KENYA
financial DIARIES

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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.

EXTREME SAVINGS AND THRIFT

Kevin is a 26 year old man who works night shifts as a security guard at a European embassy in Nairobi. When we met him, he was living with his wife, three-year-old daughter, and one younger brother for whom he was paying secondary school fees. Kevin's wife was working in a local salon.

We recruited the household into the study because Kevin was using a restricted savings account, *Jijenge*. This was offered by Equity Bank and had recently been revamped through support from the GAFIS[1] project. The GAFIS project provided partial funding for the Diaries exercise. This allowed us to include 60 households of users of two Equity commitment savings products, the *Jijenge* and the school fees accounts. We wanted to understand how these products were used in the context of users' broader portfolios.

The *Jijenge* Account asks savers to name their own savings target and to make regular, scheduled contributions towards that goal. Once the goal has been reached, and so long as minimum thresholds have been met, the account holder may withdraw their savings with an interest bonus. Kevin initially opened the account hoping to save to start a business or buy a piece of land. He began making regular contributions through standing orders in the account in which his salary was deposited.

1 The Gateway Financial Innovations for Savings (GAFIS) project was a programme funded by the Bill & Melinda Gates Foundation and managed by Rockefeller Philanthropy Advisors. It worked with five banks in five countries to try and accommodate new poor savers in mainstream institutions. www.gafis.net

FSD Kenya
Financial Sector Deepening
DDD
BFA
Bankable Frontier Associates

> He adheres to a very strict budget, allowing himself to spend just KSh 100 per day. Merely commuting to work by matatu would blow his budget, so he often walks (more than 20 kilometres round trip) or hitchhikes to save the money."

This was just one of many savings devices this extremely disciplined and thrifty young man was using. He had been raised by a single mother who moved around between Kibera, Kayole, and the Mathare slums in Nairobi. Kevin himself often stayed with relatives who could help take care of him. Once he finished high school, the relatives expected that he would start earning and contributing, and he also was desperate to become independent of their support.

He recalls that for about six months while he looked for work, he often subsisted on just black tea (or "strong tea" as it is called in Kenya) and one *mandazi* (a fried dough triangle) per day. Eventually he got a fairly regular casual job, ironing and sewing buttons on clothes for a tailor in the Kariobangi market. As soon as he was working, he developed a habit of extreme saving. He needed to save for more training to advance himself and also to send his brother to school. Through his work with the tailor and another job as a hotel waiter, he saved enough for driving school and computer lessons, which helped secure his job at the security firm.

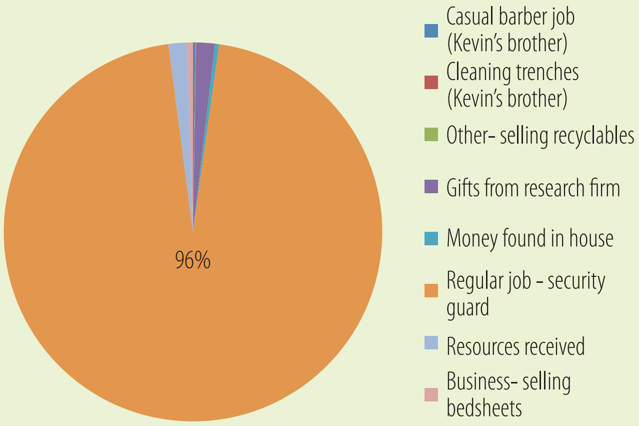
Once he was hired there, he finally felt stable. He invited his brother to live with him, got married, and had a baby all in the same year.

Even though he is more stable now, his dreams keep growing. He adheres to a very strict budget, allowing himself to spend just KSh 100 per day. Merely commuting to work by *matatu* (local bus) would blow his budget, so he often walks (more than 20 kilometres round trip) or hitchhikes to save the money. He diligently puts as much of the remainder as he can into fixed deposit accounts and his *Jijenge* commitment savings account.

Unfortunately, Kevin's rather extreme focus on thrift and savings has driven away the important people in his life. Mid-way through the study, he chased away his wife and child. He often fought with his wife over money. She had a hard time understanding how he could be so incredibly stingy, to the point of keeping him from providing for her and their child's needs. Eventually, he chased her away to her family home upcountry, accusing her of "stealing" money from his wallet.

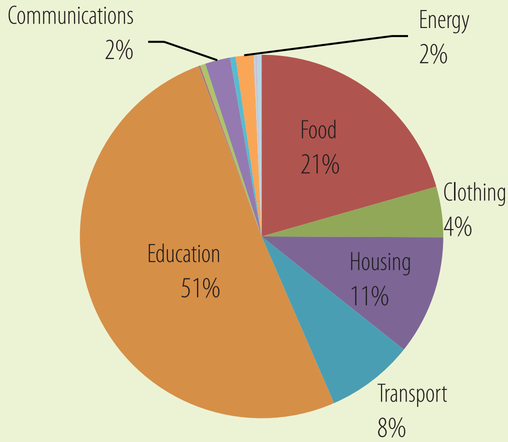
His younger brother also could not meet Kevin's high standards of discipline and thrift. After coming home late from school one day, Kevin beat him severely to discourage him from making bad company. Instead, the brother ran away to stay with an uncle that Kevin despises for supposedly mistreating him as a child.

Kevin's household income over the project (%)



Average monthly income: KSh 19,657

Kevin's household spending over the project (KSh)



Average monthly spending: KSh 12,547 financial DIARIES

Table 1: Kevin's balance sheet at the close of the project. He has accumulated very significant financial assets while completely avoiding borrowing throughout the study.

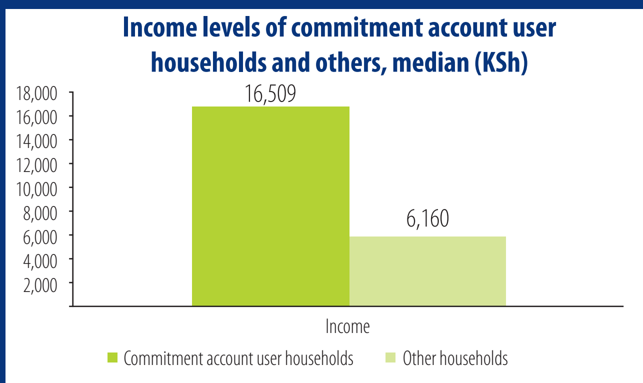
Assets			Liabilities	
Current account 1 *(Still holding much of his mature Jijenge and fixed deposit money here)*	200,000			
Current account 2	100			
Fixed deposit account	0			
SACCO account	11,000			
Restricted savings - Jijenge	14,000			
Money in the house	3,500			
M-PESA	1,200			
Loans to friends (4 given in the year)	0			
Credit given to clients (2 bedsheet clients given in the year)	0			
NSSF (estimated)	11,750			
Total Assets	**8,500**		**Total Liabilities**	**00**
			Net Financial Assets 229,800	

Though worried about his brother's future, Kevin otherwise seemed relieved to be free of the financial burdens that had been imposed on him by his family. Now that they were all gone, he could save even more and focus on his own dreams and aspirations.

In May, he withdrew KSh47,000 from his savings in M-PESA and two separate savings accounts to begin to study law in a tertiary college. A diploma in law, he believed, would help him get a new job or to rise through the ranks to a more prestigious post in his current security firm. In September, his fixed deposit and Jijenge accounts matured at the same time, providing him KSh235,000 all at once. He planned to use the money to buy a piece of land, a motorbike and a laptop, and to reserve the rest for next semester's tuition.

Kevin is very proud of what he has been able to accomplish for himself, particularly this year once he had loosened himself from the burdens of caring for his wife and child. His savings have begun to open bright new opportunities for his future, but at what cost?

Kevin was not the only Diaries respondent obsessed with saving. This seemed to be a pattern that was fairly common among commitment account users in the study. It suggests that it may not be commitment accounts themselves that enable all types of people to generate large amounts of savings, but rather that serious savers are the ones most likely to open and use such accounts.



Across the sample, the households using commitment accounts had higher average incomes, with median monthly household incomes of KSh16,509 compared to KSh6,160 for the rest of the sample. So, from the start, they had more potential capacity in their budgets to save.

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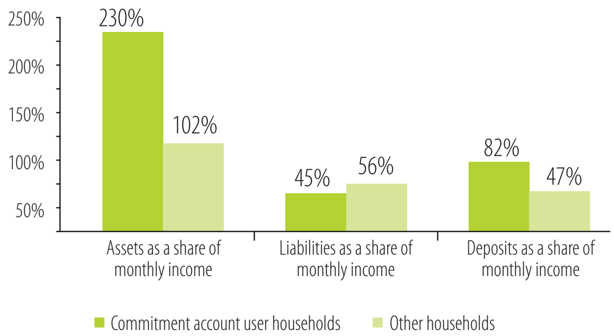
Savings and borrowing differences between commitment account users and others (%)



They were also saving much more - across their portfolios - than the non-users, even as a share of income. The median household in the restricted-account user group had about 230% of their average monthly income tucked away in different financial devices, versus just 102% (about one month's worth) for the median non-user household. The median commitment account user household tends to deposit about 82% of annual income into savings devices at some stage, even if they hold onto it there for only a few days.

Restricted accounts do help people like Kevin to save.[2] However, such people are in the minority. What about others who do not have the same kind of willpower, the same extreme focus on thrift, or who are not willing to make the same kind of sacrifices that Kevin has made in order to save?

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These people may be discouraged from commitment accounts completely by the fear of serious illiquidity. For them, a lighter touch commitment feature may be a much bigger draw.

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

2 We also observed that users of restricted accounts (more than other types of financial device) kept the existence of those accounts secret from their spouses and other family members. This allowed them to save more than usual and accumulate larger sums without as much pressure to divert that money to other uses. We expect to document more of these kinds of insights in a future paper focused specifically on savings.

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). Current funders include the UK's Department for International Development (DFID), the Swedish International Development Agency (SIDA), and the Bill and Melinda Gates Foundation.

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