

Logo Informal Credit and Rural Small Enterprises Growth

Abstract:

The broad question addressed in this analysis is the role of small enterprises in rural sustainable development. The focus is on the contributions of informal credit in light of the dismal performance of formal credit to which the majority of rural dwellers, specifically small enterprise owners, do not have access. The data collected from Vihiga, Western Kenya, using the rural rapid assessment method, exposes an almost complete lack of interaction of small enterprise owners with formal institutions of credit such as commercial banks, nonbank financial institutions, co-operatives, etc. The only exception is a recent government special credit program, Rural Enterprise Fund, designed along the lines of cheap credit of the 1970s, but all the same significant in terms of filling the void. It is informal credit, from borrowing and lending between individuals and from groups, such as Rotating Savings and Credit Associations (ROSCAs), which has proved to be the determining factor in the origins and growth of small enterprises in the rural sector. The owners of these enterprises confirm that they have benefited both economically and socially. However, they report problems of inaccessible and insufficient credit that need to be addressed at policy level.