KENYA

financial DIARIES

THE FINANCIAL LIVES OF THE POOR

AUGUST 2014

EXECUTIVE SUMMARY

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.

SHILINGI KWA SHILINGI: THE FINANCIAL LIVES OF THE POOR IN KENYA

BACKGROUND

How do poor Kenyans manage their money? The Kenya Financial Diaries were commissioned in 2012 by Financial Sector Deepening (FSD) of Kenya to explore this question in great detail. A dedicated team of researchers visited 300 diverse households across five areas of the country every two weeks for an entire year. Using the Financial Diaries methodology popularized in *Portfolios of the Poor*, the team attempted to capture as accurately as possible all of the cash flows that happened in each household - every shilling coming in and every shilling going out - for the entire period. The data paint a rich picture of the financial lives of poor Kenyans and shed new light on their unmet financial needs.

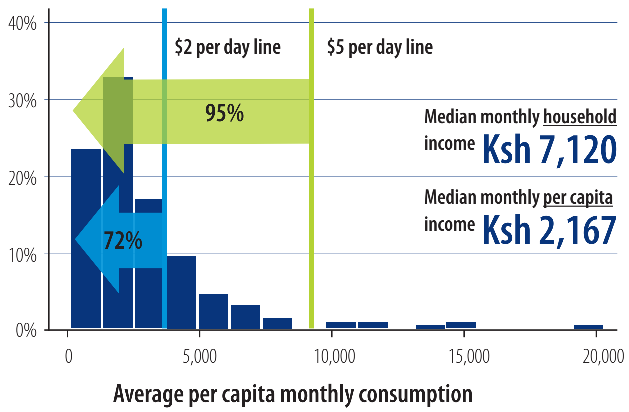
Map: Kenya Financial Diaries sites

FSD Kenya Financial Sector Deepening

DDD

BFA Bankable Frontier Associates

Figure 1: Per capita household monthly consumption

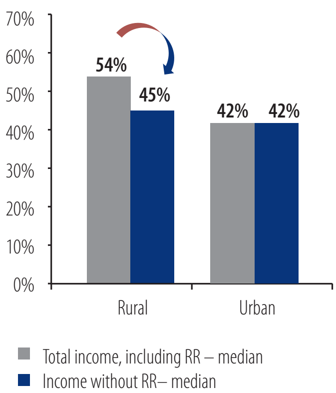


Households face both low incomes and high levels of volatility in earning and spending

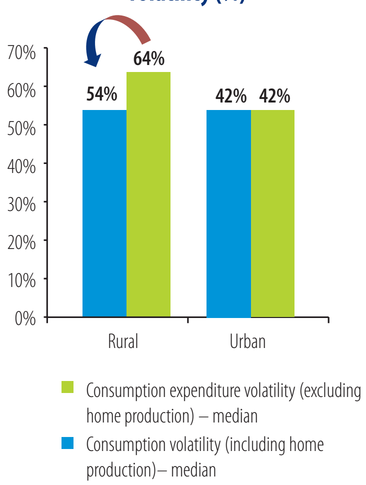
Like poor people around the world, poor Kenyans face the combination of low incomes alongside much uncertainty in their spending needs and ability to generate income. Median per capita monthly income in our sample was just KSh 2,167. But, for the median household, income fluctuated +/- 55% from month to month and consumption fluctuated +/-43%. In many cases to meet new, lumpy expenditure needs, households would seek new income, particularly in the form of remittances and contributions from friends and relatives ("Resources Received" or RR), but also by waiting for corresponding lumpy payouts from other income sources.

Rural households tended to have higher earned income and consumption expenditure volatility, but some of that volatility is dampened by Resources Received on the income side and consumption from their own farms' production on the consumption side.

Median income volatility (%)



Median consumption volatility (%)



Incomes are pieced together from multiple sources

The median household in our study had 10 separate income sources registered throughout the Diaries year. Many of those income sources were separately registered Resources Received. If we put those income sources aside, we still find that the median number of income sources in a household is five, which is a large number. That means typical families are piecing together incomes from many different sources to try and construct a bigger whole.

With low incomes and high levels of uncertainty, the poor are more active money managers, not less

The median household channelled KSh 88,307 through financial devices in the course of the project. These financial devices are all used somewhat differently in terms of values mediated and intensity, enabling users to accomplish a range of financial objectives.

For exmaple, Patrick, a *jua kali* artisan earns around KSh 22,000 per month and mediates his money through 15 different financial devices. While he uses mobile money most actively, he also values banks as a safe place to park money. His various groups - ROSCAs and ASCAs - enable him to accumulate lump sums to pay for school fees and buy inputs to fulfil large orders in his business.

Figure 2: Patrick's balance sheet at the close of the project

Assets (Ksh)			Liabilities (Ksh)	
Mobile money	2,885		Rent arrears	900
Savings in the house	774		Joint liability loan	0
ROSCA 1	-5,700		Borrowing from friends and family	0
Credit given to clients	700		Electricity arrears	333
ROSCA 2	5,800		Shop credit	0
Current account	7,300			
Savings account	2,000			
Investment 1	1,800			
ASCA 1	600			
Mbao pension	400			
Total assets	**16,559**		**Total liabilities**	**1,233**
			Net financial assets	**15,326**

The financial management strategies of low-income Kenyans place a lot of emphasis on creating elasticity in the budget

Faced with already tight budgets and high levels of uncertainty around their incomes and spending needs, poor households try to create elasticity in their budgets by holding a bit of liquid savings, keeping the lines of credit open, and

Figure 3: Creating budget elasticity

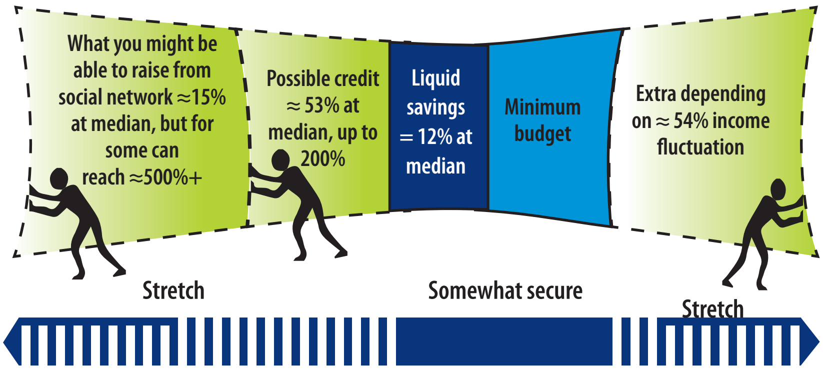


Figure 3: A major financial management task for the poor is pushing outward against possible sources of funds that can supplement the minimum budget. This often means simply ensuring the possibility of accessing more money, not necessarily always drawing on those sources.

Example: Mary's household

- Lives with husband and 4 children (Ages 5-19) in Mombasa
- 15 income sources for household

a) 8 resources received, mostly in kind
b) 3 casual jobs for Mary and husband: winnowing beans, construction labour, construction contracts
c) One business – fried potatoes
d) 2 charity resources: hospital, children's fund
e) Campaign contributions

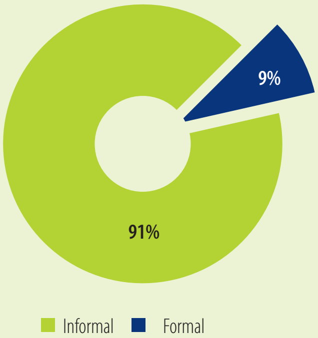
cultivating relationships that might help provide resources when needed or open new opportunities for earning income - even if short term. But only a small share of this stretching capacity is derived from liquid savings.

That doesn't mean they are not saving; most value is held on the asset side of the balance sheet. At the end of the study, the median household held the equivalent of 129% of their monthly income in financial assets, versus the equivalent of about 53% of their monthly income in liabilities. This financial asset accumulation is higher than we have observed among low income people in other countries. However, only about 9% of the typical household's savings are held in formal institutions. Instead, this money is mediated informally.

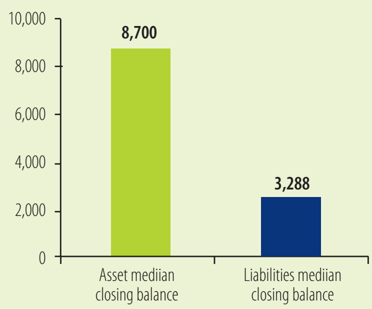
Even when households have savings, much of it is not available to provide elasticity in the budget. Instead, it is channelled to investment. That savings tends to get tied up intentionally in savings devices that help people build up useful lump sums to invest, which they often do - to grow their businesses, improve their homes, and pay for school fees. We estimate that the median household keeps only about 10% of those financial assets in a liquid form. Most borrowing is informal and very low value. Savings is instead intentionally and strategically channelled to less liquid asset devices to enable later investment and to discourage misuse. We also see a strong psychological preference to not leave money idle; it should immediately be put to good use immediately, even as it is being saved.

Figure 4: The poor save more than they borrow, but that saving is overwhelmingly informal.

Share of financial assets that are formal, median



Median closing balances (KSh)



Our respondents told us that money should be working. The result is a preference to spend-as-you-earn in many cases, immediately translating income into helpful uses. People place money in financial devices that - even as they sit on the balance sheet - provide immediate benefits either directly to the saver or to his or her social network. For example, money in a ROSCA is instantly being put to work helping a neighbour grow her business while I wait my turn. Large sums held in a SACCO as shares enable me to borrow today or provide the possibility of stretch down the road when I am able to buy a piece of land. For money to be working, the benefits should be tangible and visible.

There are tradeoffs between the two financial management challenges facing the poor: ensuring short-term liquidity and making long-term investments in the future. Keeping most of their savings in illiquid form enables many households to save in order to invest - even if the total sums remain modest. There seems to be a lack of appropriate products that enable borrowing for investment. Most borrowing is informal and very low value. But it also means that when urgent, unexpected needs arise, there is often no money on hand to navigate the emergency. The result is that many households are falling short on both: they both forgo immediate and urgent expenditures on things like medical care and appear to underinvest in livelihood improvements.

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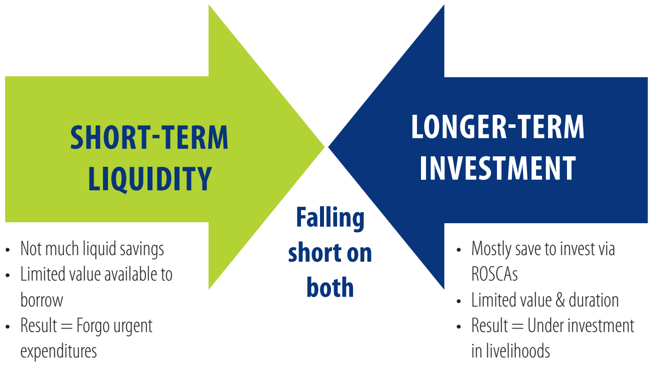

IMPLICATIONS

We find significant space for financial product and service delivery innovation to offer new options for low income people to meet their competing financial needs. We suggest that providers might dedicate more attention to helping their customers feel their savings working for them and enabling low income people to invest in the advancement of their livelihoods. Kenyans are already strategic and active money managers, willing to experiment with a wide range of financial services. Financial service providers might make their own products more attractive by making the services on offer better fit the needs of low income people and by improving the quality of the service experience.

UPCOMING PUBLICATION TOPICS FROM THE FINANCIAL DIARIES

- **Overview of findings** - *Shilingi Kwa Shilingi: The financial lives of the poor in Kenya*
- **Payments** in the Kenyan and South African Financial Diaries
- The financial role of **savings groups** in Kenya
- Understanding **risk**
- **Capacities** to aspire and save

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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