

MEASURING ACCESS TO FINANCIAL SERVICES IN KENYA

PRETESTING OF CONCEPTS

NOVEMBER 2008



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The Kenya Financial Sector Deepening (FSD) programme was established in early 2005 to support the development of financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry, the programme's goal is to expand access to financial services among lower income households and smaller enterprises. It operates as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). In addition to the Government of Kenya, funders include the UK's Department for International Development (DFID), the World Bank, the Swedish International Development Agency (SIDA) and Agence Française de Développement (AFD).

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Abbreviations

ASCAs Accumulating Savings and Credit Association

CBK Central Bank of Kenya

FGD Focus Group Discussions

FSD Financial Sector Deepening

GOK Government of Kenya

KCB Kenya Commercial Bank

KSH Kenyan Shillings

MFIs Microfinance Institutions

NSSF National Social Security Fund

POSTA Postal Corporation of Kenya

ROSCAs Rotating savings and credit associations

SACCO Saving and Credit Cooperative

TOR Terms of Reference

Chapter 1

PRETESTING OF CONCEPTS FOR FINACCESS 2009 STUDY

1.0 INTRODUCTION

1.1 Background

In 2006, FSD Kenya funded the first nationally representative survey on access to financial services in Kenya, subsequently referred to as FinAccess 2006, which gave invaluable insight into the demand for and use of financial services. A cross-section of stakeholders was assembled to oversee the project, and the resulting stakeholder group – the Financial Access Partnership – has been active in doing so, chaired by the Central Bank of Kenya (CBK).

The major contributions sought from the FinAccess 2009 survey is to build on those from the initial 2006 survey:

- a. allowing for comparisons over time, thus providing a solid empirical basis to track progress and evaluate the effect of various government-led and donor-led initiatives;
- b. providing information to policymakers about the main barriers to access, geographic or socio-economic for instance, providing an impetus for necessary reforms;
- c. providing information to the private sector about market opportunities, and in particular insight into the types of products that will suit newly identified, unserved market segments; and
- d. providing data for use in academic research into the impact of access to financial services on growth and poverty reduction.

1.2 Objective and scope

The primary objective of this assignment was to pre-test some of the concepts that will be investigated in detail during FinAccess 2009 survey. The concepts include the following:

- **Financial literacy** – familiarity with product terminology such as collateral, interest rates, bad debt, mortgage, credit bureau, insurance, life insurance, investment and shares;
- **Usage of informal groups** – reasons why they are formed, why they break up, number of groups joined, frequency of meetings, subscription amounts;
- **Well-being and happiness** – what causes stress about financial matters, what causes contentment or boredom in life, how one plans for disaster, what qualities in a person are generally respected within a community, how one expresses connectedness and involvement with one's community, how important is responsibility for other people, or dependency on others for income;
- **Perceptions of risk** – what events would have a catastrophic impact on family, and how would one cope;

- **Livelihood** – what are the different ways of earning a living, how many different livelihood options can one juggle, do they vary with seasonality; and,
- **Usage of products** – why save, use credit, insurance; what are the reasons for not using these products; why one would use a moneylender and if it is a shameful thing or a practical solution to needing money; how one saves, how long term is the saving horizon, whether for next year or for some point in the next twenty years.

1.3 RESEARCH DESIGN AND METHODOLOGY

1.3.1 Study sites

FSD Kenya selected Nairobi, Kisumu, Eldoret, Kilifi, Garissa and Machakos for pre-testing the concepts. Nairobi, Kisumu and Eldoret represented urban and peri-urban areas while Machakos, Kilifi and Garissa represented rural or remote areas. The sites of the study were:

- Kisumu Municipality;
- Ahero Irrigation Scheme (25kms from Kisumu town);
- Eldoret Municipality;
- Machakos Municipality and Machakos rural;
- Garissa town and the peri-urban areas;
- Kilifi town and Kilifi rural; and
- Nairobi City, Uthiru Market (in peri-urban zones) and Baba Dogo (in Mathare slums).

1.3.2 Segmentation of study respondents

The study design segmented respondents into groups of rural farmers, self employed micro entrepreneurs, employed, and non-employed. Rural farmers groups were composed of mainly subsistence farmers growing food crops such as rice, maize and beans, while self employed groups were made up of microentrepreneurs with small-scale enterprises. The employed were composed of employees of microfinance institutions, Teachers Service Commission (TSC), non-governmental organization (NGO), private institutions (banks and insurance companies) and civil servants. The non employed groups were composed of the youth who have completed school or colleges and relying on parents for support, casual workers on wage employment and the very poor relying on support from well wishers or donations. The study was designed to investigate concepts (See 1.2 for objectives and scope of the study) in 36 groups each composed of 8 – 10 individuals. Essentially, this was the methodology used in segmentation of respondents and consultants interviewed respondents from 36 groups made up 6 groups of farmers, 8 groups of the unemployed 11 groups of micro entrepreneurs and/or investment clubs and 11 groups of the employed.

1.3.3 Mobilization of Groups

Mobilization of groups was done by Field Masters (a Nairobi-based private company that undertakes mobilization of groups for such studies), private individuals and staff of MFIs i.e. staff of Faulu Kenya, SAGA Kisumu, ADOK Timo Kisumu, SMEP and K-Rep Fedha Services.

1.3.4 Techniques used

In response to the Terms of Reference (ToR) questions, the consultants used Focus Group Discussions only¹. Information from FGDs from different categories of respondents was triangulated and synthesized using tally sheets to come up with findings on cross-cutting issues being investigated.

1.4 RESEARCH TEAM

The study team included Ms. Ruth Odera of Microfinance House Ltd, David Onyango Oloo and Phillip Gor, Associates of Microfinance House Ltd. In Garissa, Sabdow Ibrahim, provided support in interpreting questions and answers in Kisomali and Kiswahili during the interviews.

1.5 FIELD EXPERIENCES AND LIMITATIONS

The research team faced a number of challenges, the most serious one being the length of time it took to complete one focus group discussion session. The other one was the difficulty faced in mobilizing certain categories of respondents. The study questions proved to be too many and interviews lasted between two hours and two and half hours. As a result respondents would, after one and half hours get impatient to go back to their businesses or activities. This became even more complicated when respondents realized that they would not be paid for the time taken out of their businesses or given transport refunds. It would be important to consider these two issues in future. Interviewing employed persons proved a challenge as many of them could not get permission to go for interviews during working hours. Most of the employed groups were interviewed late in the evening and were always impatient. It was Ramadan period at the time of the study and Garissa respondents had to continuously break off to go for prayers or break off the fasting. Mobilizing the farmer groups was a challenge as most farmers are scattered over wide areas. The result was that there was sequential skipping of some questions (earlier earmarked with FSD FinAccess Manager) to allow for certain issues to be investigated in detail and farmer groups interviewed were mainly subsistence farmers and not large scale farmers growing cash crops.. The turnout rate of respondents was mostly 100% and consultants were able to get valuable information.

¹ A focus group discussion is an in-depth discussion with a group of six to ten people that is led by a moderator and focuses on a limited number of issues.

Chapter 2

MAIN FINDINGS

2.1 LIVELIHOODS

2.1.1 Ways of earning a living in Kenya

Data from focus group discussions classifies ways of earning a living as follows: growing of cash crops, growing of food crops (subsistence farming), dairy farming and rearing of traditional animals, horticulture, transport, trade and commerce, hotels and restaurants, construction, education services, health services, artisan/metal works and repair work, rental incomes, transfers and remittances and salary and wages and sale of assets. (Ref. Appendix 1 for full classification of ways of earning a living).

Sources of income differ in rural and urban areas. Sources of incomes in rural areas skew towards agriculture while that of urban areas skew towards commerce and trade. In rural areas with good agricultural land and enough rainfall people earn their living from growing cash-crops, food crops, dairy farming and horticultural farming. In other areas where the cash crop farming or subsistence farming is not favorable such as parts of Garissa, people rely on incomes from sale of animal products, trading activities and/or remittances and transfers by relatives, government and NGOs e.g. Red Cross and OXFAM.

Cash crops grown in different parts of the country include sugar cane, rice and cotton (Kisumu), wheat and maize (Eldoret), sisal (Kilifi), tea and coffee in parts of Rift Valley and Central Province, apple mangoes (Machakos); **food crops** grown include maize, beans, onions, potatoes, cassava, arrow roots, green grams, and cow peas; **horticultural** crops grown include kales, tomatoes, onions, water melons, Soya beans, pepper and green peas.

"When I have no income, I try to do any work - even if it means buying vegetables to sell or turning my bicycle into a transport service to earn a living" - Farmer

2.1.2 Juggling livelihood options

Farmers' livelihood comes mainly from crop farming and cattle rearing. Crop farming incomes vary with seasonality and high income months are those months immediately after harvest when farmers have plenty of farm produce to sell. During low income months, farmers (especially subsistence farmers) juggle different livelihood sources to be able to meet their needs. Farmers may do casual work in other people's farms to get daily incomes, sell livestock bought during high income months, trade in agricultural related crops e.g. cereals, grow and sell crops with fast maturity periods e.g. tomatoes, kales, potatoes and cassava, or sell milk or eggs.

"In most cases, women do not just stay idle. During rainy season, we prepare land. But in dry season, we do business or look for casual labour such as washing clothes for other people". - A respondent in the rural area of Machakos

The **employed** get consistent incomes from salaries and wages and their incomes do not vary with seasons. However, for many, incomes are not enough to meet their basic needs. The employed, like farmers juggle at most two livelihood options e.g. investing in Nairobi Stock Exchange (NSE) shares, undertaking (through spouses or managers) small-scale businesses e.g. food kiosks, small restaurants, retail shops, hair salons, matatu business and transport hire among others. Others lease farms with cash crops or grow cash crops, or purchase agricultural produce during harvests and hoard to sell during times of scarcities.

- **The self employed micro entrepreneurs** have the most diverse income sources that vary with seasons. Many self employed people juggle several livelihood options depending on each source's ability to bring in immediate income. For example, traders in cereals, fruits and horticultural crops easily move to trading in other goods when the season for crops is over. Traders often juggle their trading activities with farming or making investments in shares, animals, and land or rental houses. Others diversify into other businesses e.g. M-pesa or telephone bureau business when other income earning activities do not do well.

"Most hair salons do well from the months of August to December. Therefore in January, we close down our businesses to do other things like hawking of second hand clothes." - A business woman on how she juggles several activities.

2.2 USAGE OF PRODUCTS

2.2.1 Reasons for savings

Reasons for savings roughly fit into four categories: (a) savings to take care of life cycle needs, (b) savings to take care of emergencies, (c) savings to get lump sums to be able to take advantage of investment opportunities; (d) savings to earn interest; and (d) saving for self esteem.

Reasons for savings tend to vary by individual and source of income i.e. subsistence farming, employment or self employment. Individuals in all respondent categories save for the future but the poor mostly save to take care of day to day life cycle needs (education of children, food, building a house, starting a business, paying cost of hospitalization, buying medicines, and paying dowry among others). The relatively well-off employed and self employed reasons for savings go beyond that of meeting life cycle needs to that of investment and self-esteem e.g. saving to be able to afford holidays, buy a car, to pay for their own further education, get rid of disposable incomes or just to see the account growing and/or appear credit worthy to banks.

Savings horizons among the poor (poor subsistence farmers, casual employees, the unemployed and those relying on relief) are very short term while that of

the relatively well-off ranges from short term to long term. People save for the following reasons:

a. Life cycle needs

- For children's education i.e. to pay for school fees, uniform, and books.
- To pay for bills such as electricity, water and rent.
- To contribute in informal groups.
- To use during times of hunger.
- For retirement and security in case of disability: *"When I retire, I do not want to depend on my children. I will use my savings."*
- For dividends: *"Us women save something every month from our small earnings from these casual jobs we do. In December, we calculate every member's savings and interest and share dividends. That is why we have money to buy clothes for children during Christmas season."*
- For safety of my money.
- For home improvements: *"We save in merry go rounds and use the money for buying household goods."*

b. Emergency

- To pay for hospital bills in case of accidents or sickness.

c. Investment opportunities

- To accumulate lump sums for investments: *"I save to buy land or to speculate. I can save to buy a goat today and sell it in future when its value and price has risen, and use the proceeds to pay for children's school fees."*
- To secure a loan in future: *"This is mandatory if you want to get a loan from our micro-finance institution."*
- To be able to replenish business assets or stock of goods *"A carpenter keeps saving to be able to replace losses as breakages are common in carpentry."*
- To use for expanding my business and open other branches.
- To cushion against rising product prices.
- To use for buying and hoard agricultural produce for resale when prices go up.
- To use when business incomes are low to purchase stock.
- To replace lost items: *"Sometimes I may lose an asset which I may need to replace. For example last month when my bicycle was stolen – I used my savings to replace it."*
- To repay my loan *"We save in order to get loans to put into our businesses and save to repay our loans, especially when business is doing badly."*

- To take advantage of business opportunities. *"Sometimes I get good dairy cows and would like to purchase them within a short period of time. My savings enable me to have money to do my purchase."*
- To earn interest on my savings.
- To become credit worthy in the eyes of potential creditors. *"I save so that I am credit worthy in the eyes of the bank. I save in a bank to secure a bank loan or get a bank statement in order to get visas for my children who want to go abroad. In this case, I save in the morning and remove all the money in the evening. An empty hand cannot be licked (mikono mitupu hailambwi)."*
- To get bank statement for use in sending children abroad (in this case, we save in the morning and remove in the evening)."
- For financial accountability.
- To accumulate cash for bigger plans.

2.2.2 Where people save

People save with informal mechanisms, semi-formal institutions and formal institutions. Informal mechanisms used include RoSCAs, ASCAs, investment clubs, tins and boxes; and in kind e.g. pigs, goats, chickens, cereals, gold and jewelry. Semi-formal institutions used for savings include microfinance institutions (forced or compulsory savings), financial services associations (FSAs) and microfinance programmes. Formal institutions used include banks, SACCOs, insurance companies and building societies.

People in the rural areas with relatively more barriers to access save at home, with MFIs or SACCOs near them and in kind (sheep, goats, chicken, cows, and cereals) and to a very limited extent, banks. People in the urban areas where there is relatively better access save in banks, MFIs and ASCAs or RoSCAs. Savings with shopkeepers, friends, neighbours and relatives and building societies did not feature much in this study. Irrespective of locale, nearly all respondents save with informal groups. People use the following mechanisms and institutions for saving:

a. Rural areas

- MFIs e.g. SAGA, Adok Timo, SMEP, Wamunyu FSA
- SACCOs e.g. Cent SACCO, Sukari SACCO
- Banks e.g. PostBank, Cooperative Bank of Kenya.
- Mechanisms e.g. merry-go-round (chamaa), welfare societies etc.
- In kind e.g. (goats, sheep, chicken, cows, gold and jewelry etc). *"I save in pigs. I buy and fatten them and resell them"*
- Cash at home in tins/boxes (referred to as home banking by respondents)

b. Urban areas

- *Banks:* Equity Bank, Cooperative Bank, K-Rep Bank, NIC Bank, Family Finance Bank, PostBank, Barclays Bank, Kenya Commercial Bank and Standard Chartered Bank (investment portfolio account);
- “We save in banks but they have been tricky because when you save, they deduct everything. So now, instead I opt to improve the building I own so that I can earn income”.
- Equity Bank terms and conditions are simple – no maintenance fee, free opening of accounts – one can borrow against Local Purchase Orders (LPOs). But it is political. I do not save in Equity for a long time as it can collapse”
- “Equity is good because it is cheap, you can get your money anywhere, and they have good customer care”. . . Barclays is good because there are no long queues in the banking hall”;
- Investment Portfolio Account in Standard Investment and Chama Account with Cooperative Bank of Kenya.
- *Insurance Companies* e.g. British American, Blue Shield, Pan African Insurance Company in the form of life, investment and education policy products; and building societies e.g. EABS
- *Groups:* Merry-go-round, ASCAs and investment clubs; Mutual Assistance Groups (IMAGS) e.g. maintenance, public health, records, supplies department(s) welfare associations (for large institutions e.g. Moi Referral Hospital),
- *Microfinance institutions:* Jamii Bora, Faulu Kenya, Pamoja Women Development Programme, SMEP, SAGA, ADOK Timo (these are compulsory savings to secure loans);
- *SACCOs:* Afya SACCO, Mwalimu SACCO, Moi Referral Sacco, Moi University Sacco, Warreng Teachers’ SACCO, Cent SACCO, Kilifi Teachers SACCO and Wakulima SACCO;
- *M-pesa accounts:* (Safaricom M-pesa Product, a virtual account where people can keep money but does not earn interest);
- *Livestock:* (goats, sheep, cows, camels and pigs)
- *With wholesalers* (found in Garissa);
- *In assets:* e.g. stock of goods (mainly micro entrepreneurs), dollars (for resale when the rate is favorable (found in Garissa);
- *Pyramid schemes:* “Many of these collapsed with unsuspecting clients’ monies”

2.2.3 Reasons for borrowing

People borrow to solve problems related to life cycle needs, to take care of emergencies and to take advantage of opportunities. People in the rural

areas borrow mostly to meet life cycle and emergency needs while those in urban areas borrow to take advantage of opportunities as well as meet life cycle needs. Self employed entrepreneurs and the employed borrow more for getting working capital, for business expansion, investment or taking advantage of opportunities. The following are the reasons for borrowing among rural and urban respondents;

a. Reasons for borrowing by respondents in rural areas

- For purchasing farm inputs e.g. fertilizer and seeds;
- For paying for farm labour during weeding, planting or preparation of land;
- To improve farm outputs by e.g. purchasing more or better breeds of cattle;
- To buy animal feeds during the dry spell;
- To start a business e.g. trading in livestock;
- To purchase cattle or cereals for resale in future or at times of scarcities;
- To purchase food especially during times of hunger;
- To pay school fees, buy medicines or build a house; and
- To start a project or a business e.g. keeping chicken.
- To add stock of goods. “. . . for example, if I need stock of KSh. 10,000, and I only have 5,000, I will borrow to top up. When my business goes down I borrow to take care of my other needs.” – Farmer/microentrepreneur in Machakos.

Borrowing for social events e.g. for weddings, funerals, circumcision or for Christmas did not come up in this study. However, a study undertaken by the consultant for an institution in Western Kenya revealed that last funeral rites for a member of the family is very important and a poor bereaved will borrow against mature sugar cane in their farms to be able to provide appropriate funeral. In Luo Nyanza for example, people who borrow for weddings are not the poor but those who are considerably wealthy and can afford to repay the loans. Death and marriage in Luo Nyanza and many other areas of Kenya is considered a community obligation and not an individual activity.

b. Reasons for borrowing by respondents in the urban areas

- To invest in a plot, shares or land;
- To pay for children’s education;
- To pay for dowry or cater for wedding;
- To go to holidays or to hajj;
- To buy a car or house;
- To purchase business assets, expand business, increase stocks or diversify

into new products *“When I see something that can help me but I don’t have cash, I borrow to be able to buy it.”*

- To raise sums for contribution to fund raising;
- To contribute to the needy and the widows.
- To pay for emergency e.g. hospital bills;
- Raise capital to start a new business;
- To feed people in the house;
- To buy clothes for celebrations like Idd or Christmas;
- For pleasure e.g. shop for luxuries, party or donate to church;
- To buy household goods e.g. electric cookers, TV, Video, furniture;
- To fulfill MFI policy of borrowing in order to get a higher loan;
- Borrow because friends and relatives have borrowed;
- To pay off a debt e.g. rent, medical bills, shop keepers credit etc. *I also borrow to put into my bank account for purposes of appearing credit worthy*

2.2.4 Sources of credit

People borrow from banks, microfinance and/or microfinance programmes, rotating savings and credit associations (RoSCAs), accumulating savings and credit associations (ASCAs), friends and relatives, shopkeepers and private money lenders. People in rural areas, when faced with immediate financial needs will as the first resort sell their assets (like cows, goats and sheep to raise emergency funds) or go to friends, neighbours and relatives before going to their welfare groups, money lenders or shopkeepers. People in urban areas with access to several institutions/mechanisms borrow from those they relate to.

“We borrow from shylocks but one has to be careful and aware of the risk of compound interest charged. They are just like thieves because they do not disclose the true repayment amount/terms.” – Entrepreneurs in Nairobi and Eldoret.

For example, for very small amount of monies, people go to their friends or informal groups. For large amounts of money to solve larger needs, the employed will go to SACCOs or employers to take salary advance while the self-employed will go either to banks or microfinance institutions. The employed with salary slips today can easily access salary loans from banking institutions like Equity Bank, KCB, Barclays and Cooperative Bank as their source of credit. The unemployed youth access small loans from colleagues, relatives and parents or pawn items like phones with pawn brokers and money lenders.

People borrow from the following institutions and/or mechanisms.

- Banks e.g. Equity Bank, Cooperative Bank, Barclays Bank, Standard Chartered Bank, KCB, Family, Agricultural Finance Corporation, K-Rep Bank, Family Bank and NIC Bank: *“I put money in the bank in a fixed deposit account and get a credit line from which I can always borrow against the fixed deposit.”*
- SACCOs e.g. Mwalimu SACCO, Cent SACCO; Machakos Teachers SACCO, Kisumu Municipal Traders SACCO, Kilifi Teachers SACCO, Sukari SACCO. *“We are frustrated with SACCOS because they give out loans in bits and pieces and sometimes restrict loan requests to school fees loans.”*
- MFIs/MFI programmes e.g. Faulu Kenya, SAGA, SMEP, Kenya Women Finance Trust, SISDO, Jamii Bora, BIMAS, ECLOF;
- RoSCAs/ASCAs (work based or friends based);
- Church welfare programmes of the Catholic Church and other churches;
- Private money lenders (also known as shylocks and found both in rural and urban areas);
- Employer (in the form of salary advance);
- Shop keepers (in the form of consumer goods e.g. bread, milk, flour) or materials e.g. hardware materials for building houses;
- Friends, relatives and neighbours;
- Financial Services Associations and small community/village banks (where they are found);
- Hire purchase e.g. African Retail Traders or individuals. *“We take items on hire purchase credit from hawkers of new and second hand clothes or other goods which we pay for slowly based on agreements with the sellers.”*
- Government sponsored programs and/or schemes e.g., Youth Fund, Women Fund. *“CDF youth fund has good interest rates but has a lot of bureaucracy as they need a referee to guarantee a borrower.”*

2.2.5 Use of insurance

The concept of insurance is understood among the employed and some entrepreneurs but is fairly new to farmers and vaguely understood by the extremely poor in Garissa. Farmers who have taken loans from MFIs are aware that some costs of taking microfinance loans go to insurance premiums to cover loans in the case of death or disability of the loanee, but questions why for every loan taken, insurance has to be paid even when the event did not occur during the previous loan. They perceive insurance as costly, complicated and time wasting. They do not have trust in insurance companies and report that it takes too long to follow insurance companies in the case of death or disability. Many of the rural and some of the urban respondents believe that

- *"Insurance companies are thieves. Agents con people by not remitting premiums to the insurance company";*
- *When risk occurs, insurance companies take you round and round";*
- *Most insurance companies are not honest as they twist the law to confuse their clients";*
- *Insurance companies do not cover major illnesses and takes long to assess the risk event.*
- Quotes from respondents in Nairobi and Eldoret

certain life cycle events such as death, weddings and other ceremonies are responsibilities of members of immediate family and their communities and are to be taken care of by welfare associations and family burial funds to which many people belong. Respondents from Garissa reported that Muslims do not believe in insurance as Islam does not allow gains obtained as a result of misfortunes such as accidents or death and the latter is the responsibility of relatives who ensure that one is buried as soon as possible.

Some of the employed understand the concept of insurance and use some of the following insurance products: life insurance, health insurance (and group medical insurance by companies), education insurance, motor vehicle accident insurance and National Social Security Fund (NSSF) which is mandatory for the employed. Just like the farmers, many of the employed and self employed believe that insurance companies take too long to meet their obligations once the risk event occurs.

2.2.6 Reasons for not using products

People have different reasons for not using products of banks, MFIs, private money lenders, RoSCAs, SACCOs or hire purchase institutions. Factors considered for not using an institution/mechanism includes costs, terms and conditions, lending methodology and incomes among others. Banks are considered to be a costly source of credit (in terms of interest rate and other fees) and have the added disadvantage of requiring tangible security and instituting stringent borrowing conditions. Microfinance institutions put people in groups for guarantees; while RoSCAs and ASCAs have smaller loan sizes that cannot meet larger working capital or investment needs. The following are the reasons for not using specific institutions.

a. Microfinance institutions

- They repossess pledged assets in case of default: *"I cannot borrow from Kenya Women Finance Trust. They bring down families when they take all your assets for not repaying."*
- Group lending methodology that makes people pay for defaulters;
- Inability to raise security or pledges to be able to get a loan; and

- Absence of grace period.

b. Banks

- High cost of borrowing from banks like Kenya Commercial Bank, Barclays and Standard Bank: *"their interest rates are high and one ends up by paying double the principal. They have hidden costs";*
- Smaller loan size and the longer time it takes to get the loan. *"AFC Kenya gives less than what is applied for and take too long to give loans."*
- Security/collateral: *"banks require securities like title deeds";*
- Absence of or short grace period: When they give you loans they expect you to start repaying within one or two months and perhaps your business has not yet started generating any incomes;
- Regular source of incomes: *"Banks like Barclays Bank need 8 month's pay slips";*
- Not having account: *"I have no account with a bank"*
- Lack of knowledge of bank operations: *"I do not have knowledge of and do not understand the process of borrowing";*
- Discrimination due to tribe or income: *"Some banks discriminated against some tribes after post election events. Some banks do not trust the poor and they only give money to the rich. Us poor people will always remain poor";*
- Money to repay the loans: *"If I take a loan, there is a slim chance of repaying that loan since none of my sons are employed (from a client in the 'vulnerable group)'. I cannot save because I even do not earn enough for my needs."*
- Absence of credit facilities: *"One can keep money in Post Bank and M-pesa, but they do not have credit facilities."*
- Poor customer care: K-Rep and Equity Banks used to have personal touch. These days they do not.

c. Hire purchase institutions

- Costs of taking goods on credit through hire purchase: *"I cannot buy goods on credit from ART (African Retail Traders, a hire purchase company) because one pays double what the price should be. If one defaults, they repossess the asset and refund nothing";*

d. Private money lenders (Shylocks)

- High cost of borrowing and stringent terms - *"I would not borrow again from shylocks because their interest rates are very high and one has to pay double when they default. We borrow at 25-30% flat rate. I went to a shylock and borrowed against signed transfer of my car. I was not able to repay and he sold my vehicle. With shylocks, they leave you walking as a shadow and it is the last option one can use. But for us, it is a necessary*

evil as their loans are fast and can be taken against household items such as fridges, radios, phones, etc”;

- Repossession or selling of individual items: “there is a very high weekly and monthly interest charged which if not paid on time creates problems. They can vanish with your goods. It is only desperation that pushes us to take their loans”;
- Security in information: “Money lenders talk behind our backs (the employed)”;

- Repayment period is short: “Going to shylocks for a loan will be the last option because interest rate is high and repayment period is short as compared to MFIs like Faulu Kenya. The money from shylocks never helps in business. I think that money they lend us is devil worshipers’ money.”

e. SACCOs

- They need regular income, which I do not have;
- They take time to refund savings to the next of kin when one dies;

MONEY LENDERS

Juggling different sources of income options

Joseph Lagat, Paul Kiprotich and Enos Kemei (not their real names) are all young men aged between 25 and 30 years. They work at a hospital and do money lending business on the side. All of them joined money lending business two years ago and sometimes work together to provide larger loans or to pass on client information to each other. Their sources of capital were mainly from their own savings and currently they each have loan capital of about KSh120,000 which they use to lend to colleagues on hospital pay roll and a few others from outside. Apart from money lending, they also trade in shares and lease land for small scale farming.

Before the give a loan, the client always signs a contract that specifies terms and conditions of the loan. These terms, however do not include interest rate as they know that this business is illegal and can put them into problems with the law and their employers. The terms generally include the following:

- Loan term of maximum one month but one can continue holding the principal amount and paying interest rate monthly
- Interest rate of 25% per month;
- Need for a guarantor, national identification, list of household assets pledged;
- 20%-25% is loaded onto residual amounts not paid;
- Maximum loan size of KSh25,000 to an individual;

Money lending is not without its challenges. One of their main challenges is non payment of loans. In such a situation, they use lawyers to write threatening letters or police to make temporarily arrest those clients. They know that their clients can never be convicted in a court of law for failure to repay these loans and prefer to deal with women who are considerably easier to threaten. To ensure that they get their money back, they also set up a standing order at the bank of the client for the money to be remitted to their accounts directly.

Their main motivation for money lending is for their money to grow and not to lie idle as returns on savings in the banks is low. They are confident that as long as there are emergencies and they can provide fast services, they will always have clients to lend to. They believe that they are a practical solution to emergency needs of their clients.

2.3 PERCEPTION OF RISK

Certain occurrences or experiences can either have direct or indirect impacts on the family. Events that occurred after the 2007 election such as riots, burning down of businesses and general lawlessness had impacts on the community and families. Families do not have immediate coping mechanisms for such events and rely on government intervention to reduce impacts.

2.3.1 Events with indirect impacts on families

Events that have indirect (and catastrophic) impacts on the family include the following:

- Loss of community property e.g. markets and schools in fire or looting and lawlessness during riots. “After election, our market was burnt down with our goods inside. Those who had rented our houses left with rent and

customers became few. When students in Kabete Technical School go on riots or matatus are on strike, there is no transport for us to go to Nairobi to purchase stock.”

- Widespread use of drugs by youths which may lead to criminal activities;
- Widespread contracting of HIV/Aids leading to increased number of orphans;
- Widespread unemployment among the educated youth leading to dissatisfaction and criminal activities;
- Widespread retrenchments in civil and private service leading to unemployment;
- Drought and floods leading to loss of human and animal lives or diseases;
- High inflation rates which lead to the reduction of purchasing power;
- Insecurity and crime in town environments. Thuggery and attacks from terror gangs or vigilante groups and tribal clashes leading to fear and inability to undertake income generating activities in certain parts of cities;
- Harassment by Municipal council *Askaris* for the trading license;
- Famine caused by dry spells or drought in drought prone areas e.g. Machakos, parts of Kilifi and Garissa; and
- Low market price/returns for farm products particularly coffee.

Community coping mechanisms

- Insecurity situations in parts of the country or towns: People avoid investing in permanent assets such as buildings where security is not assured;
- Lack of jobs: people migrate to another country to look for new opportunities;
- Widespread hunger due to drought or floods:
 - Relief food from the government, NGOs e.g. Kenya Red Cross Society and churches
 - Prayers and/or migration— *“we appeal to the supernatural or come to terms and accept the situation. We migrate to safer zones incase of floods or conflicts or sell our stock of animals.”*
 - Some people get into prostitution or become thieves to get food for the day and while some resort to witchcrafts to get jobs;
 - Some people resort to doing casual labour or small/tiny businesses;
- Widespread inflation: business people cut corners e.g. using cheaper materials, using less than required materials or selling substandard goods;

2.3.2 Events with direct impacts on the family

Single occurrences or disasters that have direct impact on families include the following:

- Fire that may burn down house or business;
- Theft/thuggery or robbery of assets or business stock;
- Death of a relative or spouse forcing one to dig into his/her pocket to deal with the situation;
- Separation or divorce in the family or domestic disagreements;
- Permanent disability of a member of the family;
- Contracting HIV/Aids and prolonged illnesses in the family;
- Adultery or taking on a second wife within the family;
- Loss of a job by the main bread earner;
- Inability to pay off a bank/MFI loan leads to psychological stress;
- Loss of business due to poor management or bad debts;
- Auctioning of family property by a financial institution due to inability to repay a loan;
- Crime e.g. rape cases. *“Rape is a bad event because like yesterday, a baby of 7 years was raped and killed here in the estate”;*
- Drinking events. *“A drinking event like when a musician comes to perform in the estate (Baba Dogo), most youths will drink, be unruly and harass people at night”;*

Family coping mechanisms

- Sale of assets e.g. animals, jewelry or land to be able to cope;
- Save in schemes e.g. Retirement Benefit Authority (RBA), NSSE, SACCOs etc to be able to take care of risk events;
- Take insurance e.g. education policies and life insurance;
- In case children cannot go to school due to lack of school fees, they are removed from school;
- Borrow from RoSCAs, ASCAs, merry go rounds and friends and relatives to take care of the risk events;
- In the case of the death of both parents, orphans are taken care of by well-wishers or extended family members;
- Casual labour or prostitution to get incomes;
- Reduce and prioritize on expenditure by buying basic requirements like fees, food and cutting off luxuries;
- In the case of loss of business or crops, diversify into other business areas or grow crops that mature faster;

- Business people also pool their resources together and support one another with loans; and
- Limit the number of meals per day to one main meal per day and only buy affordable food items.

2.4 USAGE OF INFORMAL GROUPS

Nearly all the respondents belong to at least one group with several in two groups. Types of informal groups identified during this study include RoSCAs and ASCAs among friends; institutional or departmental welfare groups; church based welfare groups; youth groups, investment clubs, clan or tribe-based welfare (burial) groups; and microfinance institutions linked groups for group based borrowing.

Usage of Informal Groups in Kilifi at the Kenyan Coast

The Luos have a welfare society known as Upendo where they only meet funeral expenses. They meet every month and pay KSh200 towards the kitty. In case a member dies, the other members each contribute KSh500 shillings to take care of funeral expenses. The Kisii have this welfare group where they contribute cash to meet future funeral expenses. There are youth groups which were registered to receive cash from the youth fund and each member of the group was given 45,000 to start a business. People from Taveta also have a welfare association where they meet on every 2nd Sunday of the month. Each individual contributes KSh 50. In case of funeral they each contribute KSh200. Over and above that they chip in to contribute to a member with difficulties or in need of paying school fees, hospital bills, and wedding expenses.

Kilifi respondents.

2.4.1 Number of groups joined

The majority of respondents belong to at least one group and at most seven groups. Some people belong to a merry-go-round, an ASCA, a work place welfare association, a church based group, a tribal/clan burial group, a microfinance institution linked group, or an investment group. The motivation for belonging to several groups stems from the different objectives for which the groups are formed and what people get from such associations. MFI linked groups are for getting loans from MFIs; clan based burial groups are for meeting funeral expenses; investment clubs are for buying of shares, land and/or building rental houses; marketing groups are for marketing primary products e.g. milk, eggs, tea, coffee etc; while social groups are for support of activities e.g. paying dowry, purchasing household assets and fighting justice within the community etc.

2.4.2 Frequency of meetings in groups

Groups mostly meet monthly but several meet weekly or fortnightly. There are a few groups that meet quarterly, annually or daily, the latter being market groups with daily collection of savings.

2.4.3 Registration and subscription in groups

Most groups have registration fees paid only once while a few have none. The highest registration fee paid is KShs4000 for an investment group. The level of contributions generally fluctuates from one group to another depending on whether a group is a social group or an investment group and whether members are farmers, micro entrepreneurs, employed or unemployed. Respondents reported that their contributions in social groups are lower than that in investment or other type of groups. Groups that are linked to microfinance institutions make mandatory savings of at least KShs800 per month that go towards building up the loan security fund, while investment groups may contribute at least KShs1000 per month towards planned investments. Social groups in rural areas contribute very small amounts, even as low as KShs100 per month. Generally, contributions seem to be higher in urban areas.

2.4.4 Reasons why groups are formed

Reasons for forming groups related to social, economic, administrative, political, empowerment and for spiritual reasons. The following reasons (not categorized) were mentioned for forming groups.

- To cater for times of need e.g. funerals or weddings and calamities e.g. when a house gets burned down;
- To be able to raise security for getting loans;
- To bring out talent of individuals in the groups;
- To socialize “*just to be together, love each other.*”
- To raise funds to help in emergencies;
- To educate and enlighten members by sharing of new ideas;
- To help us prosper in farming;
- To get new ideas of business from other group members;
- To start income generation projects;
- To contribute to the needy;
- To assist the chief (Garissa) in administration;
- For seeking help from government and NGO’s (mid wife groups, youth based groups)
- To be the link to people for NGO’s that want to get access into the community;

Precious Welfare group is an investment group made up of 11 members involved in different businesses in Nairobi. Some members have small businesses such as clothes boutique and hair salons while others are employed in brokerage firms or computer businesses.

It has been in operation for the past 6 years. Every member registers with KShs2000 and pays a merry go round of KShs1000 every two weeks and an investment fund of KShs1500 every month. In total, monthly payment is KShs3,500 per member. They borrowed from Equity Bank KShs80000 to buy Safaricom Shares. From their investment fund, they have bought 16 plots which they are yet to build. At the time of purchase, the plots cost KShs120000 each but now cost KShs350000. In the future, they want to fund raise and use the title to borrow to build the plots for commercial purposes.

Story as narrated by members of Precious Welfare Group

- To support one another through fund raising for educating children;
- To raise funds for investment: *"To collect funds and buy a taxi or motor bike and employ one of us."*
- To build houses for each member: *"We were 6 members and have constructed for each of us a house;"*
- To get loans from programmes or churches: *Fund: "We formed a youth group to get the youth fund (Government sponsored Youth) for businesses but we never got it. We had a church group that helps give members funds when in need."*
- *"when you are together, you are strong, you get to know each other and you can get a loan."*
- To get loans from groups for furnishing a house, investment or for consumption;

"We have a community group for fighting increase of rent by the land lord. When the land lord writes a memo for increasing rent, our secretary quickly invites everybody to a meeting. We start protests against the land lord. It has always worked for us."

Respondents in Nairobi.

- For financial and social empowerment: *"We get to know other things about life when we are together;"*
- For mobilization against social evil, injustice

- To help others who cannot afford to finance projects e.g. paying of dowry;
- As a means to get government funds e.g. Women's fund and Youth fund;
- To share information with local people in the community;
- To earn dividend *"Compassion welfare group has 16 members who contribute Kshs 1,200 per month to lend to members and to share dividend at the end of the year."*
- To enhance community relationship.

2.4.5 Reasons why groups break up

Groups can disintegrate when their objectives are met within the specified period. For example, a group formed to raise cash to purchase land for its members naturally disintegrates once this objective has been met. However, other groups may break up due to challenges related to group dynamics that may include poor leadership, lack of group cohesion, corruption and lack of transparency among leaders, limited funds for borrowing, and demise of members among others. Groups break up for the following reasons.

- Disagreements among members;
- Non attendance of meetings by some members;
- When there is favoritism on tribal lines or clanism;
- Conflict between people from different tribes may affect group cohesion;
- Non payment or frequent late contribution by some members;
- Indiscipline of members who lack respect for others;
- When others ideas are not considered to be important;
- Undermining others, especially the illiterate by the educated;
- Malice and bad influence from non- committed members;
- Envy of others who are doing well in business;
- Lack of co-ordination of group activities;
- Disappearance/mismanagement of group funds by leaders or defrauding of group members;
- Providing wrong information to members by leaders;
- When the treasurer uses the groups money to do his/her own business instead without members knowledge;
- Sickness or death of certain members (although they report that members can be replaced);
- Transfers and relocations of members;

- When other members need to borrow yet the group has no funds because those who borrowed funds have not repaid;
- High penalties or fines for none attendance penalty, lateness penalty etc;
- Violation of rules by members;
- When other members stop attending after they have received money;
- Leaders' failure to adhere to group rules/laws.
- Loan burden *"entering many groups that one ends up being over burdened with loans"*;
- Lack of understanding and stringent rules by microfinance officers: *"there is intolerance from SMEP officers whereby they require that you repay your loan even when you are in hospital bed"*;
- Marital disharmony (especially when the spouse was a loanee at the time of separation);
- Spouse dishonesty/mischief. *"Husbands lure women to borrow loans for them and fail to honor repayment agreement hence causing default"*;
- Paying loans for defaulters.

2.5 WELL-BEING AND HAPPINESS

2.5.1 What causes stress in financial matters

Findings show that what causes stress about financial matters generally arises from a lack of finance to enable a person meet needs such as food, clothing, shelter, education, hospitalization, higher needs for investments and needs for self actualization e.g. holidays and further education. There are indications that what causes stress in financial matters is related to economic activities and therefore incomes.

What causes stress for **farmers** relates more to inability to meet the basic needs of family members e.g. school fees, food, and hospitalization.

- Having a large family and other extended families as dependants;
- Increasing prices of farm inputs and food stuff - *"prices consistently go up and we cannot budget with what we have."*
- Inability to take children to school;
- Climate change – drought and floods leading to failure of crops;
- Diseases *"HIV and prolonged illnesses take us away from our daily farming activities and raise expenditures in cost of medication."*
- Lack of money to buy food, pay school fees etc;
- Lack of knowledge on how to manage finances; and

- Misunderstanding between spouses and with neighbours regarding finances;

What causes stress for **self employed** micro entrepreneurs is related to factors that reduce performance of their businesses or make it difficult to maximize profit. These include lack of money to purchase stock or expand business, high interest rates on loans, group guarantee system that makes them repay for defaulters, small amounts of loans that cannot enable them to meet business needs among others.

a. Business related stress factors

- Low profit margins and high cost of living due to inflation in the country;
- Harassment to provide evidence of the Nairobi City Single Business Permit;
- Inability to purchase more stock of goods;
- Lack of capital to expand business and my premises;
- In ability to repay loans: *"I get stressed when I lose my capital due to poor business purchases and when I miss paying my loan."*
- Poor business performance;
- Uncertainty/inconsistency in consumer product pricing;
- Dishonest leaders that steal group funds;

b. Family/household related stress factors

- Household expenditure that encroaches into business;
- Low incomes that do not enable us to meet basic needs like food, school fees, medicines, rent,
- Inability to marry and pay dowry or build a house due to lack of funds;
- Interference with my cash-flow projections due to emergencies from extended families;
- Sickness that leads to non repayment of loans;
- Issues in the family that takes away income e.g. prolonged illnesses, death of a spouse, alcoholism of a spouse, infidelity, debts, delinquent children;

c. Programme related stress factors

- Paying loans for defaulters;
- Small amount of loans that cannot meet business needs: *"Taking a small loan is a headache because it is not enough to stock up business"*;
- Requirement for collateral/security requirements against microfinance loans. *"Assets required for securing loans are quite restricting. If one does not have enough he/she may not get loans"*;

- Weekly repayments of loans: *“There is stress of weekly repayments because loans know neither sickness nor problems)”*;
- Intolerance from microfinance institutions when we do not pay on time: *“there is intolerance from our microfinance institutions. When I lost a flock of cattle that died at once the MFI still demanded their loan”*;
- High interest rates;
- Business failure due to circumstances beyond anybody’s control: *“When my poultry get sick and are wiped off the officer did not want to hear of it”*;
- What causes stress in financial matters for the **employed** are related more to events or experiences that infringe on current incomes e.g. increase in prices of consumer goods due to high cost of inflation. They include the following:
 - High inflation leading to high cost of living;
 - Bills that keep fluctuating e.g. Water and electricity;
 - Non-working spouse;
 - Responsibilities from extended families and other dependants that stretch our incomes;
 - Having many dependants that stretch one’s expenditures;
 - Inadequate salary and inability to meet family basic needs, paying of school fees putting up a house, buying food among others;
 - Inability to service loans and bank overdrafts;
 - Misuse of family/household funds by spouse;
 - Inability to help people who depend on me for survival;
 - Inability to complete my project due to lack of funds. *“For example at the moment one of the houses I started has no roof because I don’t have money”*;
 - Not being able to invest for the family;
 - Inability to repay loans. *“Sometimes we have heavy debts that makes our monthly salary to be in the red (negative pay)”*;
 - Poor budgeting caused by impulse purchasing unworthy things by a spouse;
 - Misuse of credit/loans i.e. using loans for purposes not intended or planned for;
 - Deaths/ illnesses in the family;
 - Contribution made for several financial groups;
 - Spending on occasions e.g. weddings, funerals.

What causes stress for **unemployed youth, casuals and the very vulnerable** is related to survival strategies – mainly where to get employment and make money to be able to meet their basic needs e.g. food and not depend on relatives or the government for survival.

- Lack of employment and places to get money;
- Inability to recover assets given to shy locks or pawned in shops;
- When one’s turn for taking friends out has come and there is no money;
- Inability to get school fees, rent, food and pay for medical bills;
- Where to get money for financial contributions to the groups: Sometime someone has offered to get for you a job and need a bribe but you have no money. My demands are very high. I always want to buy the latest styles of mobile phones, clothes, etc and I do not have enough money”
- When there are many people to be fed in the house and there is not enough food;
- Spending the little I have saved for hospitalization;
- Low income: *“I have little pay at work and my budget is much larger than my income.”*
- Just thinking of where to get money to start a business. *“For me what is stressing me now is where I will get money to start a big business. Like I want to raise about Kshs. 50,000– 100,000 to start a good business”*;
- Inability to save due to low incomes *“Saving from casual labor is a stressful thing because the jobs are not regular and so I end up eating into my savings when there are no jobs”*;

The vulnerable relying on relief food

- Helplessness. *“I get stressed when I see the rich really developing and yet I cannot help myself. I get stressed when projects I want to empower me fails. I Get stressed when I do not have money to build a house and I cannot pay for medication or the government doesn’t come to our aid.”*
- Poverty and hunger. *“Sometimes one wants to wed but the bride goes to somebody else because one cannot afford dowry.”*
- Transport to visit sick friends or relatives

2.5.2 What causes contentment (happiness/satisfaction) in life

Contentment or happiness/satisfaction is caused by a sense of well-being based on three arbitrary indicators: (a) having money to meet the basic, investment needs of the family and self actualization needs, (b) being healthy, and (c) success and respect by colleagues and family members. The following situations cause happiness or contentment among respondents.

- When I can meet my children's financial needs and my children go to school without coming back home for school fees.
- When I am healthy;
- When there is surplus money in my pocket and I have access money to do what I want to do;
- Self employment: *"When my business is booming) and I can manage my family and business expenses";*
- When I can invest e.g. buy a plot of land;
- When I make large volumes of sales;
- When there is peace in the community to enable us to do business. *"I am happy when there is peace in the family and everybody is happy because they have what they want. I am happy when I see my children happy and in good health".*
- When I have paid all my loans and remain with a surplus;
- When there is no disease in the family and my family is happy;
- When my family loves me and respects me;
- When I have caring/good friends;
- When I can meet my budget;
- When I have an attractive and good salary;
- When I can meet social expectation e.g. contributing and attending family/community meetings/welfare groups;
- When I have good farm harvest or healthy dairy animals;
- Being alive and energetic enough to work;

2.5.3 Qualities of people generally respected within a community

Qualities that are respected within communities can be classified into three categories (a) age and character or personality; (b) achievements and accomplishments; and, (c) associations with people. The following are the qualities that are generally respected within a community:

a. Age and character/personality

- Self discipline and self respect;
- Being respectful to others;
- Moral uprightness;
- Being organized;
- Treating others with dignity. *"In Uthuru, we had millionaires who looked*

down upon people. They are not respected. Only money does not bring respect."

- Doing things with plan;
- Being dependable;
- Being trustworthy
- Responsible;
- Well behaved;
- Integrity;
- Honesty;
- God fearing;
- Being old is associated with wisdom;
- Being religious;
- Hard working;

b. Achievements/accomplishments

- Successful;
- Good image – clean and dressed well;
- Having enough money;
- Having a stable and respectable family;
- Having wealth and being self dependent – there is the Somali saying: *"between two brothers the one that has wealth is the eldest. It doesn't matter how it was acquired";*
- Having religious knowledge;
- Having a good job and good income;
- Having high levels of education;
- Having materials things e.g. good house, clothes, car etc;
- Being married;
- Being in leadership positions e.g. sheik, government officials, politicians, religious leaders etc;
- Hard work. *"Hardworking people are respected because the community looks upon young people to bring about development".*

c. Relationships/associations with people

- Good neighborliness;
- Treating other people with respect;

- Making contributions, donations or assistance to community projects or helping the less fortunate;
- Meeting societal obligations e.g. contributions to welfare groups,
- Doing common things together in the community e.g. during funerals; and,
- Participating in the community development projects.

2.5.4 Expressing connectedness with one's community

A community is a group of people who have something in common e.g. living in the same neighborhood or belonging to the same financial or welfare group. People express connectedness and involvement in one's community by doing the following things.

- Contributing for community well-being e.g. during fundraising events;
- Solving community problems/issues by providing guidance and direction;
- Coming to community meetings on time;
- Contributions during times of difficulties e.g. during funerals;
- Doing common things together in the community e.g. participation in wars or helping others who are not well to do in the community;
- Speaking the local language and using the dress code for the community (Garissa)
- Appreciating local culture and respecting the faith of community members;
- Interacting with and spending time together with members of the community;
- Identifying with the community by marrying from the community and learning the language of the community;
- Holding a leadership post in the community and giving service in the community;
- Bearing a community name and having an identification card/ registration from that community;
- Identifying with a place and taking part in the development, occasions such as cleaning;
- Having property e.g. a house within that community;
- Living in harmony with people in the community;
- Owning and operating business in the community;

- Attending church services with the community;
- Participation in conflict resolution and meetings within the community *"If you can agree with people, you become part of them."*
- Showing loyalty to the community.

2.5.5 Views on responsibility and dependency

This question elicited varied responses and respondents agreed that it is important to be responsible for others or to depend on others, but only when they have no means of survival i.e. have no jobs, are old, disabled or are physically and mentally handicapped and unable to work or are orphans or widows or are still under the guidance of parents (under aged).

It depends on whether you are working or not. When you are still not working, you can depend on your parents or extended families for assistance. But after completion of schooling, you should be on your own - A respondent in the youth category.

Blanket dependency for people who are capable of surviving on their own is generally frowned upon in many communities who see it as a source of laziness. Generally, most respondents view those who have no incapacitation whatsoever and depending on others as being lazy and taking advantage of the provider and being a burden to the community. Even the unemployed youth are not comfortable with dependants on parents or relatives and are desperate for jobs and independence. In Garissa, however, the poor and vulnerable believe it is a right and dictate from God for those who are better off to contribute to their well-being.

The following are quotations from respondents

- *Everybody has been given their own hands and legs to depend on themselves. When you are an adult you should be on your own feet;*
- *Being a dependant is like taking advantage of others. Take a Jembe and do some casual work to earn a living: It's important not to give one fish but to teach him/her how to fish. If it is your brother give them some little money to open business.*
- *People need to be independent e.g. husband and wife should both work so that none depends on the other. Even the bible says, one should eat his sweat"*
- *One can only depend on others for a short time so as not long to strain the provider;*
- *Depending on others is normal. It is wrong for someone to be rich and live well while his brother is in poverty. Religion dictates that the rich help the*

poor. It is a sign of brotherhood. It's not a sin-it's normal. Here (Garissa) there are people who do not work. They just receive dollars from relatives abroad. Religion dictates that one can depend not only on relatives but neighbours.

2.6 FINANCIAL LITERACY

2.6.1 Familiarity with product terminologies

2.6.2 Collateral

The word collateral even when explained in local terms is vaguely understood among rural farmers who have never taken loans but is well understood among micro entrepreneurs and the employed. Collateral is understood to be security for covering loans in the case of default and is seen to include assets e.g. building, land, title deeds or log books. Micro entrepreneurs consider group guarantee and personal pledges as collateral.

- *"Something that will be in as security incase you fail to pay. For example if you take a loan from the FSA you put a title deed of your land in the FSA. That is collateral."*
- *"It is money saved for a loan guarantee."*

2.6.3 Interest rate

Many people including farmers and the very poor are familiar with the word interest rate in both English and Kiswahili (*riba*) language possibly because of involvement in ASCAs that lend and charge interest. Interest rate is explained as income from giving out money, extra amount earned for lending out money, a percentage of amount lent out or received, anything paid above what is borrowed, an additional income one did not work for, money returned on top of money borrowed, a charge on loans or surplus earned on lending. In Garissa one respondent reported that interest is forbidden in Islam. *"It is an extra amount you earn after leasing out money. It is forbidden"* - Muslims in Garissa.

2.6.4 Bad debt

The word "bad debt" is understood literally by many farmers as a debt that someone refuses to repay or a stressful debt. People in business or employment understand the word and see it as credit borrowed but never returned, a debt that will not be repaid, a non-recoverable debt, or a debt where is no hope of recovery.

- *"It is when one borrows and is supposed to return the money on a given day say by Friday and doesn't pay it on that day or if it is meant to come with interest, the repayment doesn't come with the interest."*
- *"It's a debt that won't be paid because probably the person who took it has died"*

2.6.5 Mortgage

People from rural and urban areas do not understand the concept or meaning of the word except those who work in banks or have undertaken mortgage as a long term loan to buy a house. Many people confuse mortgage with word collateral or security for a loan that is sold to recover the loan. The genesis of this belief could be based on auctions that have taken place for failure to service a mortgage. Those without knowledge of the term could have heard that someone took a mortgage and their houses were sold.

- *"Mortgage is when one puts in an item with value like a radio as a security for some borrowing."*
- *"It's when a financial institution buys a house for you and keeps the title deed while you repay their money in bits."*
- *"It is a pyramid scheme."*
- *"It is security for a loan."*
- *"It is when your property is auctioned if you did not repay a loan."*

2.6.6 Credit (Reference) Bureau

Generally, people do not understand the word or the concept in rural areas or urban areas. One or two respondents who have worked with financial institutions understand the meaning as a central place where financial institutions can get information on all borrowers and their repayment history. *"It is where you get a loan."*

2.6.7 Insurance and life insurance

Micro-entrepreneurs and the employed understand the word insurance either because they have policies or have borrowed micro-finance loans and paid premiums for micro insurance. They see insurance as the payment they get when they have calamities or when the policy matures such as death of the insured, payment for fire for the business insured, payment for education of children when the policy matures, payment for accident caused by a vehicle. Farmers however have only heard of the word insurance but do not know how it works. *"It is something that is used to repay me and my family incase of an accident."*

2.6.8 Investment

Micro entrepreneurs and the employed understand the word investment both in English and Kiswahili while rural/poor farmers understand it in local language. Investment is understood as putting in money where there will be returns e.g. Safaricom shares, buying livestock like cows, any project for income generation, education of children, savings in a bank put for a long time, putting some amount in business to generate income, buying property to sell later and/or anything owned that is worth money. *It's a project that will bring for you some income in future.*

2.6.9 Shares

The word “shares” is understood well in urban areas and vaguely understood in rural areas. Those in rural areas see shares as something to do with money or a type of interest or as investment put together to help a family. Those in urban areas give the example of Safaricom shares and understand the word to mean a percentage of ownership of a company, sharing part of a business or buying part of a business. MFI linked groups also consider money saved in MFIs for loan security as shares while those who save in SACCOs consider their savings as shares that earn them dividends at the end of the year. *“It is contributions in welfare groups.”*

Like the Safaricom. *“When I have money I pay to buy part of the company. The company uses the money for business for purpose of making profits. These profits are subdivided to me and others who also bought the shares”*
- A respondent.

APPENDIX 1

LIVELIHOODS

WAYS OF EARNING A LIVING IN RURAL AREAS

FARMING

Growing of cash crops

- Sugar cane
- Maize
- Cotton
- Mangoes
- Wheat
- Tea
- Coffee

Dairy farming and cattle rearing

- Dairy cows
- Poultry
- Local breed cows
- Goats
- Sheep
- Pigs

Horticultural farming

- Kales
- Tomatoes
- Onions
- Water melons
- Soya beans
- Pepper
- Green peas

Growing of food crops

- Maize
- Beans
- Onions
- Potatoes
- Mangoes
- Cassava

- Arrow roots
- Green grams
- Cow peas

Trade in

- Livestock e.g. cows, goats, sheep, pigs
- Agricultural produce e.g. milk, eggs, maize, beans etc
- Retail of household consumer goods by shop Keepers and market traders
- Selling of second hand (*mitumba*) and new clothes
- Household goods e.g. utensils and furniture

Employment in rural areas

- Teachers
- Policemen
- Clinical officers, veterinary doctors and nurses
- Agricultural officers

Other ways of earning a living in rural areas

- Casual labour in farms and individuals as laborers
- Remittances from relatives in urban areas
- Remittances from relief organizations (Garissa)
- *Boda boda* (bicycle transport) businesses
- Fishing and fish mongering (areas around Lake Victoria and Kilifi)
- Small businesses e.g. kiosks, hotels, bicycle repair work, water vending,
- Beach boys (at the coast)
- *Matatu* drivers
- Wood crafts (Kilifi and Machakos)

WAYS OF EARNING A LIVING IN URBAN AREAS

- **Employment in government Service e.g.** Teachers, Health workers e.g. doctors, nurses, Engineers, Accountants, Administrators, Agricultural workers;
- **Employment in the private sector e.g.** NGO workers, Dairy factory and tea factory workers, Workers in private hospitals, Employees of private schools, Employees of medium scale companies.
- **Self Employment (micro entrepreneurs in trade, service, manufacturing etc)**

Trade and commerce

- Cereals
- Fruits
- Vegetables
- Milk, eggs
- Water and minerals
- Cosmetics
- Charcoal
- Music cassettes and CDs
- Fish
- Hawking wares
- Boda boda business
- Matatu business
- School transport and airport transfers

Service

- Embroidery shops
- Hair salons
- Music stores
- Tailoring shops
- Computer services
- M-pesa services
- Selling of mobile accessories stores
- Telephone bureaus and photocopying services
- Photography (paparazzi)
- Clothes boutiques

- Whole sale shops
- Supplies of goods to hotels, restaurants and schools
- Selling of motor vehicle spare parts
- Running bars and restaurants
- Hotels and disco places
- Wines and spirits stores

Manufacturing

- Metal works and welding. *Jiko, sanduku, karai, windows, doors, gates etc*
- New shoes
- Furniture e.g. sofa sets, beds etc
- timber yards/carpenters

Food kiosks and vending

- Food kiosks and small restaurants
- Butcheries
- Bakery stores

APPENDIX 2

FOCUS GROUP DISCUSSION GUIDE (KISWAHILI)

WELCOME NOTE

Thank you for coming – We are grateful for your time.

We come from an organization called Microfinance House Ltd, a research organization that investigates how people use financial services. This information is needed for developing a questionnaire that will be used to get information from the financial sector in Kenya. Your names will be kept confidential, so feel free to express your opinions openly. We request you to allow us to take notes and use a tape recorder so that we do not lose any information you may provide us with. As a first step, we will introduce ourselves. Please tell us your name and then we will follow.

Main Questions	Probe Questions (<i>Dadisi</i>)
<p>Ways of earning a living. <i>Mbinu za kutafuta riziki.</i></p> <ol style="list-style-type: none"> In what ways do people in this community earn a living? <i>Ni katika njia zipi watu katika jamii hii wanapata kipato?</i> Are there marked seasonal changes in the flows of income and expenditure in these activities? If so please describe them. <i>Kunaweza kuwa na mabadiliko ya misimu ya mapato na matumizi katika hizi shughuli? Kama yako, tafadhali eleza.</i> How do households manage these seasonal changes? <i>Familia/jamii hushughulikia hi misimu ya mabadiliko ya mapato na matumizi vipi?</i> 	<ul style="list-style-type: none"> Probe sources of income e.g. business, crop sales, livestock sales, seasonal agricultural labour, casual or part time work, salary and wages, rental incomes, subsistence farming, remittances, transfers, gifts etc. Probe on whether they can juggle several income generating activities. <i>Dadisi kama wanaifanya shughuli mbali mbali zakuwaletea mapato.</i> <i>kwenye vyanzo kama, Biashara , Uzaji wa mazao, Uzaji wa mifugo, Kufanya kazi ya mkono shambani , kazi ya muda (Kibarua), Mshahara na marupurupu, kodi , kukuza na kuuza , kutegemea wengine, Zawadi.</i>
<p>Savings (<i>Akiba</i>)</p> <ol style="list-style-type: none"> Why do people save? Why do you save? <i>Ni kwa nini watu huweka akiba? Kwa nini unaweka akiba?</i> How and where do people in this community save? <i>Jamii hii huweka akiba kwa njia gani au wapi?</i> 	<p>Probe (<i>dadisi</i>)</p> <ul style="list-style-type: none"> Roles formal sector schemes/services: formal banks, NGO-MFIs, co-operatives etc. Informal sector schemes/services: “in-the house savings”, RoSCAs/merry-go-rounds, ASCAs, funeral funds, savings clubs, and investment clubs, shop keepers, money guards etc. If participants were saving and are no longer doing so, what are the reasons for not saving now? <i>Kama wahusika walikuwa wanaweka akiba lakini kwa sasa hawafanyi hivyo, Nini sababu ya kutokuweka akiba?</i>
<p>Borrowing (<i>Kukopa</i>)</p> <ol style="list-style-type: none"> If necessary, where do people from this community get credit now/in the past? <i>Ikibidi watu wa jamii hii hukopa kutoka wapi kwa sasa/hapo mbeleni</i> For what reasons do people borrow? <i>Kwa nini watu hukopa, kwa nini wewe hukopa?</i> If you had a choice of borrowing from several institutions/mechanisms, from which ones would you borrow/which ones would you not go to (why not?) <i>Kama Ungekuwa na chaguo la taasisi gani ukope, unafikiri ni wapi ungekopa? Ni wapi usingeenda kukopa? Kwa nini?</i> For those who have not borrowed at all, what are some of the reasons why they never did so? <i>Kwa wale ambao hawajawahi kukopa, ni sababu gain zinazowazuia kukopa.</i> 	<p>Probe roles of:</p> <ul style="list-style-type: none"> Formal sector schemes/services: formal banks, NGO-MFIs, co-operatives etc. informal sector schemes/services: RoSCAs/merry-go-rounds, ASCAs, moneylenders, shop keepers, friends and relatives etc <i>Benki, ROSCA, Wakopeshaji wasio rasmi, ASCAs, wenye duka, marafiki, familia).</i>

Main Questions	Probe Questions (<i>Dadisi</i>)
<p>Risks (<i>Hatari</i>)</p> <p>10. What type of events would have a negative impact on your community as a whole and specifically for the poor families in the community? <i>Ni tukio gain lingeleta majanga kwa wanajamii hawa, sana sana kwa watu maskini?</i></p> <p>11. How do communities cope with such negative events? <i>Walikumbana vipi na matukio hayo? Walifanya nini ili kupunguza ukubwa wa tatizo?</i></p> <p>12. What type of events would have a negative impact on your family? <i>Ni tukio gani lingeleta majanga katika familia yako?</i></p>	<p>Probe on:</p> <ul style="list-style-type: none"> ▪ How individuals coped with negative events?
<p>Insurance (<i>Bima</i>)</p> <p>13. Do you use any type of insurance (formal or informal)? If so, which ones? <i>Unatumia bima ya aina yoyote (Aina za bima za kawaida na zile ambazo sio za kawaida).</i></p> <p>14. For what type of risks have you insured for? <i>Umetumia bima kwa hatari za aina gain?</i></p> <p>15. What else would you want to insure for? <i>Ungependa kutumia bima kwa hatari gani nyingine?</i></p>	<p>Probe on:</p> <ul style="list-style-type: none"> ▪ For those who do not use insurance, why not? <i>Kwa wale hawatumii bima, kwa nini?</i>
<p>Usage of informal groups (<i>Utumiaji wa vikundi visivyo rasmi</i>)</p> <p>16. Why do people form groups such as the ones you are in? Or, why did you form your investment club? <i>Kwa nini watu hujijunga na vikundi kama hicho ulichojiunga nacho?</i></p> <p>17. How much have you invested? What are the future plans for your investment club?</p> <p>18. How many groups (and investment clubs) are you a member of? <i>Wewe ni mwanachama wa vikundi vingapi?</i></p> <p>19. Why do groups (and investment clubs) break up? <i>Kwa nini vikundi huvunjika?</i></p> <p>20. What is the frequency of meetings in your Club? <i>Vikundi vyenu hukutana mara ngapi?</i></p> <p>21. How much do you pay to be a member of your club? Is it monthly, weekly or annually? <i>Ni kiasi gani unalipa ili uwe mwanachama wa kikundi chako? Je unalipa kwa wiki, mwezi au mwaka?</i></p>	<p>For those not in groups, probe for reasons of not joining groups or resigning from groups. <i>Kwa wale ambao hawana kikundi, nini chanzo cha kutokuwa na kundi au kujitoa kwenye kikundi?</i></p>
<p>Self esteem/worth/pride</p> <p>22. What causes you stress in financial matters and how do you cope to reduce the stress? <i>Nini kinachosababisha mfadhaiko katika masuala ya kifedha (kwako wewe kama vile mkulima, mfanyi biashara, wanaopata mshahara, na kadhalika na wakazoea).</i></p>	<ul style="list-style-type: none"> ▪ Probe on involvement in several activities e.g. church, welfare, burial groups etc. <i>Dadisi kujihusisha katika shughuli tofauti kama vile za kanisa, mazishini na kadhalika</i>

Main Questions	Probe Questions (<i>Dadisi</i>)
<p>23. What brings you contentment/happiness in life? <i>Nini kinachosababisha furaha au huzuni maisha kwako?</i></p> <p>24. What makes a person be respected within the community? <i>Ni nini sifa au tabia ya mtu anayeheshimiwa katika jamii hii au eneo hili?</i></p> <p>25. In this community, how do people express that they belong to it? <i>Katika jamii hii, utajielezea vipi kama wewe ni mkazi wa eneo hili?</i></p> <p>26. In this community, is it important (seen to be good) to be responsible for others? <i>Katika jamii hii, je, ni muhimu kuwasaidia wenzako?</i></p> <p>27. Is it seen as alright or normal to be dependent on others for income? <i>Je inaonekana sawa ama kawaida kuwategemea wengine kwa mapato?</i></p>	
<p>Financial terms</p> <p>In your community/area of work, what are the meanings of the following financial terms? <i>Katika kijiji hiki, maneno yafuatayo yana mana gani:</i></p> <ul style="list-style-type: none"> ▪ Collateral (<i>Dhamana</i>). ▪ Interest rate (<i>Riba</i>). ▪ Bad debts (<i>Madeni yasiyolipika</i>). ▪ Mortgage (<i>Rehani</i>). ▪ Credit Bureau (<i>Mahali pa mkopo</i>). ▪ Insurance (<i>Bima</i>). ▪ Life Insurance (<i>Bima ya maisha</i>). ▪ Investments (<i>Uwekezaji</i>). ▪ Shares (<i>Hisa</i>). 	



