KENYA
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RESPONDENT PROFILES

**Background**

Researchers at Digital Divide Data (DDD) and Bankable Frontier Associates (BFA), in partnership with Financial Sector Deepening (FSD) of Kenya, recently completed an in depth Financial Diaries study to better understand how Kenyan households earn, save, and spend their money. The study tracked 300 households over one year. Findings from this study can help government, business, and NGO decision makers better understand the financial needs of ordinary families and create better solutions in response.

# TOGETHER, BUILDING A FUTURE WITH THE SECURITY OF A SALARY

Raphael (37) and Cindy (31) are, as the Diaries field researcher who studied them wrote, "one of the rare households in which the wife knows everything about the husband's finances." Though the inverse is not necessarily true, this husband-wife duo work closely together pursuing their financial ambitions. Each goal they meet only sets the stage for another, more lofty one.

First, they dreamt of constructing a house in an informal settlement in Mombasa on land they were granted to use by a village elder. After completing their home, they worked to construct two small rental units that provided them some extra income. During the study, they also worked together to build a second home for themselves in Raphael's rural home in Western Kenya[1]. All of these projects, Raphael says, give him comfort. If he were to die tomorrow, his family would at least have a place to live.

How do Raphael and Cindy achieve and maintain this satisfying position? Raphael had the very good fortune of landing a salaried job at a local factory. The pair combines his salary with their fairly reliable rental income to gain a base income that is predictable from month to month and against which they can plan and borrow. They supplement this income with the casual work that Cindy does at a port warehouse packaging tea leaves for export.

## DISCIPLINED SPENDING

But stable income alone does not explain the couple's current success: hard work and disciplined spending are

also instrumental. For many years now, the couple has given up eating meat regularly and taking milk in their tea. By skimping on these luxuries, they feel they are able to save more. And save they do. They contribute an average of around KSh 3000 (US$35.30) per month to seven separate savings groups, or *chamas*[2]. Cindy even contributes Ksh 100 (US$1.17) twice per week to one chama to help her save up for another. When spending is stretched, they borrow to keep up with these various chama payments, almost never falling behind.

1 The two seem cautious about what they accumulate in Mombasa. Cindy fears that their solar panel makes them a target for robberies, signaling that they have money and electronics in the house.

2 If they kept up with all their group savings contributions regularly, it would account for about KSh 3,500/ month, about 19% of their average monthly income.

FSD Kenya
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DDD
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Cindy's one weakness is Nigerian movies. She indulges herself frequently, catching a double feature at a local movie den for KSh 20 (US$0.24). Over the course of a year, though, this accounted for less than one percent of the household's spending.

## LESS DISCIPLINED BORROWING

Despite exercising constraint on their spending, they still find themselves perpetually borrowing, often at high cost. Raphael in particular seems to finance nearly every need with borrowing. He has loans to invest, loans to pay school fees, loans to pay chamas, loans to help relatives. He has so many loan payments deducted from his salary, that on payday, he typically receives only about KSh 1000 (US$11.76) into his SACCO[3] account.

The savings they do have is tied up in illiquid forms, like their groups. They don't have much extra cash floating around. So, Raphael borrows when unexpected needs arise. In May, for example, their area was beset by heavy rains that made the sitting room, where the children sleep, begin to collapse. Raphael was desperate to make repairs, but his entire salary was already consumed by debt payments. After two weeks, he was able to get an emergency loan of KSh 10,000 (US$117) from the SACCO to make the repairs. He was able to get a loan from M-Shwari as well and had the good fortune of being the beneficiary of a bank teller's mistake of giving him KSh 7,900 (US$93) on a withdrawal, when he should have been given KSh 790 (US$9.30)[4]. Together, these sources provided a substantial sum to make lasting repairs.

He even borrows from his local moneylender. He negotiates with the moneylender for each loan, paying interest of 20% per week or 20% per month in different circumstances and for different values. Raphael acknowledges that moneylenders are very expensive, but, for him, they sort out his problems quickly and privately, which is not the same as his chamas. He's already borrowed to capacity through his SACCO, his preferred lender, so when small things arise, that avenue is closed to him until he pays off some of his existing loans there: a Christmas loan, a school fees loan (which was not actually used for school fees) and an emergency loan. He started using M-Shwari during the study and was hopeful that this new source of borrowing, just as quick and private as a moneylender, might help him shift from the moneylender to this lower cost source.

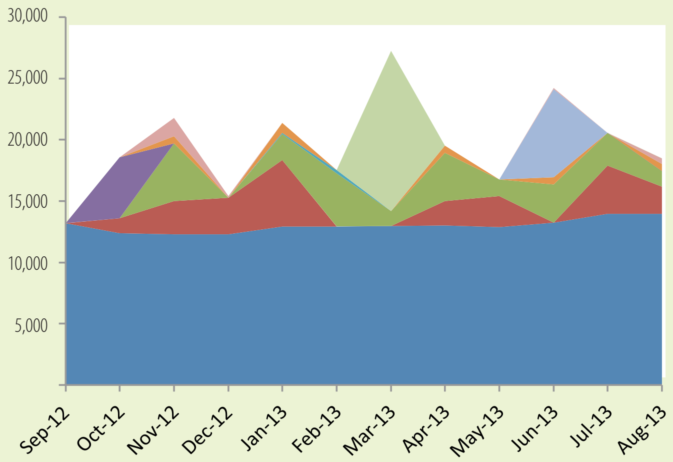
But, that may not be realistic. He seems to constantly borrow whenever he has the chance, even when needs are not immediate. Raphael borrowed KSh 56,000 (US$659) when it was available as a school fees loan via his SACCO in January. He used the loan to clear another loan with an outstanding balance of KSh 16,000 (US$188) and then to buy building materials for the new rural home he and Cindy would construct upcountry. But, they would not construct until the maize on their plot of land was harvested in August. He borrowed the money seven months before it was needed, because that is when the money was available.

Raphael doesn't see his inability to say no to loans as a problem. Quite the opposite. He feels like the loans are just more proof of his commitment to invest in his family's future. He's trying to invest as much as he can right now, and if that means he has to borrow to do that and borrow again when the family has new and unexpected needs, it seems reasonable to him. The loans don't cause him much stress. He knows that he is working, and that his income cashflows are guaranteed.

3 Savings and credit cooperative

4 After getting the money on a Friday, Raphael checked his statements to confirm he'd been given too much. He went back to the bank on Monday to try and rectify the situation, but he bank manager dismissed him. According to their books, the manager told him, there was no mistake to fix. It seems the mistake was purely on the teller's side.

**Figure 1: Raphael's salary provides a stable income base for the family to plan around. The household's average monthly income throughout the study was KSh 18,884 per month (about US$222).**




> "The loans don't cause him much stress. He knows that he is working, and that his income cashflows are guaranteed.."

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### Fewer financial options for Cindy

Cindy's income is less predictable. Packing tea without a contract in a local export warehouse, Cindy is called to work when there is work to do. During some periods, like around elections and just after the attack on Westgate, business slowed. There were fewer ships coming to port, carrying the tea to its final destination. She also stayed home for nearly a month after upsetting a supervisor. The supervisor tried to pay Cindy's team for packing only 12 parcels when they had done 15, and Cindy stood her ground. The whole team was paid their fair wages, but Cindy wasn't called for several weeks and refused to apologize.

Without a regular wage, she feels less comfortable borrowing the way that Raphael does. It's okay. Much of her money can be used to take care of the family while Raphael's salary is so highly leveraged for longer term investments.

**Table 1: Raphael and Cindy's financial balance sheet at the end of the study.**

| Assets | | | Liabilities | |
|---|---|---|---|---|
| Cindy ASCA 1 | 1,500 | | Cindy credit at the shop | 100 |
| Cindy M-PESA | 30 | | Cindy M-Shwari Loan | 1,075 |
| Cindy M-Shwari | 320 | | Cindy Okoa Jahazi (airtime credit) | - |
| Cindy ROSCA 1 | 8,000 | | | |
| Cindy's house savings | - | | | |
| Raphael Account at Bank 1 | 300 | | Raphael loan from Alfred | - |
| Raphael Account at SACCO | 36,500 | | Raphael loan from Chove | - |
| Raphael ASCA 1--Raphael quit in January after saving 1200 | - | | Raphael loan from colleague | - |
| Raphael ASCA 2 | 1,400 | | Raphael loan from employer | - |
| Raphael Lending to Family and Friends | - | | Raphael loan from money-lender | - |
| Raphael M-PESA | 200 | | Raphael loan from Nyale | 3,000 |
| Raphael M-Shwari | 101 | | Raphael M-Shwari Loan | 1,747 |
| Raphael NSSF | 6,200 | | Raphael okoa airtel (airtime credit) | 50 |
| Raphael ROSCA 1 | 8,000 | | Raphael personal loan from SACCO | 3,900 |
| Raphael ROSCA 2 | - | | Raphael school fees loan from SACCO | 15,210 |
| Raphael ROSCA 3 | - | | Raphael wage advance | 4,000 |
| Raphael using a money guard | - | | | |
| Raphael's house savings | 400 | | | |
| Arrears from Renter 1 | - | | | |
| Arrears from Renter 2 | - | | | |
| **Total Assets** | **62,951** | | **Total Liabilities** | **29,082** |
| | | | **Net Financial Assets** | **33,869** |

When Raphael gets paid, he hands over all the remaining money, along with the payslip, to Cindy. She keeps track of their needs and obligations and makes sure the household runs smoothly, even when cash is tight.

Some of Cindy's personal financial service options are limited by the fact that she has had trouble getting a national ID card. Raphael registered her SIM card for her and used his own ID to enable her to open an M-PESA account[5]. But, while the rest of the family benefits from NHIF, she cannot without the ID. She can't open a regular bank account either, but she's not overly concerned. She feels that M-Shwari and her various chamas are serving her pretty well.

### STILL CONCERNED ABOUT FINANCING HEALTH AND EDUCATION

But the salary doesn't solve all of their problems. Raising children, for example, is very expensive. The couple has three children, ages 14, 11, and 5. Raphael worries about how he will pay school fees, particularly as the eldest approaches secondary school age. This son is a little behind in school already. When Cindy delivered twins in 2009, he was kept home for a year to help his mother around the house. They couldn't afford househelp[6], and Cindy was completely overwhelmed caring for two babies simultaneously. Raphael expects to pay for the anticipated extra school fees by reducing what the family spends on food, which is only about KSh 4870 (US$56), about 41% of their spending, now.

Like many other families in our study, Raphael and Cindy are making some big, lasting investments in their home and in rental units in anticipation of school fees soon becoming a much larger share of their budget. But even now, they are spread so thin that

[5] Typically, you need an ID to conduct M-PESA transactions at an agent, but Cindy has established relationships with area agents that help get around this issue. But, she is confined to only using those agents in her immediate community, since those outside would require an ID.

[6] "Househelp" is the typical Kenyan term for hired domestic helpers.

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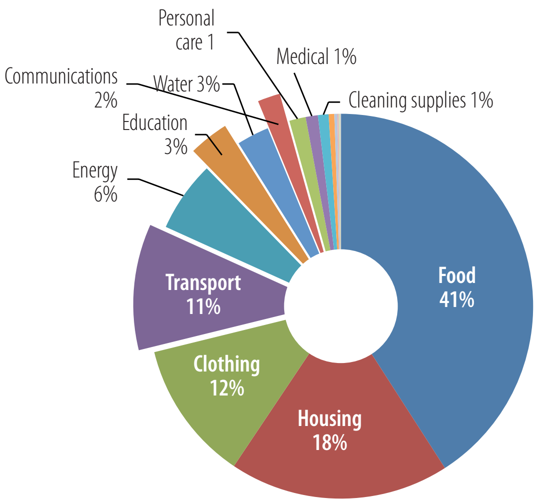
**Figure 2: Distribution of Raphael & Cindy's Expenditures**




they have a hard time keeping up with even relatively small school fees payments. During the study, the kids were sent home at least seven times.[7]

Keeping everyone healthy is isn't easy either. Their five year old was one of a pair of twins. The couple spent a substantial amount of money delivering the twins via caesarian section. At just seven months, though, one of the twins came down with cholera and died. Even after this experience, they are often reluctant to spend quickly on medical issues. Raphael was worried about his eldest son, Harry, when he came down with a long-lasting cough and fever. For weeks, they treated him at home with a hot solution of garlic and ginger until finally taking him to the hospital. The treatment cost only Ksh 250 (US$2.94), which Raphael says did not affect their budget and did not necessitate borrowing.

[7] We started tracking this part way through the study. The kids had been sent home in 7 of the 14 interview periods that we asked about this issue.

Still, Cindy has had a growth in her abdomen for several years, and has not sought treatment because, she says, they've not had the money. The family together has made the choice to invest in building their house, the rental units, and their home upcountry. Cindy's longer term medical issue just simply has not become a priority. There are so many things they want to do and without the medical issue feeling like an emergency, it hasn't made it to the top of the list.

## GREAT RESPONSIBILITIES

As a relatively successful pair, Raphael and Cindy also have significant family obligations to uphold, for which they are rarely prepared. They had to come up with KSh 2000 (US$23.53) for their nephew's pre-wedding celebration. Raphael borrowed the money from a moneylender, paying an extra KSh 400 (US$4.71) in interest after just a couple of weeks. When Raphael's brother hurt his shoulder and needed an x-ray, Raphael again borrowed, this time from M-Shwari, to send help.

## ON A ROAD TO SUCCESS, IF THINGS GO WELL

Both Raphael and Cindy feel pretty good about what they've accomplished together so far. When we ask Raphael if he thinks he's financially successful, he says, "Not yet." But, his vision isn't so far away. For him, success would be earning KSh 24,000 (US$282) per month, not so far from their current KSh 18,884 (US$222). But, in his vision, he could be earning this apart from his formal job, in a stable business of his own. Cindy would run a successful livestock business[8], which they hope to start next year. Once they pay off their current loans at the SACCO, Cindy's business is the next investment.

[8] Cindy has been producing chickens and ducks at their home in Mombasa, but both have been pretty miserable failures, with many of the animals dying to rapidly-spreading diseases and few of the eggs hatching.

Find all of these and more at http://www.fsdkenya.org/financial-diaries/

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), Agence Française de Développement (AFD) and the Bill and Melinda Gates Foundation.

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