the set of operational rules. Any group that is going to undertake collective action has to agree a constitution in which the collective action and operational rules are embedded. The constitution has in turn a set of rules about how it can be changed.

Sets of mechanisms for monitoring and enforcement of the rules, i.e. mechanisms through which it will be known whether the rules have been broken and how transgression will be punished, accompany these. Thus we can examine the rules under which financial institutions are constituted and the monitoring and enforcement mechanisms they require to enable these rules to operate and this is done in table 2 for a range of financial intermediaries.

Thus banks are a specific form of financial intermediary, which operate as firms. Their management is appointed by shareholders that monitor performance. They have specific additional legislation because they are firms who can take other people's money as deposits and hence Banking Law is largely concerned with creating a framework within which to monitor this activity. The institutional framework for savers and borrowers is that they enter into contracts with the bank to deposit or borrow funds, which are governed, by banking law.

In the sense of banks operating as institutions, we are interested in two aspects of their institutional arrangements. First is the monitoring and enforcement mechanisms related to the operation of it as a firm, and second is the particular institutional arrangements that affect the nature of its financial intermediation. Hence it is the management appointed by shareholders that design loan and savings services with the intention of making profits for the shareholders from this service. The means of monitoring and enforcing the rules that are related to saving and borrowing – especially borrowing – are the responsibility of the management of the bank but may be detailed in law also. For example, requirements to lend against collateral, the means of enforcement of e.g. loan repayment involves the management of the bank in using contract law to realise collateral in the event of non-payment. These are fundamental aspects of the nature of the service that banks can offer as financial intermediaries.

By contrast to the institutional form of a bank, in savings and credit co-operatives (SACCOs) the members are both the owners and managers of the organisation. In most countries Co-operative Law governs their operations and this involves the election of a Management Committee from the members and a range of other sub-committees. It is these that formulate the operational rules and monitor their implementation. In larger SACCOs the Management committee may appoint professional and paid managers but responsibility for management decisions lies ultimately with the members through the committee and annual general meeting structure. It is through these mechanisms that the members can directly influence the services that are provided, the profits that are made and the use of those profits.

In the mutual sector the key difference between SACCOs and group-based systems is the lack of formal registration with government – in this sense they are 'informal'. Some ASCRAs may operate very similarly having committee based structures. ROSCAs are the simplest form of financial intermediation with mutual ownership that can exist and range in practice from well-organised and established groups to extremely loosely run systems. In all of these types of institution members have a voice.

The mechanisms for enforcement of payment in these informal mutually owned institutions are dependent on a range of other institutions. They may be able to utilise the civil law in the case of debts, however it is often the case that they do not do this because of cost or the requirements involved of following these routes, and instead depend on a range of other types of sanction e.g. the seizure of a members assets, or informal sanctions such a shame and reputation.

Parastatal lending institutions are distinct from e.g. government owned banks. Parastatal lending institutions are ones that do not raise savings in the form of deposits; rather the government uses its powers of taxation to raise funds, which it can then intermediate through the lending institution. The management is appointed by the government, the institution is accountable to government through the mechanism of its Act and whatever aspect of legislative rules which may also apply to parastatals. The enforcement of repayment of loans depends on the legal framework as it does for banks.

NGO based microfinance offers financial intermediation on the basis of transfers[2], which are on lent to their target populations. With the growth of 'market driven' thinking in the NGO microfinance sector there are moves underway in many countries for MFOs to shift from the NGO sector into either the Banking sector – or in some cases to create a new regulatory category to cover MFOs. However it is most likely to be the case that these will be positioned within the banking sector operating as firms – the difference with banks will be in the nature of their capitalisation and related regulatory requirements. Some institutions within this category can be seen as in the process of transition from this category into either the firm based banks category or a new one still to be determined.

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[2] It is the case that in some countries, Bangladesh being the prime example, NGOs have taken and intermediate savings. This is illegal with respect to constitutional rules of NGOs and banks but is allowed to happen due to regulatory forbearance and aptly demonstrates how the way in which these institutions operate is a function of the wider environment.

Table 2: Rules, monitoring and enforcement mechanisms for different types of financial intermediary

	FIRMS	MUTUALS		
	Banks	SACCOs	ASCRAs	ROSCAs
Legislated rules / Constitutional rules	Banking laws - mainly to protect depositors Company law	Co-operative law	No legislated rules. May be a written constitution but this may be more heavily based on members implicit understanding of a set of rules.	No legislated rules. May be a written constitution but this may be more heavily based on members implicit understanding of a set of rules.
Collective action rules	Made by shareholders and Board within constraints of legal framework	Made by members (who are savers) – AGM etc which can modify the constitution and monitor management	Members (savers) – election of group officials	Members (savers) – election of group officials
Operational rules	E.g. lending policies made by Board and management	Made by Management committee but proscribed by law	Members may be in everyday operational rule implementation as well as officials	Members may be in everyday operational rule implementation as well as officials
Monitoring mechanisms	• Externally monitored by central bank • Profitability monitored by shareholders • Management has responsibility for monitoring of financial services	AGMs, management committee meetings, sub-committee meetings. In larger SACCOs may have a paid manager and staff for day to day operations.	Monitoring via regular meetings at which repayments made and loans made, very easy to know when someone hasn't paid	Monitoring in ROSCAs very easy as know when someone hasn't paid because no money for next person
Enforcement mechanisms Graduated sanctions	Regulations imposed by Central Bank Profits losses to shareholders Loan enforcement backed by contract law for realisation of collateral	For late/non payment. - Use of guarantors, which is related to peer pressure and reputation - Attachment of shares	For late/non payment: Possibly financial penalties Seizure of assets Exclusion from group and/or social sanctions such as shame/ reputation	For late/non payment. Possibly financial penalties Seizure of assets Exclusion from group and/or social sanctions such as shame/ reputation

Table 2 continued

	TRANSFER BASED		DIRECT LENDING	
	STATE	CHARITY		
	Parastatals	NGO originated MFOs	Moneylenders	Localised reciprocity
Legislated rules / Constitutional rules	Constituted by act of parliament	Constituted under charity or NGO laws	May be national law which may specify operational rules to extent of pricing (e.g. laws against usury) and legitimate mechanisms for enforcement Company law may be used	None
Collective action rules	None - Management appointed by government – accountability laid down in Act	Board appointed by invitation – in turn they appoint management	None (unless involves a private shareholder company)	None
Operational rules	Operational rules made by management	Operational rules made in accordance with overall vision and mission set by board. For lending – programmes designed and rules set by management	Set by moneylender – borrower enters into an agreement, which may be verbal or written.	Usually set by mutual agreement between lender and borrower

Monitoring mechanisms	Monitoring by Government in accordance with Parastatal legislation Monitoring of loans by management	Monitoring of the NGO by e.g. Charity Commissioners Monitoring of lending is internal only	If a company has to abide by company law	Monitoring by both lender and borrower
Enforcement mechanisms / Graduated sanctions	Loan enforcement backed by contract law for realisation of collateral	May use social sanctions to discipline borrowers in group based finance systems	May use law courts to enforce contract if written; may use informal enforcement mechanisms e.g. seizure of items or *social sanctions* (such as damage to reputation)	May use law or more likely to use social sanctions

However, NGO based microfinance is also a hybrid. In using group based approaches that are familiar to the group based mutual ownership systems, they seek to utilise aspects of the way in which these approaches operate in their own approach. However the difference in the use of mutual liability systems used by MFOs, is that they impose mutual liability on borrowers as a condition of lending whereas in the mutualist group based systems this is an endemic feature. Since one member is borrowing another member's savings, her potential default means that the member necessarily risks losing her money.

Approaching the analysis of financial institutions in this way highlights the importance of the nature of ownership of the institution and the link between savers and borrowers in each type of institution that results.

Implications of the Institutional Approach

Analysing financial institutions as is done in table 2 leads us to a further series of propositions. First, it enables us to see that the effectiveness of certain types of financial intermediary is related to the effectiveness with which the rules can in practice be monitored and enforced. Thus it becomes apparent that the ability of a financial intermediary to operate is in turn dependent on a range of other sets of rules, monitoring and enforcement mechanisms. One set of such institutions is those of property law, the effectiveness of the legal system in enabling collateral to be recovered and the effectiveness of the regulatory and supervisory structures.

While informal systems such as ASCRAs and ROSCAs may have little recourse to legislated law they in turn depend on informal norms to enable the functioning of the system. This is not to say that informal systems cannot use the formal legal system. In fact, nearly all of the moneylenders in Karatina ensure that they have written agreements for the loans they make as this makes it possible to pursue debts in courts of law, and one moneylender whose business had collapsed due to non-payment by a small number of borrowers who had borrowed significant amounts from him, was in the process of taking his case through the courts. Although informal systems may use the courts they also rely on a range of other norms which are enforced through a range of sanctions such as guilt, shame and informational sanctions which may for example damage someone's reputation (Posner and Rasmusen 1999). Such norms and sanctions are largely based in social and cultural meaning and practice.

However it would be erroneous to suggest that such norms and sanctions only support the operation of forms of financial intermediation, which are informal. Rather, informal systems supplement and support the enforcement of formal rules in providing the basis of social order (DiMaggio 1994; Platteau 1994). So that, for example, the ability of shareholders and government to effectively monitor the performance of banks and parastatals are in turn underpinned by the honesty and probity with which lending and monitoring is carried out within these institutions. Further, wider social views of debt and repayment obligations can affect the approach people take to repayment of loans and may differ between types of lender. Thus even though shame may not be a mechanism through which repayment of bank loans is formally enforced, it may be a contributory factor in ensuring payment from borrowers.

This therefore highlights the fact that there are other institutions, which support the ability of a set of financial institutions to actually function as financial intermediaries. The range of these institutions is wide and encompasses institutions that arise out of aspects of culture (e.g. moral and religious values), social rules and norms, and political and economic relationships. Thus for example underlying political and economic structure influence the way in which the rules are negotiated

– and the way in which they are monitored and enforced in particular contexts. This framework therefore suggests that an investigation of the functioning of financial intermediaries in a given context requires examination of the underlying institutions that influence the ways in which the rules are formulated, monitored and enforced. These can help explain the emergence and relative performance of different types of institution.

Second, and as Ostrom asks in the context of the development of institutions which govern CPRs, "why is it that some appropriators can supply themselves with new rules, gain quasi-voluntary compliance with those rules and monitor each other's conformance to the rules, whereas others cannot?" (P185). How can the supply of institutions for collective action - or in this case financial intermediation – be explained? We can observe that in some contexts informal group based systems may be more abundant than others; in others' money-lending for example may be more pervasive In the former case, a group of individuals have been able to switch from acting individually to co-ordinating their activities and can share the benefits of this transformation. Ostrom's argument from a rational choice perspective, is that the individuals must be able to make safe, advantageous and credible commitments as long as most people in the same situation do so and long term expected net benefits exceed the payoffs to dominant short term strategies.

So how can we understand when these institutions can emerge and when they do not? How do some people but not others overcome the problems associated with collective provision? She suggests that most institutional theories lack sufficient attention to external factors and instead concentrate on internal variables which in the case of CPRs are: the number of decision makers; the number of participants needed to achieve the collective benefit; the discount rate; similarities of interest; and the presence of leadership skills.

Ostrom further argues that it is necessary to take account of the self-transforming nature of institutions taking examples of CPR institutions that have started small and worked up into larger institutions. She says that there is an accretion process of 'social capital' formed out of repeated interaction in these fora. She also suggests that the wider political regime can be important and that it is necessary to take account of information and transaction costs, which enable monitoring to take place. However, since the mechanisms through which this information can flow are social institutions, it is at this point that a rational choice approach fails to explain the set of choices that people face because it pays no attention to the resources they themselves bring to the institution as groups or individuals. She therefore points to, but falls short of, identifying the wider social, cultural, political and economic context out of which collective action can flow.

We can therefore propose that the array of financial institutions that exist in a particular context arise out of the ways in which solutions to the collective action problem have emerged out of underlying social structures. These responses are embedded in the social, cultural, economic and political environment in which they are operating both historically and currently. Hence the ability of groups of individuals to act collectively will be a product of these influences. This is equally the case, for example, for the emergence of entrepreneurs who are able to operate firms effectively.

Finally, it becomes apparent through this approach that faced with an array of financial institutions, the ability of individuals to access services i.e. to interact with the rules of these institutions, will depend on their own endowment of social, cultural, economic and political resources. Without the required social resources an individual will not be able to engage in-group-based systems, for example. Economic endowments in terms of land and assets will determine their ability to obtain loans, which require physical collateral. Age and gender may be a key factor in determining whether someone owns land which is inherited as young men may not yet have inherited land and women may never get the opportunity. We can therefore suggest that patterns of access which are embedded in their social and economic characteristics such as gender, age, caste, ethnicity are likely to arise.

To summarise, the conceptual framework proposed here suggests that:

1) to analyse the financial market it is necessary to go beyond an analysis of products to an analysis of the financial institutions which give rise to these products
2) Those financial institutions are solutions to the financial intermediation problem, which is a collective action problem. There are essentially three types of solution based on the firm, the state and mutuality and these institutions can be analysed in terms of the rules, monitoring and enforcement mechanisms that enable them to function
3) The actual rules, monitoring and enforcement mechanisms, which are implemented, are a result of the way they interact with politics, social relations, economic structures and cultures on the ground.

4) At a societal level, the supply of institutions and the nature of the solutions which is generated is embedded in its political, social, economic and cultural resources both historically and currently. Thus, for example, the existence of mutualist solutions to the collective action problem will depend on the way in which its wider social and political institutions support their emergence.
5) That patterns of financial service use will be discernible in relation to social and economic characteristics such as gender, age, ethnicity, caste, religion, wealth and so on due to the way in which these socio-economic characteristics enable or disable people from interacting with the formal and informal rules of the financial institutions.

This therefore suggests an approach, which focuses on an analysis of the rules, monitoring and enforcement mechanisms of financial institutions and the financial services to which they give rise. Through this we can develop a more fruitful analysis of the ways in which financial services operate and the ability of particular socio-economic groups to use them.

Financial Service use in Karatina

The paper now presents some findings from fieldwork in Kenya. It first illustrates how gender underlies significant differences in the use of the services available. Then it shows how an understanding of the *social sanctions available*, which are differentiated by gender, can contribute to an explanation of these differences.

The fieldwork was undertaken in Karatina in Kenya. Karatina was chosen on the basis of three criteria. First, in order to make the study feasible it was necessary to locate it in a small town which would allow the 'financial market' to be geographically circumscribed. Second, MFIs were present in Karatina and had been for some time, so ensuring that they were well understood by their users, and it was a specific objective of the study to understand their role in the financial market. Third, there was a sufficient range of other financial institutions to make the town interesting for this type of study.

The fieldwork involved both supply and demand side surveys. Initially financial service providers were identified and all formal institutions were interviewed to document their services. For informal financial institutions such as groups, individuals were interviewed about the way their groups operated and attempts were made to capture the diversity of models in operation. The findings from this work covered formal financial organisations and do not involve estimates of informal group and moneylending activity. The formal sector banks, parastatals and NBFIs accounted for some 81% of deposits and 46% of savings accounts; it accounted for only 65% of loan volume. The SACCO sectors (rural and urban) while accounting for some 15% of deposits by volume accounted for 36% of savings accounts and 16% of loans by volume. The MFO sector, that included local NGOs that operated a revolving loan fund model, accounted for 5% of savings by volume, some 18% of savings accounts and 19% of loans by volume. These findings illustrate that while formal sector institutions dominate savings deposits when it comes to the numbers of people using them and the loan volumes the SACCOs and MFOs become important players.

This was followed by a survey of individuals to investigate their use of the financial services on offer. The first round involved a random sample of 150 households in three locations. The locations were chosen to reflect the key livelihood contexts, a coffee growing area, a tea growing area and in the town where employment and enterprise dominate. Data on household characteristics from the first round was used to select a sub-sample of households for detailed investigation. The approach involved categorising households on the basis of household composition and headship, age of household head, and gender of household head, which the research had initially hypothesised as important. This resulted in a survey sample as shown in Table 3. In married households, both husband and wife were interviewed independently and confidentially about their financial service use to ensure openness and ensure that gender dynamics could be investigated.

Table 3: *Distribution of respondents by socio-economic* category and location

Household Characteristics	Gatundu (Coffee growing area)	Chehe (Tea growing area)	Karatina Town (Employment/Enterprise)	Total households	Total Individuals
Man/Woman – Old (MHHH>39)	4	4	4	12	24
Man/Woman – Young (MHHH<39)	4	4	4	12	24
Male Only HHH	3	2	4	9	9
Female Only HHH	3	4	4	11	11
Total households	14	14	16	44	68

Table 4 reports cross-tabulations of savings services used (in the last two years) by a basic range of socio-economic characteristics. It is not possible to discuss all of the results here in detail. Highlighting relationships that demonstrated a degree of significance reveals the following

Table 4: Use of savings service by socio-economic characteristics (percentages)

	Sample Size	Bank/ Building society	Rural SACCO	Employee SACCO	Post office savings access	ROSCA	Independent ASCRA	Managed ASCRA	MFO group	Insurance group - regular or irregular	Insurance group (regular contribution)	Insurance group (irregular contribution)	Other savings group
Overall	68	45.6	33.8	10.3	8.8	48.5	8.8	5.9	7.4	39.7	17.6	25.0	2.9
Sex			*			**							
Men	33	51.5	45.5	3.0	12.1	30.3	9.1	0	9.1	36.4	21.2	21.2	0
Women	35	40.0	22.9	17.1	5.7	65.7	8.6	11.4	5.7	42.9	14.3	28.6	5.7
Marital status													
Married	49	44.9	28.6	12.2	10.2	49.0	10.2	4.1	8.2	40.8	18.4	24.5	2.0
Single	9	66.7	11.1	11.1	0	44.4	11.1	11.1	11.1	33.3	11.1	33.3	11.1
Sep/Divorced	3	66.7	33.3	0	33.3	0	0	0	0	0	0	0	0
Widowed	7	14.3	100.0	0	0	71.4	0	14.3	0	57.1	28.6	28.6	0
Age			***										
<40	39	48.7	12.8	12.8	10.3	53.8	10.3	5.1	7.7	35.9	12.8	25.6	5.1
>=40	29	41.4	62.1	6.9	6.9	41.4	6.9	6.9	6.9	44.8	24.1	24.1	0
Education		***	+										
Primary & less	29	17.2	44.8	0	10.3	48.3	6.9	3.4	0	41.4	13.8	27.6	0
Secondary & above	39	66.7	25.6	17.9	7.7	48.7	10.3	7.7	12.8	38.5	20.5	23.1	5.1
Location		***	*										
Gatundu-rural	22	31.8	54.5	13.6	13.6	50.0	9.1	0	0	45.5	22.7	22.7	0
Chehe-rural	22	13.6	36.4	4.5	4.5	45.5	4.5	4.5	0	40.9	9.1	31.8	0
Karatina Town	24	87.5	12.5	12.5	8.3	50.0	12.5	12.5	20.8	33.3	20.8	20.8	8.3
Individuals main income													
Agriculture	21	23.8	76.2	0	9.5	47.6	4.8	4.8	0	52.4	23.8	28.6	0
Business	19	78.9	21.1	0	5.3	47.4	21.1	10.5	26.3	42.1	26.3	26.3	10.5
Employment	12	83.3	16.7	58.3	25.0	50.0	8.3	8.3	0	25.0	8.3	16.7	0
Casual labour	12	8.3	8.3	0	0	50.0	0	0	0	25.0	0	25.0	0
None	4	0	0	0	0	50.0	0	0	0	50.0	25.0	25.0	0

NB – the level of significance is indicated for the cell as a whole on the basis of the chi-square statistic for the cross-tabulation.
+ - significant @ 10% level, * - significant @ 5% level , ** - significant @ 1% level , *** - significant @ 0.1% level

Table 5: Use of loan service by socio-economic characteristics (percentages)

	Sample Size	Bank Building society	Rural SACCO	Employee SACCO	MFO	MFO -ASCRA	Independent ASCRA	Money-lender	Friend / Relative	Parental	Employer
Overall	68	7.4	19.1	8.8	7.4	7.4	5.9	0	17.6	1.5	2.9
Sex						*			*		
Men	33	6.1	24.2	3.0	6.1	0	6.1		27.3	0	3.0
Women	35	8.6	14.3	14.3	8.6	14.3	5.7		8.6	2.9	2.9
Marital status			***						+	***	
Married	49	8.2	12.2	10.2	8.2	6.1	6.1		14.3	0	2.0
Single	9	0	0	11.1	0	11.1	11.1		55.6	0	11.1
Sep/Divorced	3	33.3	33.3	0	33.3	0	0		0	33.3	0
Widowed	7	0	85.7	0	0	14.3	0		0	0	0
Age			***						*		
<40	39	10.3	2.6	10.3	5.1	5.1	7.7		25.6	0	5.1
>=40	29	3.4	41.4	6.9	10.3	10.3	3.4		6.9	3.4	0
Education		*	**	*	*				*		+
Primary & less	29	0	34.5	0	0	6.9	3.4		6.9	0	6.9
Secondary & above	39	12.8	7.7	15.4	12.8	7.7	7.7		25.6	2.6	0
Location		+	**		**						
Gatundu-rural	22	4.5	36.4	13.6	0	0	4.5		13.6	0	0
Chehe-rural	22	0	22.7	4.5	0	9.1	0		27.3	0	4.5
Karatina Town	24	16.7	0	8.3	20.8	12.5	12.5		12.5	4.2	4.2
Individuals main income			***	***	**						
Agriculture	21	4.8	52.4	0	0	4.8	4.8		14.3	0	0
Business	19	15.8	0	0	26.3	15.8	15.8		10.5	5.3	5.3
Employment	12	8.3	8.3	50.0	0	8.3	0		16.7	0	0
Casual labour	12	0	8.3	0	0	0	0		33.3	0	8.3
None	4	0	0	0	0	0	0		25.0	0	0

NB – the level of significance is indicated for the cell as a whole on the basis of the chi-square statistic for the cross-tabulation
+ - significant @ 10% level, * - significant @ 5% level, ** - significant @ 1% level , *** - significant @ 0.1% level

Overall, ROSCAs have the highest level of use at 49% of the sample with banking services close behind at 46%. Chi-square tests suggest that there is a relationship between use of banking services and level of education and location, with those educated to secondary level and those living in town[3] being more frequent users. Third in terms of overall use at 40% are indigenous insurance mechanisms whether involving regular contributions or payments when the need arises. These may be nested in other savings groups or based in, for example, lineage groups.

Rural SACCO services (i.e. for tea and coffee farmers) are used more by men than women, more by those over 40 than those under 40, by those with primary education and by those in the coffee and tea zones than those in town. The chi-square tests suggest significance in these associations. Since rural SACCOs are almost by definition based on cash crops, their use in the tea-growing zone of Chehe and coffee growing zone of Gatundu is clear. Cash crops tend to be under the control of men rather than women. Older people both retire to their farms and depend on these cash crops and this helps explain greater use in the older category as the sub-division of cash crop land to children is often done when sons are married and seen as responsible.

In terms of socio-economic characteristics, gender appears to be a significant determinant of rural SACCO use and ROSCA use. In the case of ROSCAs 65% of women were found to be in ROSCAs and only 30% of men and this is the only socio-economic characteristic (including a range of characteristics such as consumption poverty levels, land ownership, and asset scores that are not reported here) that appears to affect ROSCA access.

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[3] Gatundu sub-location is approximately 3 kms from town, and Chehe sub-location is approximately 10km from the town.

The logistic regression method allows us to look at the effect of a single variable while holding others constant[4]. This therefore allows us to consider the marginal effect that a particular characteristic has on raising or lowering the odds that an individual will use a particular financial service. The logistic regressions are reported in Annex 1 and confirmed gender to be the driving factor in increasing the likelihood of the use of ROSCAs.

Table 5[5] examines the use of loan services (any loan obtained in the last 5 years) in a similar way. Rural SACCOs are the most common source of loans at 19%. Borrowing from these is associated with age, education, location and being widowed. Borrowing from friends and relatives is the second most used source of loans at 18% and the data suggests that borrowing is more prevalent among men than women, single people, those under 40, and those with secondary education.

Employee SACCOs obviously depend on someone being in employment and this tends to be related to having a secondary education. Borrowing from the bank is as frequent as borrowing from MFOs and MFO ASCRAs. Bank borrowing is again associated with education and location. For MFO borrowing, being in business, in town and educated to secondary level are

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[4] In some instances the small number of reported cases of use of a service meant that meaningful logistic regression results could not be derived. The regressions therefore enable the socio-economic characteristics that were more likely to contribute to an individual using the more heavily used services to be analysed.

[5] While moneylenders are part of the financial landscape in Karatina, there use is low and tends to be concentrated in the town. This and the relatively small sample explain the fact that respondents reported no moneylender loans.

important factors. MFO ASCRA programmes[6] also have significantly more women than men borrowers, but this is an aspect of their targeting.

Logistic regression results confirm the fact that age and sex are the driving factors in access to loans through rural Saccos. Also that a secondary education and being young and male significantly increase the chances of borrowing from friends and relatives (see Annex 1).

Hence two of the most significant results in the tables arise with a gender dimension: that ROSCAs are significantly more likely to be used by women than men and that borrowing from friends and relatives is more likely to be undertaken by educated and young men.

While the data suggests that there are clearly also other influences on access to financial services there is not sufficient space within this paper to discuss them all. The latter part of the paper therefore concentrates on trying to understand how these results highlighting the role of gender can be explained and the role the conceptual framework presented above can play in enabling this.

Early in the research when we were seeking to understand the diversity of informal financial arrangements, a range of statements were made by informants about the ability of men and women to function in groups. During qualitative interviews and focus group discussions with both men and women, we followed up on these statements and asked informants to explain the differential participation of men and women in groups, and specifically

[6] Karatina has 3 local NGOs, which offer a service to women's groups in which they provide the model for women's revolving loan fund and, for a fee, assist the women to run the groups.

ROSCAs. Before discussing the results, the nature of ROSCAs in and around Karatina is described.

ROSCAs in the Karatina Financial Landscape

ROSCAs abound in and around Karatina and come in a variety of forms. My own expectation from earlier exposure to rural Kenya and the literature was of a group - usually of women - that meets weekly or monthly and where the next person in the line obtains the money or items that have been purchased. With a ballot being used to determine the order of receipt.

However, ROSCAs in town and especially those based in the vegetable market most commonly operate on a daily or thrice weekly basis (market days) and simply appoint a collector to collect the money and give it to the next person in the list. When the ROSCA is formed there is a meeting to "*kwamba*" or initiate the group (*kwamba* is the term used to refer to the point from which a basket starts to be woven). At this meeting a ballot is held and the collector appointed. It is quite common for groups in the market to never meet again and the order of the ballot never to be changed so that someone retains the same position in the order for years. One group we found which started in 1976 had never met or re-balloted since.

A ballot for the order of the cycle drawn at the very beginning appeared to be the commonest form in the town. Consequently people value ROSCAs in which they are near the beginning of the order. However, in the rural areas it was more likely that ROSCAs held monthly would be balloted at the meeting. A town based group of businessmen which runs a large ASCRA had a weekly ROSCA attached to it which was balloted at the meeting and was seen as an incentive for meeting attendance.

As people then leave the ROSCA, new members can be introduced to the collector who usually makes the decision about who can join. New members are very often put at the end of the ballot as it is not known how trustworthy they are in making contributions and this means that they are less likely to upset the cycle by not paying once they have received their pay-out. There are benefits which the collector can gain from taking on this role such as being first in the ballot, being able to make their own contribution on the contribution day as late as possible (important in the market if business is slow) and giving status in the community.

However, there are many ROSCAs in which members do not know each other. One woman joined a ROSCA in 1978 because she knew the collector, and the group consists of various business people around the town but she has never met the other members. As time goes on and people join and leave groups, the collector is often the only person who knows who all the members are.

This appears to imply a degree of ease with which ROSCAs can be formed and operate. But on the contrary there appears to be excess demand for 'good' ROSCAs. As a consequence, when a stake (or place) becomes available in a well established ROSCAs it is quite often taken up by an existing member who wants to save more, and this also reduces the problem of introducing new members whose reliability is uncertain. As a result, a ROSCA, which started with 30 stakes, may, after a few years have only 10-15 members and it is common for individuals to have multiple stakes in the same ROSCA.

A further feature that arises because of this system is that members may "carry" other people, called "gukuua" and literally meaning, "being carried on the back". Thus a member may take a stake in a ROSCA for which someone she knows but whose name does not appear makes the contributions on the list. Some groups say that they don't like this because it increases risks, but it is not possible to guard against it completely.

The character of the groups in the market can also vary in terms of the degree of strictness with which contributions have to be made - some charging fines for late contributions. Others are "patient" (*kurekera*) and if members are a day or two late with their contribution are not penalised if it is for what is seen as a genuine reason. But if this behaviour is seen as laziness the person will soon be pushed out of the group at the end of the cycle. It was not possible to identify what might have brought about these differences in character of groups e.g. it was not necessarily the case that those which were *kurekera* knew each other well. Perhaps the most likely explanation is in the character and attitude of the founder(s) or collector of the group towards contributions. An old woman who had been the founder member of the group which had started in 1976 explained that a few years ago members had become lax with their contributions (which she attributed to deteriorating economic conditions) and they decided that they should become strict - they achieved this by seizing some items from non-paying members until they repaid. Through this means the discipline in the group improved.

Group membership (ROSCAs and ASCRAs) is now strongly perceived as a social safety mechanism, which has become an important need during the current economic decline. The first way of using them when in urgent financial need is to swap positions in the cycle by petitioning a friend or the group as a whole. However, assistance can be sought from a group in other ways and groups may involve an insurance type function in which contributions will be made in the event that a member has a serious illness or accident, the death of a family member and so on. Members of one town based group of 90 businesswomen described with great pride how they had mobilised themselves to bury a member who was a single woman with no immediate family to do organise it. This support is now a strong motivation for joining or maintaining group membership. As an informant observed, if she takes her money to the bank then when she has a problem no one can help her.

By contrast to ROSCAs in the town, and particularly those in the market, ROSCAs in the rural areas tended to meet in the usual way – usually monthly. These are often clan based although women who have married into the clan and neighbours are allowed to join. An interesting new feature of ROSCA formation in these areas is groups called *"muthuirururko"* which means "going around" – in contrast to the usual term *"gitati"*. Women dependent on their area of origin are forming these groups. As the marriage system is patrilocal, women belong to the *"gitatis"* on the basis that they are members of their husband's lineage, unless they have married into their own lineage. Since about 1997, women have started forming groups with other women who have married into the area but who are from the same area originally. However, this does not mean that they knew each other in any way before. Women we interviewed said that they often had no idea where someone who married into the area was from – and hence were surprised when they found out that a woman might have known their own family. Thus in the rural area we visited there were separate groups which had been formed by women from Othaya and Ndia. There have an expanded social function compared to *itati* and involve a whole afternoon of socialising, eating and drinking while undertaking ROSCA business. Women explained that they get psychological support from knowing other women from their area who, they felt, might understand their problems better than women from the same clan as their husbands. Some felt that this was also a further means of mobilising assistance in times of hardship.

Group Participation: Gender Differences in Social Norms and Sanctions

In this section we now turn to explanations for the different levels of participation of men and women in-groups.

One young man succinctly described the social importance of groups to women: "To a woman a *gitati* is her lifestyle it's her way of life ... a woman is not a woman until she is in a *gitati* ". The main role of groups for women is as a means of providing themselves with household utensils. They noted that that if you enter the house of a woman who is in a group then it will be noticeable because she will have cups, plates and *sufurias* (cooking pots). Women explained that while a man would were interested in building a house, he will not be concerned with buying what goes inside it. While some men expect those things to be there even though they will never buy them, others will not care: "if there is no cup to drink from he will just tell you to bring the tea in the *sufuria*!"

Women explained that since women in their groups are not all of the same age, this social context enables them to learn how to speak properly in public and the older women educate the younger women on how to handle things in their homes and discuss problems with their husbands. Their ability to buy a sweater or a smart dress as a result of the group and be dressed smartly and cleanly enables them to gain in self-esteem and mix freely with richer people - "You can become a woman". This was judged important by town women who felt that their men will run away if they were not smart because he would compare her to a woman dressed smartly that he had met in a bar. But although he wants her to dress well he will not provide the money to do this. "Men just need to see the woman in the house ...so it's upon her to get the way to dress and manage the house."

In the rural area, women felt that having household utensils served a broader social function. Not only could she host a lot of visitors without having to go looking for cups from neighbours, but she is also the first to be invited to local social functions as she will take her utensils with her to assist. Those women, who do not join groups locally, although they can afford to, are seen as being proud and self-sufficient and not wanting to mix with others. If these people get a problem and need assistance they must invite their friends who are not in-groups because the others will not come.

This briefly indicates the social importance to women of joining groups. Further evidence related to the social sanctions that are in operation to monitor and enforce the operation of the group. The primary social sanction seems to be that of shame. This was reported in a range of ways.

We were told that women feel shame if they are unable to make a contribution to their ROSCA– they will rather borrow from a friend to take money to the group than not pay as they do not want to be embarrassed and "spoil" the group. Nor does she want the shame of people coming to take things from her house. As one woman put it:

> "*it is embarrassing to go to a gitati* without money....you are going to be told to give them their money - you have helped yourself and used the money and today you are giving another person, so you have to pay it back. You are going to spoil your name and people will be fearing you - seeing you as someone who doesn't pay, I would prefer to ask someone to give me the money than to go to the *gitati* without the money...if you can't pay they may come to take your security, your TV... It is not good...*it will be auctioned.... Would you be happy? The* children will be asking questions – how do I answer them?"

An auctioneer, who had been appointed by a local NGO to pursue debts owed to groups within managed ASCRA programmes, said that when women hear that the auctioneers have been to their homes, then they come quickly to look for him because they do not want people around to know about it. A moneylender reported to us that with recently deteriorating economic conditions, women in local microfinance groups were borrowing from him to repay their group loans – at 40% per month – because they want to avoid the shame of the group members coming to take their assets. He takes consumer durables as collateral and he described how they would send someone else with the asset and visit him separately afterwards to get the money.

Men also seek to avoid putting women in a situation where they might experience shame through not being able to pay. Both wives and husbands explained that husbands had refused when they asked to join a *guan*. These were cases where the wife was asking to join and for the husband to give her the contributions because she had no independent income of her own. If the husband felt that he could not reliably come up with the contributions he felt it was better for the wife not to join, as he did not want her to be embarrassed in the group by his failure to bring money for her. Where women have their own incomes or are given housekeeping money then it is usually up to them how they manage it. If they wish to make contributions to groups from this, they are usually free to do so[7].

The need to avoid bringing shame on women also extended to a rural moneylender (male) who explained that he could lend to women in town but not in rural areas. In town women have their own incomes and in this way "are like men". Whereas in the village, if he lends to a woman and she cannot repay he will bring shame on her. If her husband was not aware of the borrowing then it was possible to bring conflict to the home and he feared being blamed for causing the problem, which would in turn reflect badly on him. In the rural area it is in any case mainly the

[7] An exception to this arose in one area where less well of young men did not seem to like their wives belonging to groups. This seemed to be due to a sense of insecurity in their marriage – they did not wish their wives to be bringing things for the house because they felt the women would boast about it and undermine their status as head of the household.

husband's income that will be used to repay. His policy was therefore only to lend to women in the village if a man she trusts comes with her – this could be a male friend or relative. So that he could give the man the money and the man would then give it to the woman.

Men on the other hand, have expenditure responsibilities, which involve bulky payments for school fees, asset accumulation and so on. Thus for men, groups are a means of financing these responsibilities and they need to be in groups where the payments are higher to be able to achieve this in the space of time they see as acceptable.

Also in contrast to women, the social norms and sanctions are different for men. To start with, the socialisation process of young men is less likely to involve group membership and activities than it is for women. Groups are not part of Kikuyu men's culture and social networks in the way that they are for women. Hence a man may only learn about groups from his wife once he has got married.

We came across many cases of failed men's groups, especially in the town, and men themselves explained this as the result of a more individualistic culture among them. One young male informant who was an orphan brought up by female relatives had set out to form groups in order to meet his own needs for saving and taking loans (through an ASCRA). He had started by doing this with some local women - he explained that he had been able to do this because as an orphan he was "everybody's son" and hence had close relationships with local women. He observed that the women were not used to saving and then taking loans to undertake investments rather they were used to saving for household items. However the progress of the women's group they had started contrasted greatly to the group he tried to form among his young male friends: "The men can't easily agree and each has to have his say, women arrive for meetings and have commitment... men relax and come in a reluctant manner... they prefer to be in bars and be individual, they can't listen to others ideas.... They prefer to be dictators." Other men explained that men could not mix with each other since they do not want to be seen as needing to depend on others and hence being seen as inferior. They do not like to consult each other when they have problems but prefer to keep their problems to themselves: "men are proud and do not trust each other". One said, "every man is clever.... You know someone is going to mess you up" (i.e. if you get into a group with them).

This situation is further reflected in the fact that social sanctions, which enforce women's compliance with group rules, do not hold for men. Both men themselves and women explained that men have a "don't care" attitude. Men reported that they did not like the strictness of the rules involved in-groups and the fines they would incur if they didn't attend.

Often the rules of the group are not written down and men realise that nothing can really be done to them if they do not pay, so they do not fear not paying. If a woman is not able to complete her payments in the group then the group can just go and repossess the items but a man will resist this. Women explained that this was why they could not have men in their groups:

> "Men don't like struggling...he won't struggle to get money for the meeting, he will just say he has nothing in his pocket and what will you do to make him pay? You go to his place to start selling things and he will just say no. Whereas a women, if she doesn't have money, will borrow from a friend - even get it from her husband - but men don't like coming to meetings and complying with rules. "

A woman observed that men do not feel shame in the way that women do, with a local saying: *"thoni cia arume ciri igoti" which* in translation means "the shame of men is at the back of the head". It refers to the fact that when a woman feels shame then it is evident in her face and she is unable to look you in the eye, but a man will not feel such shame and will hold his head up high, in this case, when telling you he has no money to bring to the group.

This difference between men and women is underlined by an informant whose wife had been a member of a local MFO group and taken a loan for a piggery project at home for which he had been providing the weekly repayments. He explained that he did not want her to take another loan because he did not feel that she would be able to make a business work in the current economic climate and did not want her to be shamed by him not being able to provide her with repayments. He said that he would rather take the loan himself because he would "know what to do " if he could not find the payments and that the worst that could happen to him was 6 months in civil jail.

An old woman in her 70s who had a group in the market which had been running since 1976 explained that there were two men in their group now and one of them is the collector who is very young and also a market trader. They allowed him to join the group because they have known him since he was born. She said that they can only let in men who have impeccable behaviour and that men must humble themselves to join.

In the town numerous cases of fights having occurred over group breakdown were reported and some young male informants had the scars to show for it. Some of these cases involved con men claiming to start groups and canvassing the young men in town to make contributions. These groups never met and by the time it came to their turn they would not get the money. They knew that even if they took the case to the police they would get nowhere. A good reflection on the need for strong sanctions to be available and enforceable was a case where a group had been formed among the Meru community in Karatina. The collector was a policeman and all paid because they feared him - the group died when the policeman was transferred out of the area.

This is not to say that men do not join groups - whether men's or women's - or that they do not also value groups. In fact a number of young men demonstrated their eagerness to join a 'good' group - which usually meant a reliable women's group and lamented their inability to gain access to such groups. Some young men reported "being carried" by women in-groups. For a young man who has a good enough relationship with a woman who trusts him, this is one of the few ways he can access reliable groups when he is not yet married and cannot therefore do this through his wife.

However, men also report that circumstances have changed greatly in recent years and especially in the last 2-3 years. Many men reported that they had now joined self-help groups due to the hard times they were facing as the economic downturn has "humbled (them) in their homes". Men are now finding it difficult to take loans from banks due to high interest rates. Minimum balance requirements for savings accounts had also been raised, making it more difficult to save and earn interest there. They said that in the past groups were just for women, but they have come to see what women have been able to achieve in the home as a result of being in the groups. They now need to be able to save little by little and this is one of the few ways in which they can acquire small assets. As a result they have had to learn how to behave in-groups. Further, given that they are having financial problems they have found that they can share these in the group without having to go around telling all of their friends about their problems and asking for money.

Men have tended to start their own groups because they see women's groups as dealing with small things i.e. household items such as utensils, where as men they need to save for purposes such as school fees and investments. One group of men said that the group has started as men's group (in the rural area) but wives came on behalf of their husbands and it became hard to exclude them. They complained that when women come in they "change the minds of the men to make them think of small things" but that they did not want to change their minds to women's way as they want to do "big things"[8].

One woman felt that groups functioned better with men in them because women gossip and tend to forget about the group business but "men have knowledge and can make them work properly". Indeed, some men complained about being in-groups with women. They said that they were likely to be kind to each other if they paid late ("*kurekera*" groups) and they did not like this because it would mean that they did not get the whole amount of the money when they were supposed to. Also that women could shelter behind their husbands if they did not pay and it was necessary to seize their assets.

Women said that men do not like to be in-groups with women because they have their own issues and these may involve using larger amounts of money. Then if they are in a group with a woman who knows his wife then she is likely to tell the wife when he has received the money and he may want to ensure that he can use it for his own purposes. Equally some women preferred not to be in groups with their husbands because they thought that their husbands would start budgeting for how to use her pay-out when she got it and she would lose control of it.

Conclusions

This paper has developed a framework that considers financial institutions as forms of collective action and as a result focuses on

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[8] The economic dimension of gender embeddedness will be the subject of a future paper.

the rules, monitoring and enforcement mechanisms that are necessary to enable them to operate. This approach demonstrates the endemic fragmentation of the financial landscape, as different types of financial intermediary are the result of different forms of collective action. The framework further allows the relationship of financial institutions to social relations to be explored through an investigation of the effectiveness of the rules, monitoring and enforcement mechanisms. Here we have used the case of shame as a social sanction underpinning the operation of ROSCAs to illustrate how financial institutions are embedded in gender relations.

The above evidence demonstrates the way in which the informal sanction of shame critically underlies women's greater participation in ROSCAs. For men, shame is insufficient as a sanction and where formal contracts do not exist and amounts of money are small, recourse to the legal system is cumbersome, costly and time consuming. The inability of women to enforce informal sanctions on men can also be a reason for their exclusion. Only those men over whom women feel they have sufficient power - those who have "humbled themselves" - may be allowed to join women's groups. Thus it follows that the sanctions that underlie these financial institutions have significant gender dimensions that explain the relative effectiveness of different types of financial institution for different socio-economic groups.

Further, while the above discussion helps explain the significance of gender in ROSCA participation, it also suggests reasons why young men are more likely to borrow from friends and relatives. It becomes clear that men do not have social relationships that enable them to join groups to meet their financial needs as easily as women – some men acknowledge that, out of necessity, they are now learning the behaviour to do this. Rather they are more likely to turn to friends when they are unable to access formal finance – this is, by their own account, the way they are most likely to operate. The difficulty of being male and young relates to not being married and having fewer routes through which to access women's groups or having not yet learnt through wives the behaviour necessary to operate successfully in a group.

The study has used evidence from Karatina to both inform its conceptual framework and to demonstrate how this framework may be applied. It is anticipated therefore that the conceptual framework may be used to explore the dynamics of financial markets in other contexts but that any particular landscape will be rooted in the social, economic and political institutions that enable rules, monitoring and enforcement mechanisms of different types to function more or less effectively. With this perspective it is anticipated that the formation and functioning of that landscape can be better understood.

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Annex 1: Results of logistic regressions

The results of logistic regressions estimated for participation in ROSCAs and borrowing from friends and relatives were as follows:

Table A1: Logistic regression on ROSCA use

	ROSCA
Sex:	
Men	----
Women	4.22*
Marital status:	
Married	----
Single	.81
Sep/Divorced	.002
Widowed	3.85
Age:	
<40	-----
>=40	.41
Education:	
Primary & less	----
Secondary & above	1.89
Location:	
Gatundu	----
Chehe	87
Karatina Town	.87
Individuals main income:	
Agriculture	
Business	
Employment	----
Casual labour	.68
None	1.09
Continuous variables:	.75
Cons Poverty	.16
Asset score	
Landholding	.88
	1.01
	1.05

+ - Significant @ 10% level; *- significant @ 5% level; ** - significant @ 1%

Interpretation: The value of the variable with '----' in each case is 1. The result given shows the marginal increase (>1) or reduction (<1) in the odds ratio. In this case the likelihood that a woman used a ROSCA was 4.22 times higher than the likelihood that a man would use a ROSCA and this was significant at the 5% level.

Table A2: Logistic regression on rural SACCO use

	Rural SACCO
Sex:	
Men	-----
Women	0.05*
Marital status:	
Not married	-----
Married	0.14
Age:	
<40	----
>=40	33.26***
Education:	
Primary & less	----
Secondary & above	1.25
Asset score:	
0-5	----
6-10	1.85
11-20	6.58
>21	0.00

The logistic regression indicates the significance of age as a driving factor in increasing the odds of using a rural SACCO – if you are over 40 this increases the odds of rural SACCO use by 33 fold compared to being under 40. Whereas being a woman reduces the odds by 20 fold compared to being a man. This can be explained via patterns of cash crop control, which is predominantly in the hands of men and patterns of land sub-division and inheritance, which are strongly related to age.

Table A2: Logistic regression on borrowing from friends and relatives

	Relative/ friend loan
Sex:	
Men	----
Women	0.166+
Marital status:	
Not married	---
Married	0.187
Age:	
<30	----
30-44	0.075+
>45	0.073+
Education:	
Primary & less	----
Secondary & above	49.032**
Location:	
Rural	----
Karatina Town	0.056
Main income:	
Agriculture	----
Business & Employment	1.825
Casual labour & None	10.462
Asset score:	
0-5	----
6-10	0.691
11-20	1.019
>21	0.34

Since the sample yielded few cases with which the logistic regression could work for some services, it was necessary to select the variables to be included with care.

In the case of borrowing from friends and relatives, a secondary education is the most significant in increasing the odds that an individual will borrow from friends and relatives, at the same time being older and being a woman reduced the odds significantly. Since odd ratios are multiplicative, having secondary education, being young and male increases the odds hugely.