FINANCIAL CAPABILITY IN KENYA

FINDINGS FROM FINACCESS 2009

FEPP Financial Education & Consumer Protection Partnership

finaccess

FSD Kenya
Financial Sector Deepening

This report was prepared by Daryl Collins, Julie Zollmann and Bilha Maina. Special contributions to this work have been provided by Dr. Shem Ouma, Central Bank of Kenya and Dr Maurice Ligulu for assisting us with the analysis of data and providing critical inputs to aid writing of this report. Prof. Elaine Kempson and Adele Atkinson for assisting with developing of the initial research framework and the Synovate team who undertook the research. We appreciate the contributions made by members of the Financial Education and Consumer Protection Partnership Taskforce in the development of this report.

FEPP Financial Education & Consumer Protection Partnership

With support from Financial Sector Deepening Kenya

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FSD Kenya
Financial Sector Deepening

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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Abbreviations

ASCA	Accumulated Savings and Credit Association
FSD	Financial Sector Deepening
Ksh	Kenyan shilling
M-Pesa	Mobile cash transfer service run by Safaricom
FEPP	Financial Education and Consumer Protection Partneship
CPRN	Canadian Policy Research Networks
ROSCA	Rotating Savings and Credit Associations
SACCO	Savings and Credit Cooperative
NSSF	National Social Security Fund
NHIF	National Health Insurance Fund
T-bill	Treasury Bill

FOREWORD

How capable are Kenyans in managing their personal finances and what knowledge and skills gaps exist that can be filled with targeted literacy programmes?

A section of the FinAccess 2009 national survey carried specific questions on financial literacy. The survey, supported by FSD Kenya and other stakeholder institutions has been analysed to try and establish the levels of Kenyans financial capabilities. This report contains the results of that analysis and we hope the findings will enable partner institutions to better tailor their literacy programmes, to meet the established knowledge and skill gaps of their target customers. The findings will also be valuable in developing a comprehensive national strategy for financial education.

Policy makers are keen to find ways to increase levels of financial inclusion in both developed and less developed countries. To achieve this, they must understand how people make financial decisions and manage their money, to be certain that consumers' interaction with financial service providers is beneficial. An increased understanding of the complexities of people's financial behaviours, skills and attitudes also helps financial service providers to tailor their products so that they are attractive to a captive market. Ultimately, financial education should contribute to increasing the numbers citizens that are financially included.

David Ferrand
Director, Financial Sector Deepening Kenya
December 2010

EXECUTIVE SUMMARY

Financial capability is commonly referred to as an individual's capacity to make financial decisions and judgments that contribute to his or her immediate and long-term financial security.[1] Understanding the strengths and weaknesses among a national population is important for directly informing a coordinated national strategy on financial capability, the design of effective financial education, and more effective financial product design and delivery strategies. Strengthening financial capability should arguably play an important role in increasing formal financial inclusion, improving the efficiency and stability of financial markets, and enhancing welfare outcomes[2] for consumers. However, empirical evidence linking financial capability to these outcomes has been mixed in developed countries and very sparse in developing countries. One of the challenges has been the difficulty of measuring financial capability, and changes thereof, in a way that realistically reflects the intricacies of financial management among the poor and lesser served households in developing markets.

To that end, this report seeks to provide an initial lens on the current state of financial capability in Kenya. Using existing data set collected as part of FinAccess 2009, we explore various dimensions of financial capability specifically developed to reflect on the ground realities that Kenyans face in their financial lives. For example, in a developed country context, a financially capable person would have home, car and life insurance to deal with risks. But in an environment where consumers have a long list of simultaneous risks but few insurance products with which to manage them, a financially capable person would be better defined as having a clear, self-defined strategy, backed by enough saving and borrowing resources, to manage their vulnerabilities. Likewise, in an environment where only 40% of the population is formally served, it does not make sense to measure financial knowledge only in terms of how clearly someone understands inflation or interest rates, but also how willing and able he or she is to seek answers to their financial questions.

An attempt to measure the financial literacy levels of Kenyans was initiated through the FinAccess 2009 national survey that is primarily designed to understand financial access. Multiple questions about the financial knowledge and behaviours were thus included in the survey and have provided some interim insights into consumers' financial capabilities, strengths and weaknesses. Using the interim findings presented in this report, as well as incorporating further field studies that have been undertaken in 2010, a more comprehensive questionnaire will be incorporated in the upcoming FinAccess 2011 survey. This should provide an accurate baseline measure of the financial capability of the Kenyan population.

The report describes various aspects of financial capability among different population groups. Four emerging issues deserve particular attention as outlined below:

1. Kenyans are aware of financial concepts like budgeting and saving but appear to have a difficult time implementing this knowledge effectively, despite using a variety of formal and informal financial strategies. Over half the Kenyans sampled, particularly rural women, say that they feel out of control of their finances.
2. Kenyans are keen to save, however just over half of those interviewed stated that they save towards meeting day to day expenses rather than for long term needs. Fewer than half of adult Kenyans say that they have a financial asset that they can use in an emergency, and the poor are particularly ill prepared to deal with medical emergencies and bereavements. There does seem to be a gap in the capability of consumers to plan financially to cope with a crisis. Most respondents say that they would turn to family and friends to help them manage.
3. The majority of Kenyans feel they do not need financial advice, particularly those with lower literacy levels. What is more worrying is that many of those who felt they needed advice did not seek it, signalling that many people either do not know where to go to get answers to their questions or do not trust the available channels where they can seek advice. Most consumers stated that they rely on family and friends for financial advice.
4. Although most Kenyans do not seem to have a problem with debt, there are signs that a significant pocket of the population could be having credit difficulties. To be more specific, 28% of Kenyans, mostly those from higher income segments, report taking loans to repay loans. This coincides with a segment of the population who lack control in their spending—25% of respondents, mostly those that have steady income, say that they love to spend even if they need to borrow to do so.

Analysis of the FinAccess data relating to financial capability allowed us to broadly identify three consumer segments :[3]

The **struggling excluded** are predominantly the rural poor, many of whom rely on irregular sources of income, such as remittances, small businesses and agriculture. The people in this group tend to have few financial instruments to help them manage their income uncertainty. They tend to have only one, if any, savings instrument (usually saving in the house or small loans); 75% have no precautionary savings to fall back on in an emergency and they tend

[1] Overview of definitions available in Orton, Larry. Financial Literacy: Lessons from International Experience. CPRN Research Report, 2007.

[2] Welfare outcomes include ability to meet financial goals (like keeping children in school and purchasing a home) and ability to avoid falling into absolute poverty and forgoing necessities of life, such as food and shelter.

3. The identification of the three groups was done through cluster analysis along the dimensions of capability contained in FinAccess 2009 data and this report and corroborated with trends appearing in the independent analysis of each variable. A more refined financial capability survey instrument might produce more nuanced clusters for sharper distinction of capability strengths and weaknesses among different population segments.

to rely more on debt to smooth consumption. Rural women in particular feel out of control of their finances, and understanding vocabulary such as "budgeting" seems to do little in improving the feeling of control. The weakness of this group's overall financial capacity is as much about accessing the right financial tools to manage their irregular, uncertain incomes as it is about personal strategies for managing their money better.

The group of **disciplined planners** is also poor, with an average monthly income similar to the struggling excluded group. This group is particularly strong at using financial tools in short and long term planning, though they tend to depend much more heavily on informal rather than formal instruments. This cluster is composed of a largely equal mix by gender, education levels, and residents from rural and urban areas. Despite being active money managers with multiple savings vehicles and purposes, they are somewhat weak when it comes to being an engaged client, in terms of asking questions and dealing with the formal financial sector. For example, about 11% of Kenyans in this group are formally banked, even though they don't consider banks trustworthy. Just over half of the respondents in this group still consider their friends and family, rather than professional service providers, as the best source of financial advice.

The **engaged** - but sometimes risky - **elite** are decidedly better off than the other two groups, reporting much higher average monthly expenditures (generally upwards of Ksh 25,000 per month). This group is well educated and most are working in full-time salaried positions. Consumers in this group are familiar with and use formal financial services but are weak on using financial tools to control their spending. Compared to others, they are more likely to take loans in order to repay other loans, and they tend to have a larger numbers of creditors. Many in this group worry about having enough resources for old age, despite having adequate income and access to long term savings and investment tools.

Chapter 1

WHAT IS FINANCIAL CAPABILITY

Financial capability is not something easily or clearly measured with a single score. Rather, it is a multi-dimensional concept that encompasses different abilities that are not always related. For example, individuals who are very disciplined in their household planning and budgeting may not have the knowledge and advocacy skills to both find out about formal financial products and to understand their terms well enough to accurately assess their options.

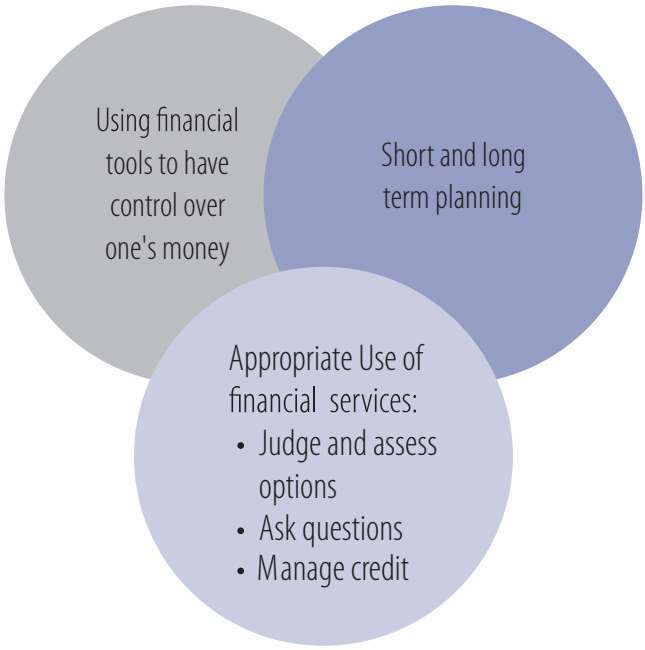
Especially in the context of high levels of poverty and vulnerability, it is very difficult to neatly classify behaviours and attitudes as capable or not capable, but whether a behaviour is a positive or negative indicator of capability depends heavily on the realities facing the individual concerned. We guide our judgment of financial capability by these overarching visions of what financial capability means to both consumers and markets.

1. Consumers
   a. Financially capable consumers are **resilient** to changing financial needs.
   b. They are **less vulnerable** to using or overusing products that do not meet their needs. Financially capable consumers know, for example, how to balance credit and savings, how much insurance they need and how to structure their financial tools to meet their goals.
   c. They have better **welfare outcomes,** because they make savvy financial decisions that help them realize their investment and savings goals, protect their assets, and smooth consumption.
2. Markets
   a. Financial capability should increase **financial inclusion** by demonstrating consumers' familiarity with service options and judgment assessing services that best fit their needs.
   b. Financial capability should ideally **improve market efficiency,** because attentive, well-informed consumers respond quickly to changes in financial product offerings and service quality. Their sound decisions reinforce the integrity of financial markets, allowing risk to be better allocated and priced.[4]

On a practical level we have translated this vision into three core dimensions with which to measure consumers' financial capability.[5]

1. Having control over one's money, i.e. having funds left over after paying bills, being resistant to over-spending on credit, understanding budgeting concepts.
2. Having the ability to plan, for both the short and long term needs, including having savings products in place for different goals, having a strategy to cope with emergencies, and being able to save for longer term needs, such as retirement.
3. Using financial products appropriately, which can be further broken down into three categories:
   a. Judging and assessing options, which would include using services that the consumer considers trustworthy;
   b. Asking questions and seeking for redress, which would include knowing where to ask questions how where necessary and to get help rectifying problems; and
   c. Managing credit, which includes managing a small number of creditors, not spending large portions of income on debt service and not borrowing

Diagram 1: Core dimensions of financial capability



To describe this initial view of financial capability in Kenya, we have looked for knowledge, attitudes and behaviours—measured through existing questions in the FinAccess 2009 survey—that represent capability in managing money independent of both of poverty and access to diverse financial services. Future surveys will incorporate revised questions that provide a more robust picture

4. See Financial Education Partnership for Kenya (2009). Government of Canada (2005); Lusardi (2008).
5. The three core dimensions of capability are retained from those proposed for Kenya by Atkinson and Kempson (2008).

of Kenyans' financial capability by better contextualizing questions, gauging actual knowledge, and recording past behaviours. For example, questions will closely examine how Kenyans are budgeting in practice, how they have coped with financial shocks and emergencies, the extent of their familiarity with financial product offerings and the practices of different financial service providers. We will incorporate questions that measure consumers' understanding of financial product terms and their ability to make basic financial calculations, interpret fees and financial statements. We hope to gauge whether consumers understand their rights and responsibilities when it comes to engaging with financial service providers and if they know how to seek redress when something goes wrong.

Chapter 2

DO KENYANS HAVE CONTROL OVER THEIR MONEY?

A key component of financial capability is having control over saving and spending behaviours. It includes whether the word "budgeting" is part of one's vocabulary and whether the need for disciplined spending is part of one's goals. It is also a comfort level that one has in knowing how well they are managing their money, or whether they feel out of control. It is also a matter of behaviours, such as minimizing borrowing for consumption purposes, specifically for "wants" rather than "needs." Sometimes, it is going without in order to save. [6]

It may seem odd, and even disrespectful, to talk about poor households having "self-control." But because poor households have such tight budgets, their need for self-control is even more important. In this report, self-control is not measured in terms of resisting buying luxury items, but rather in resisting small frequent temptations as well as the borrowing requests of family and friends. Many of the financial strategies of the poor are pursued with exactly the intention of self-control [7]. Therefore, self-control is an important element of financial capability that should be considered, even when it comes to the poor.

On the whole, most Kenyans seem to know what they need to do to have control over their money. For example, most understand the terms "budgeting" as well as "savings account." The majority (72%) say they disagree with the statement that they 'love spending money even if they need to use credit'. The majority say that they have some money left after buying essentials. Consumption smoothing with either savings or borrowing was reported only rarely, and when it was reported, savings was used more frequently than credit.

However, there are some signs that even though many know how they should be controlling their finances, they have a difficult time implementing that knowledge. Over half the Kenyans sampled, particularly rural women, report that they feel out of control of their finances. Moreover, 25% of Kenyans, predominantly those with steady income, who could leverage that regularity to save, say that say they love to spend even if they need to borrow to do so.

2.1 Feeling in control of finances. Just over half of Kenyans (51.3%) said they often do not feel in control of their finances, an improvement over the 60% reporting the same in the FinAccess 2006 survey. Those

Table 1: Measuring control over one's money

2.1 Feeling in control of finances.
Derived from question:
D.9.6. I am going to read out some statements to you. Please tell me if you agree or disagree with each statement, or don't know. 06. You often don't feel in control of your finances.

2.2 Understands budgeting concept.
Derived from question:
D2.09. There are many words in Kenya that apply to, or concern, financial services. Please tell me which of the following best describes your experience with each word or phrase. 1. Never heard of word or phrase; 2. Heard this word or phrase before, but don't know what it means; 3. Heard of word or phrase and know what it means. Part 09. "Budget."

2.3 Attitude towards consumption spending and borrowing.
Derived from question:
D.9. I am going to read out some statements to you. Please tell me if you agree or disagree with each statement, or don't know. 11. You love spending money to buy things even if you have to use credit to do so.

2.4 Having funds remaining after bills are paid.
Derived from question:
P2. Once you have paid all your bills and expenses for the month, what do you do with your remaining/excess money, if you have any? 1. You do not have money remaining after bills.

2.5 Going without the basics in order to save.
Derived from question:
Question D.9 I am going to read out some statements to you. Please tell me if you agree or disagree with each statement, or don't know. 12. You go without basic things so that you can save.

2.6 Using financial instruments to smooth consumption.
Derived from questions
J.1 Many people have different reasons why they keep money aside or save, for what reasons are you CURRENTLY saving? Option 01. For meeting day-to-day ordinary household needs when you have little or no money; and
L.2. Thinking back to your last loan, for what reasons did you borrow money or take credit? Option 01. For meeting day-to-day ordinary household needs when you have little or no money.

6. We recognize that asking a respondent about their past behaviour and actually observing it are indeed two different things and that the former is prone to reporting errors.
7. Witness, for example, the use of money guards, discussed in Rutherford (2009) and Collins et al (2009) where someone will ask another person to "hold" their money for the simple reason of putting it out of touch.

who agree that they often feel like their finances are out of control are primarily rural (88.1%) and female (71.1%).

Figure 1: Responses to statement, "You often don't feel in control of your finances"

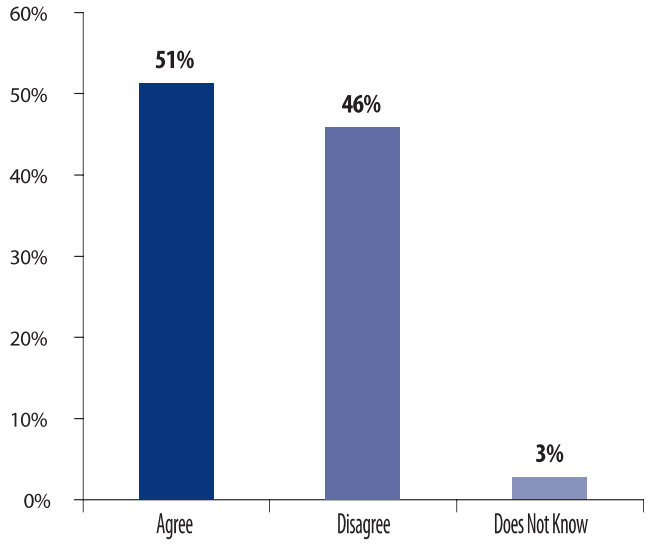


Figure 2: Percent of respondents that say they often do not feel in control of their finances, by gender

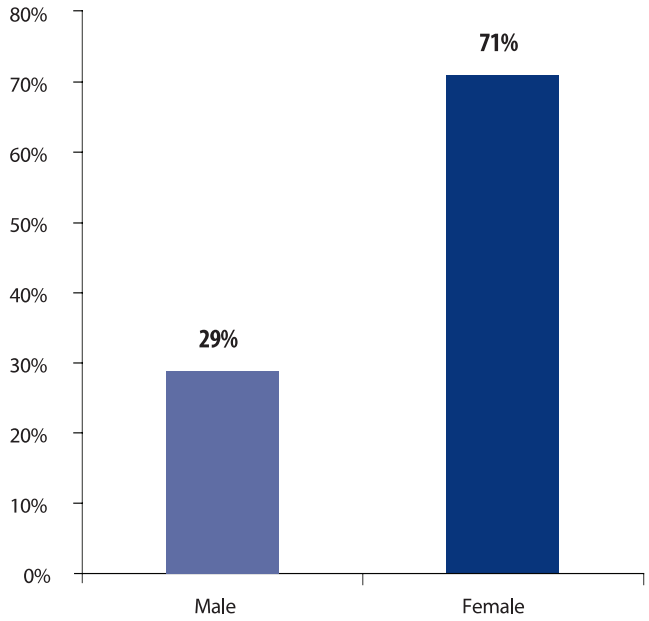
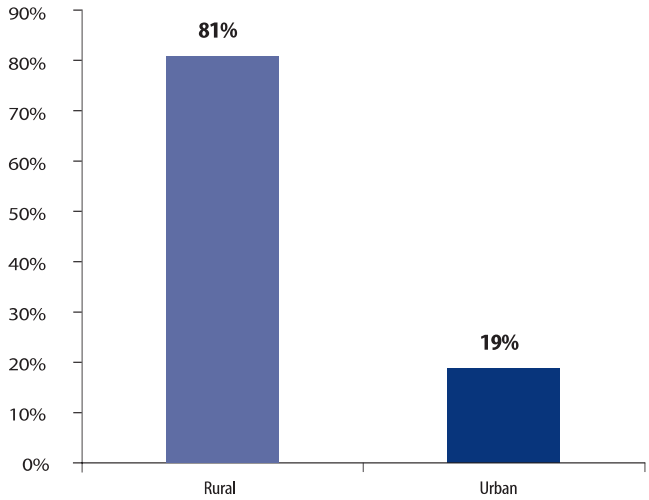
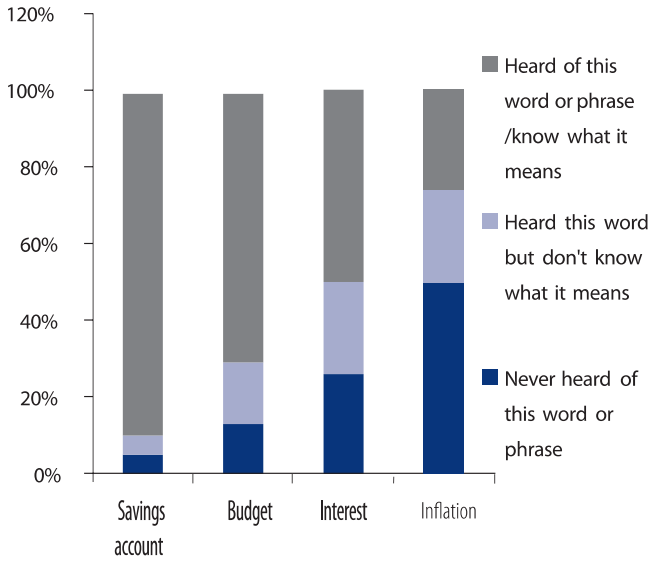


Figure 3: Percent of respondents that say they often do not feel in control of their finances, by rural and urban areas



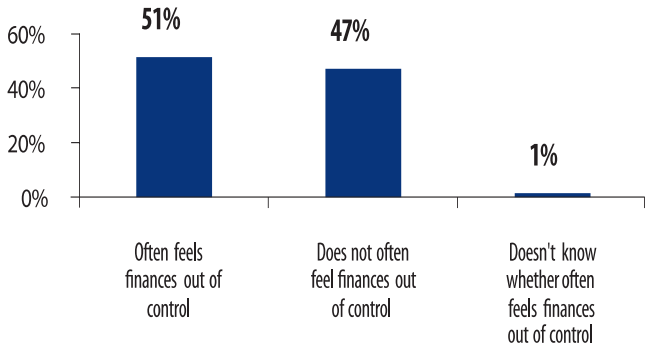
2.2 Understanding the budgeting concept. The term budgeting was one of the most widely understood financial terms from a list of 16 terms that were presented to survey participants.[8] Kenyans seem to have an understanding of the terms for budgeting and common savings tools, like savings accounts, but were much less familiar with more technical concepts like interest and inflation, where half or fewer understood the term. Yet even among those who understand the word "budget," the majority still feel out of control of their finances.

Figure 4: Percentage of Kenyans familiar with financial terms



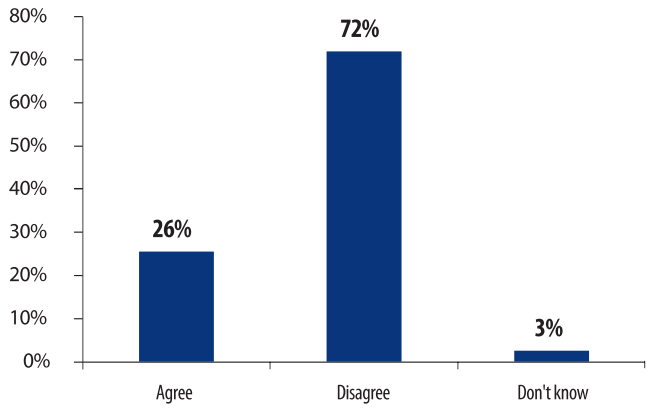
8. The complete list of terms was: Savings account, Insurance, Interest, Shares, Cheque, Collateral, ATM Card, Credit Card, Budget, Investment, Inflation, Leasing, Pension, Mortgage, Pyramid Scheme, and Credit Bureau.

Figure 5: Feelings of financial control among those who know what "budget" means



2.3 Attitude towards consumption spending and borrowing. Respondents with more steady income flows (like urban salaried workers, landlords, and government employees) have a different type of attitudinal challenge than those with low and irregular income. For these more financially secure people, the danger is that security leads to an unhealthy attitude towards consumption spending. While the actual purchase of non-essential consumption borrowing was not measured precisely in the FinAccess survey, the survey did ask about attitudes towards consumption spending. Kenyans were asked whether they "love spending money to buy things even if you have to use credit to do so."[9] A quarter of all respondents agreed with this statement, and those with steady employment and income, particularly those with government jobs (41%) and landlords (47.2%), were most likely to agree.

Figure 6: Responses to statement, "You love spending money even if you must use credit to do so"



2.4 Having money remaining after bills are paid. Respondents were also asked whether they tend to have any funds leftover after paying their most basic expenses. The majority of Kenyans (72%) stated that they do have some income left after covering basic needs.

Figure 7: Percentage of Kenyans who have money left over after essential expenses are paid

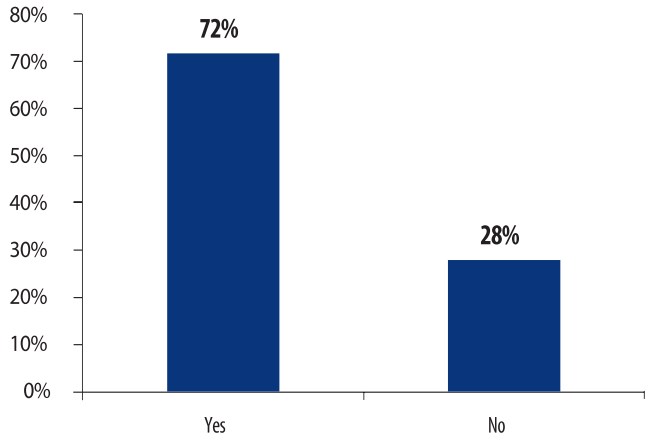
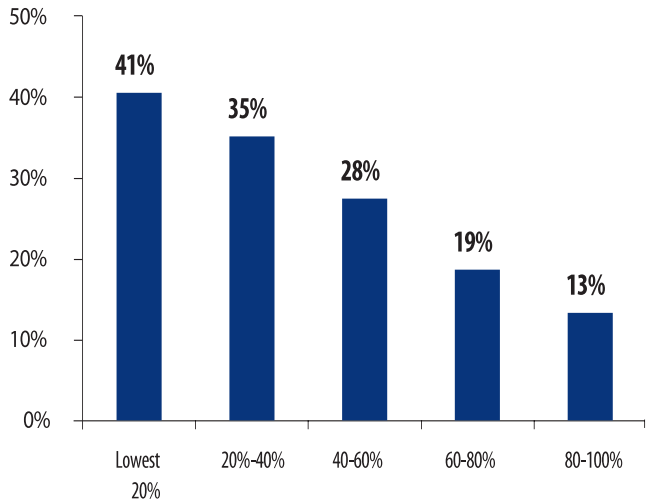


Figure 8: Those who do not have funds left over after essential expenses, by expenditure quintile



2.5 Going without the basics in order to save. Some Kenyans even forgo basic needs in their effort to accumulate savings. Nationally, 27.6% of Kenyans report going without the basics in order to save. The poor are not more likely than the rich to go without in order to save, but rather there is a large degree of variation by region. Savings is a clear priority for respondents in the Western Province, where 52% of people report going without the basics to save.

9. Question D9.11.

Figure 9: Percentage of Kenyans who go without the basics in order to save

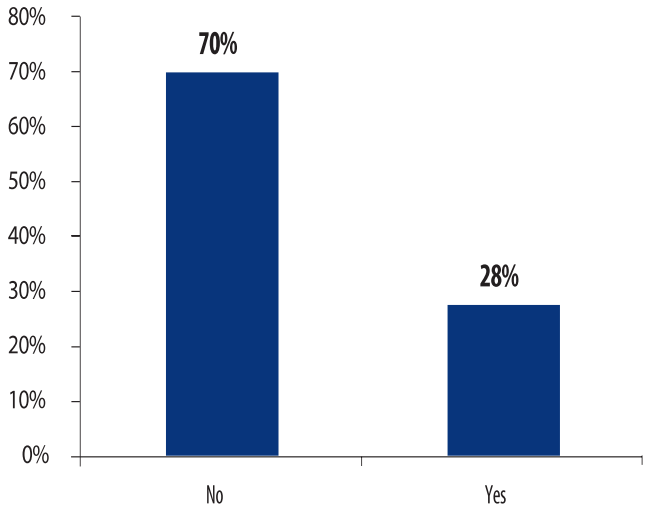
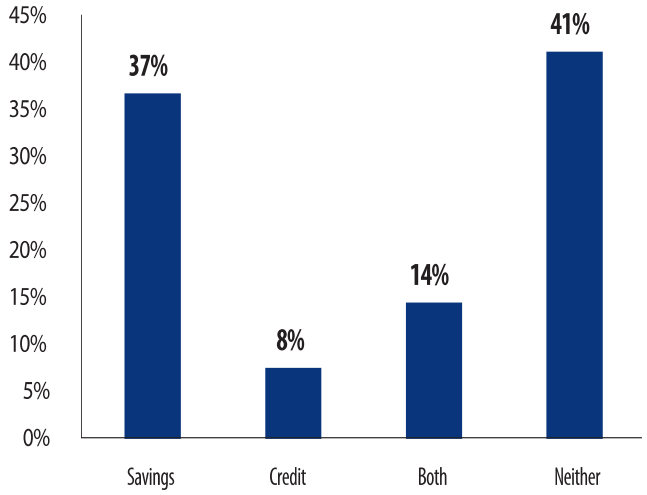


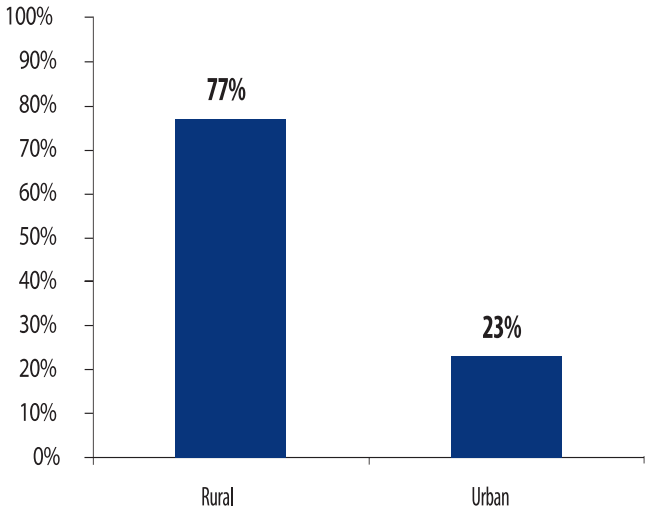
Figure 10: Use of financial instruments to smooth consumption



2.6 Financial instruments for consumption smoothing. For many, those hard-earned savings, as well as borrowing relationships, play an important role in smoothing consumption in times of shortage. But, on a nation-wide basis, on average, about 41% of Kenyans are using financial instruments to smooth consumption. It is difficult to know how to interpret the large share of Kenyans not using financial services for consumption smoothing. On the one hand, this may indicate that households do not need to either dip into savings or borrow to meet their consumption needs, which would be positive. On the other hand, it might also mean that they do not have access to credit or do not negative.

We do find however that those consumers who do report smoothing consumption primarily use savings rather than credit to do so, which suggests that individuals are finding enough ways to save that they are able to use their savings in this important way. Using credit to smooth consumption is reported quite infrequently, in just over 5% of households.

Figure 11: Distribution of those using credit for consumption smoothing



Chapter 3

HOW GOOD ARE KENYANS AT SHORT AND LONG TERM FINANCIAL PLANNING?

A second key aspect of financial capability is managing both short and long term financial planning. This includes both attitudes and intentions about saving, and how well those intentions are carried through into action. We looked at indicators to examine actual financial behaviours indicating forethought and planning to cover financial needs across a range of time horizons: income and consumption smoothing in the short term, preparing to respond to emergencies/shocks, and investment in the more distant future.

Kenyans do appear to be trying to save. Most Kenyans have at least one saving instrument, and nearly half have two or more. Those dependent on remittances are the least likely to have any savings instrument. Over a third of Kenyans also seem to be successful in devoting over 20% of their monthly expenditures towards savings and investment (including education spending).[10] However, an equal proportion is saving 5% or less.

However, worrying indications suggest that Kenyans find it difficult to implement financial planning beyond meeting day to day needs. Just over half of Kenyans say that they are saving to meet day to day needs, rather than long term needs. The majority of Kenyans (61%) worry about how they will face old age financially, and this seems to cut across all income levels, income sources, and regions. Moreover, it does not appear that Kenyans have financial assets for an emergency, with the poor particularly ill prepared. Most plan to turn to family and friends in an emergency rather than their own resources.

Table 2: Indicators for theme 2—short and long-term planning

INDICATORS OF FINANCIAL CAPABILITY

3.1 Worried about old age.
Derived from question:
D.9. I am going to read out some statements to you. Please tell me if you agree or disagree with each statement, or don't know. 2. You are worried that you won't have enough for old age.
L.2. Thinking back to your last loan, for what reasons did you borrow money or take credit? Option 01. For meeting day-to-day ordinary household needs when you have little or no money.

3.2 Financial assets available for emergency.
Derived from questions:
G4.9. Currently has insurance product.
J.1. Many people have different reasons why they keep money aside or save, for what reasons are you CURRENTLY saving? 02. For emergency (burial, medical); and
K1. Many people belong to informal societies or group saving schemes such as, merry go round, savings and lending groups, chamas, investment clubs, clan/welfare groups to which they contribute on a regular basis. How many do you personally belong to?
K9. Which of the following does . . . . . .(READ GROUP) do for its members? 1. Welfare.

3.3 Would draw on financial assets if hit by shock.
Derived from question:
C3. What would you do to make ends meet if the biggest risk happened to you or your household? 1. Use up your savings; 2. Borrow money; 3. Ask family members to help; 4. Call on insurance policy, if it applies; 5. Find a better job; additional jobs; 6. Sell your assets (car, business, household goods, livestock); 7. Depend on charity from church, mosque, Red Cross; 8. There's nothing I can do; 9. Don't know.

3.4 Multiple savings types.
Derived from questions:
G1 Which services and products are you CURRENTLY using? 1. Savings account at SACCO; 2. Savings at microfinance institution; 3. Savings with an ASCA; 4. Savings with a ROSCA; 5. Savings with a group of friends; 6. Savings given to a family or friend to keep; 7. Savings you keep in a secret hiding place. 19. Postbank account; 20. Bank account for savings or investment; 21. Current account; 22. Bank account for everyday needs but no cheque book.

3.5 Saving for multiple purposes.
Derived from question:
J.1. Many people have different reasons why they keep money aside or save, for what reasons are you CURRENTLY saving? 01. For meeting day-to-day ordinary household needs when you have little or no money; 02. For emergency (burial, medical); 03. For social reasons (wedding, bride price); 04. For personal reasons (such as clothes, shoes, own travel); 05. For improving a house; 06. To acquire household goods

10. We include educational spending as an investment, since returns to education are consistently high and these returns are frequently shared among the entire household rather than captured by a single individual.

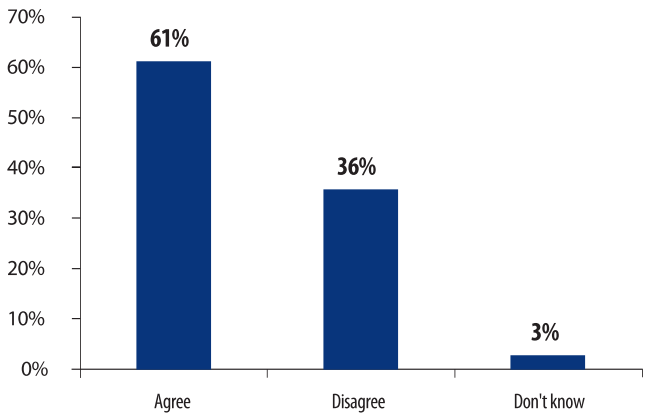
Table 2: Indicators for theme 2—short and long-term planning (continued)

07. For purchasing a car or motorcycle; 08. Purchase land; 09. Purchase or build a house for your family to live in; 10. Purchase or build a house to rent out; 11. For purchase of shares/stocks/bonds/T-bills
12. For purchase of livestock /cattle; 13. For agricultural improvements e.g. irrigation, a dam, fencing, preparing land; 14. For agricultural implements – plough, hoe, tractor, things to use on the farm; 15. For agricultural inputs – seeds, fertiliser, insemination; 16. For fishing equipment – boat, nets, engine; 17. For expanding your business; 18. For starting up a new business19. For putting money in someone else's business; 20. For later use in life /old age ; 21. For education of yourself, children or siblings or others; 22. To leave something for your children; 23. Other specify

3.6 Saves to meet day-to-day needs.
Derived from question:
J.1. Many people have different reasons why they keep money aside or save, for what reasons are you CURRENTLY saving?
01. For meeting day-to-day ordinary household needs when you have little or no money.

3.7 Saving for investment.
Derived from questions:
J.1. Many people have different reasons why they keep money aside or save, for what reasons are you CURRENTLY saving? 11. For purchase of shares/stocks/bonds/T-bills; 21. For education of yourself, children or siblings or others;
K9. Which of the following does [group name] do for its members? 5. We invest in the stock market; 6. We make other kinds of investments eg. Property, business.
Q20. Thinking about how you spend your money, and what you spend your money on, I would like you to look through this list of items, and tell me how much you spend on these items in any one month.
1. Mobile/telkom expenses; 2. Personal expenses such as clothing/; 3. Education/tuition/school fees; 4. Household bills such as electricity/water/home maintenance/rates; 5. Entertainment and Socialising; 6. Groceries or food essentials; 7. Medical expenses and health schemes; 8. Paying off debts on loans; 9. Petrol/transport/taxis/buses; 10. Donations to religious groups and charities; 11. Rent/mortgage on your home; 12. Savings/investment; 13. Supporting other members of the family; 14. Other – list major items

Figure 12: Responses to statement, "You are worried that you won't have enough for old age"



3.1 Worried about old age. The majority of Kenyans (61%) worry that they will have inadequate financial resources to draw from during old age. The most interesting statistic here is that even those in the highest expenditure quintile respond just as frequently (60%) as those in the lowest (62%). This suggests that even those who should have enough income to save for old age are having trouble doing so.

3.2 Financial assets available for emergency. Not only do Kenyans feel ill prepared to move into old age, they also seem unable to rely heavily on financial assets to help them cope with crises.[11] Nation-wide, less than half of Kenyans (47%) have a financial instrument to help them cope with shocks. These instruments include insurance, precautionary savings, or membership in a savings group with a welfare function to assist members during emergencies. The poor are particularly ill prepared. Nearly 70% of the poorest Kenyans have no financial assets to draw on in an emergency.

Only 35.3% of Kenyans report having any precautionary savings to draw from during an emergency. Unfortunately, precautionary saving is particularly rare among the poorest Kenyans, whose basic needs are most endangered when an emergency arises. But even among the rich, saving for emergencies is not common at just 45.8%.

11. Savings types include the following: Account at SACCO, account at microfinance institution, ASCA, ROSCA, group of friends, family member or friend to keep, secret place, Postbank account, bank account, current account, bank account for everyday needs.saving by reminding the saver of his or her goal, for example sending text messages or by naming the account after the savings goal.

Qualitative research conducted by Zollmann and Collins (2010)[12] suggests that most households consider saving for emergencies one of their top financial goals. The low rates of saving for emergencies that we observe in this FinAccess quantitative data suggest individuals are struggling to follow through on this intention to save for emergencies. Savings commitment devices[13] could help Kenyans, particularly the poor, actually follow through and set aside funds tocope with emergency financial needs.

Figure 13: Financial assets available to cope with shocks

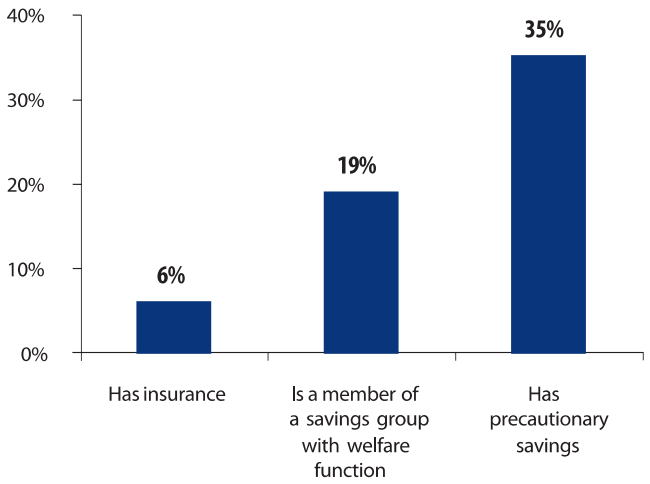


Figure 14: Those who have no financial asset to draw on in emergencies, by expenditure quintile

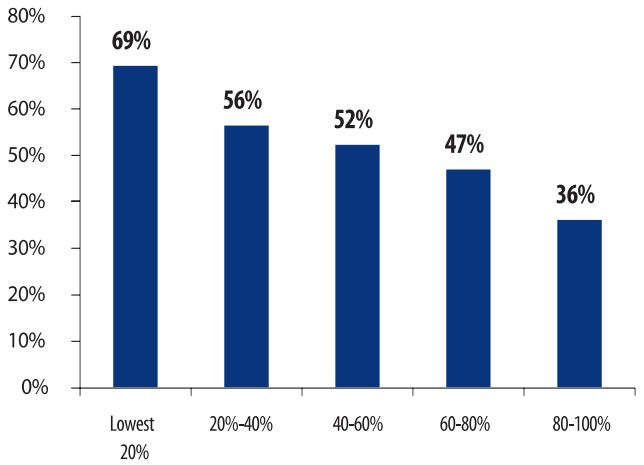
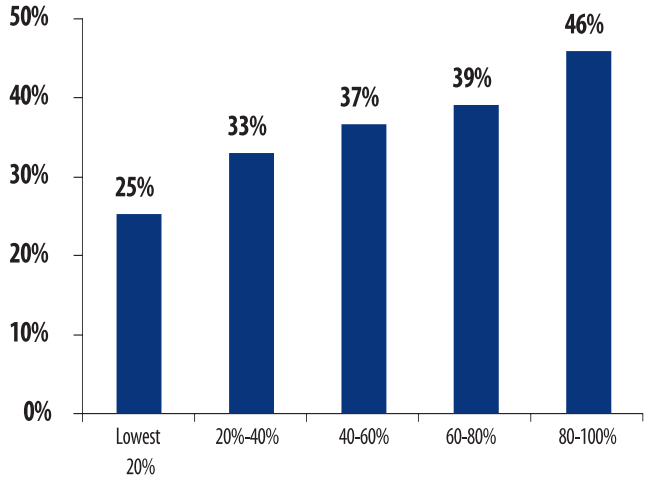
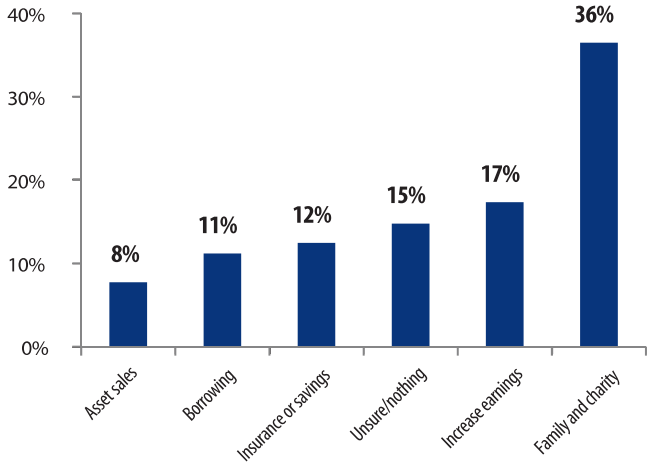


Figure 15: Distribution by expenditure quintile of those with precautionary savings



3.3 Would draw on financial assets if hit by shock. Kenyans largely turn to friends, families, and charities instead of relying on their own financial assets to cope with emergency. Savings does not seem to be viewed as a prevalent shock absorbing tool, and credit is used this way with similar infrequency. Only 23.4% of the population—and just 15% of those who report having a current savings product (formal and informal)—indicate that they would draw on financial instruments during an emergency.

Figure 16: Reported strategies for coping with a shock

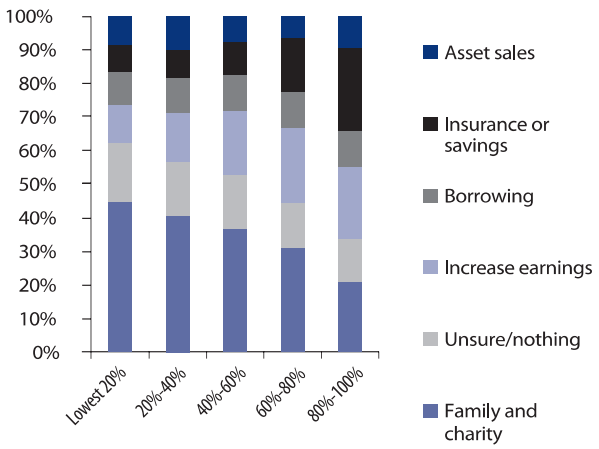


12. Zollmann, Julie and Daryl Collins (2010) Financial Capability and the Poor: Are we missing the mark? Forthcoming on http://www.fsdkenya.org/publications/index.html.

13. Savings commitment devices are features of a financial product that help people follow through on their savings intentions by overcoming psychological interference. They might help make savings a habit, by requiring daily deposits or diverting income flows automatically to savings. They can help people save longer by imposing some restrictions on withdrawals or forcing people to save until they meet a predefined goal. They can also encourage saving by reminding the saver of his or her goal, for example sending text messages or by naming the account after the savings goal.

Among those with higher incomes, we see a shift from reliance on family and friends during an emergency towards greater reliance on savings and insurance. Interestingly, this higher income group also reports that a valid coping strategy would be to increase earnings by working more, taking on new jobs and building side businesses. Coping with shocks through asset sales and borrowing remains at fairly low levels (around 10% each) across income categories.

Figure 17: Coping strategies preferred by different expenditure quintiles



3.4 Using multiple savings instruments. The lack of precautionary savings does not mean that Kenyans are not saving. Eighty percent of Kenyans have at least one type of savings instrument[14] and nearly 30% have multiple types of savings. Those without any savings tend to be either dependent on transfer income (from aid or relatives), be unemployed, or have informal employment not classified within this survey.

Figure 18: Number of saving instrument types used by Kenyan consumers

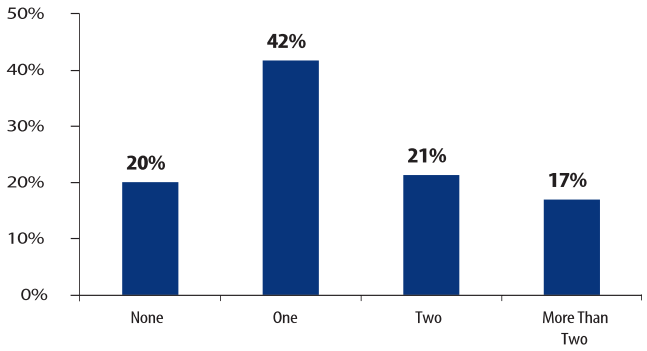
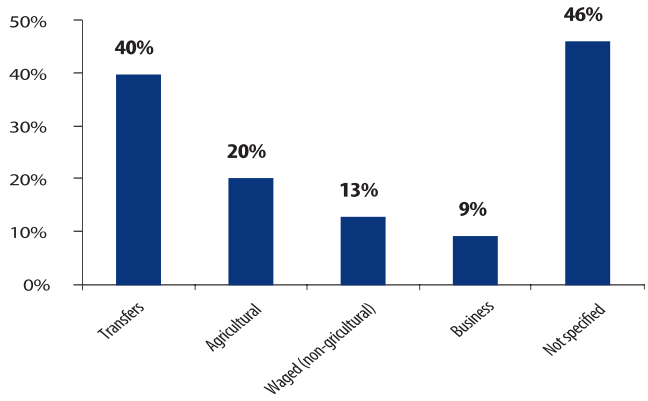


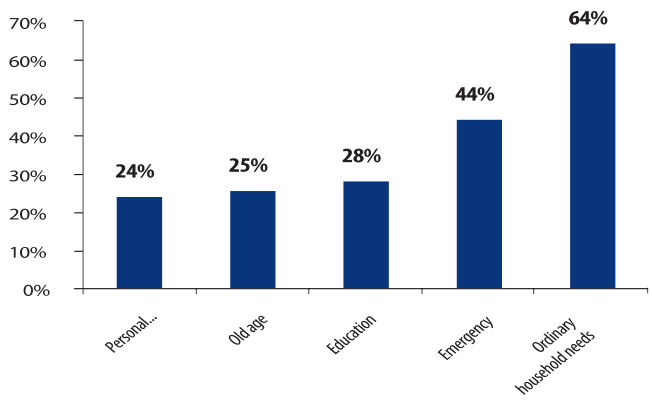
Figure 19: Distribution of those without any savings instruments by income group



3.5 Saving for multiple purposes. The most commonly reported reasons for saving were for basic household needs (smoothing consumption) and emergencies. Note that this is a different way of showing the data than figure 10, which was asking first whether respondents smoothed consumption and then whether it was through using savings or credit. This result agrees with figure 10 which shows that much consumption smoothing happens with savings.

However, the majority of Kenyans (62.9%) report saving for multiple purposes, which is a sign of the intention to prepare more comprehensively for future financial needs over time.[15] Having any savings and saving for multiple purposes increases with income. Only 45.3% of those in the lowest expenditure quintile are saving for multiple purposes versus 76.8% in the highest expenditure quintile. Saving for multiple purposes indicates a comprehensive view of the future, which can be considered a positive sign of financial engagement.

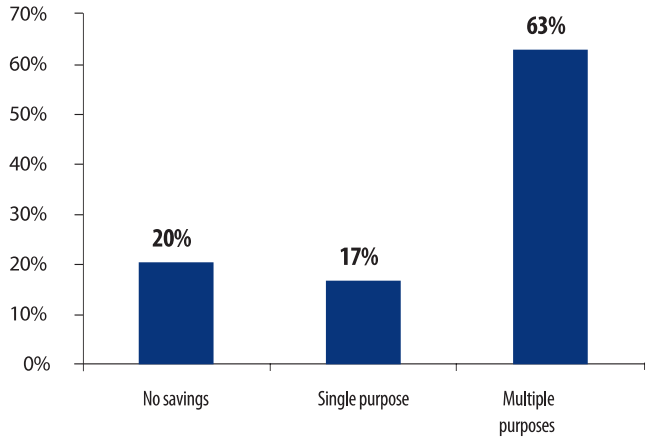
Figure 20: Savers' most commonly reported reasons for saving



14. Savings types include the following: Account at SACCO, account at microfinance institution, ASCA, ROSCA, group of friends, family member or friend to keep, secret place, Postbank account, bank account, current account, bank account for everyday needs.

15. Participants were asked the reasons for which they are currently saving and were not prompted to respond according to coded categories.

Figure 21: Saving for multiple purposes



3.6 Saves to meet day-to-day needs. While saving for the long term is very important, short term savings is also critical as incomes fluctuate can be so unpredictable. A short term cushion provides some surety that poor households will not raid long term savings in order to make ends meet. Just over half of Kenyans are saving to smooth consumption and meet their day-to-day needs even as incomes fluctuate. While there is little variation in this behaviour across expenditure quintiles, women tend to save for consumption smoothing more than men (51.6% of women versus 36.4% of men).

Figure 22: Percentage of Kenyans saving to meet day to day needs

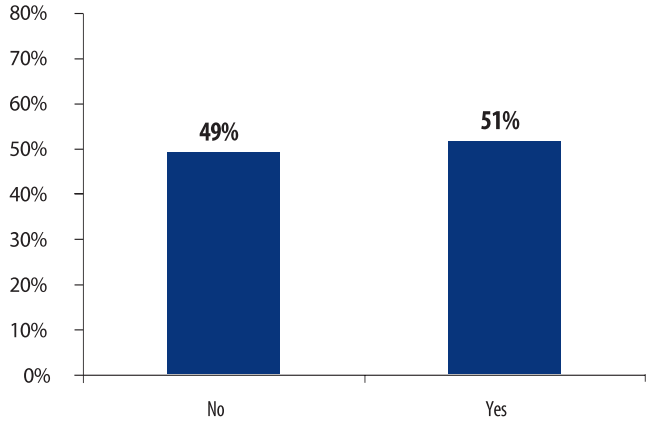
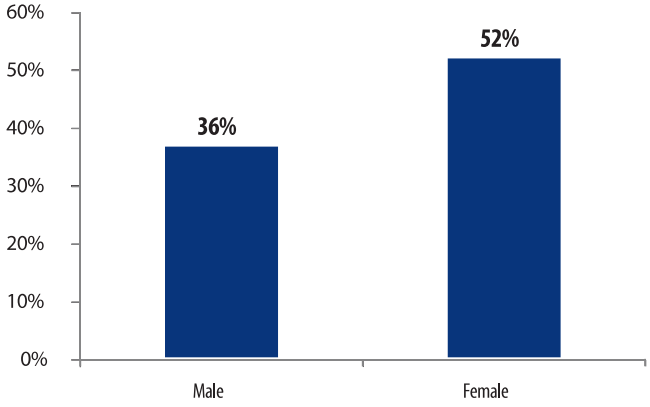


Figure 23: Kenyans who are saving to meet day-to-day needs by gender



3.7 Saving towards investments. A significant number of Kenyans (42.6%) save for investment, either in investment vehicles or for the education of their children.[16] The majority of this is accounted for by education savings, followed by savings group investments, then investment vehicles (like shares), the use of which is largely concentrated in Nairobi (half of all respondents saying they save in shares).

Many Kenyans are devoting very small parts of their monthly expenditure flows towards savings and investment. About 37% report devoting no funds to savings and investment. Interestingly, participants who only use informal financial instruments are saving more than some in the formal sector, though the excluded save, by far, the least. Twelve percent (12%) of Kenyans report saving more than 20% of their monthly expenditure flows. The national average is 8%. An average of 9% is going towards education, so in total that's 17% for both together. Education expenses dominate investment for respondents contributing less than 10% of monthly expenditure towards investment, but the pattern reverses among those who invest a larger share.

The poorest Kenyans are struggling the most to devote a significant share of their incomes to savings, investment, and education. The prevalence of devoting less than 5% of monthly expenditures towards these longer term needs declines steadily with expenditure quintile.

16. Considering spending on childrens' education as an "investment" may be contentious. However, given the ubiquity of the concept that children should send money home to their parents in their old age, this report maintains that such expenditures could often be considered retirement investments and therefore should be considered alongside other more traditional investment behaviour.

Figure 24: Percentage of Kenyans devoting different shares of monthly expenditures towards savings, investment, and education expenses

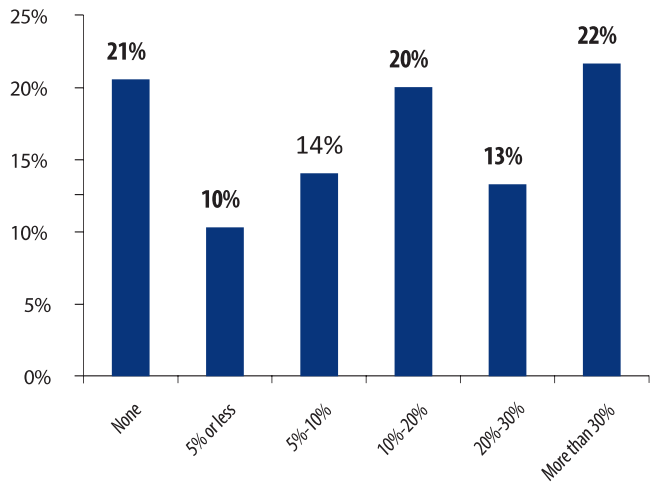


Figure 25: Percentage of Kenyans devoting different shares of monthly expenditures towards savings and investment (excluding education expenses)

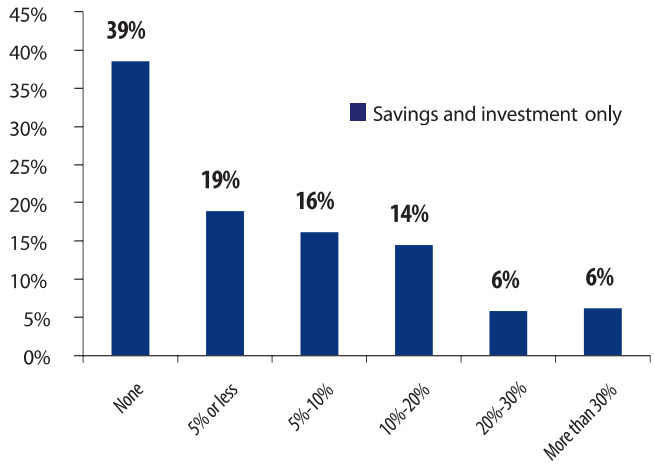
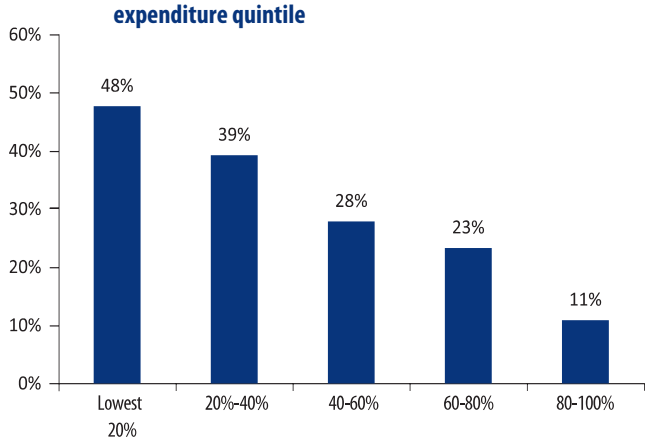


Figure 26: Kenyans devoting less than 5% of monthly expenditure towards savings, investment, and education by expenditure quintile



Chapter 4

APPROPRIATE USE OF FINANCIAL SERVICES

4.1 JUDGING AND ASSESSING OPTIONS

Using financial services appropriately applies to a spectrum of financial attitudes and behaviours. We first consider the ability to assess and judge different financial product options. This would include how well respondents recognize the names of different financial services providers, as well as whether respondents are using these options inadvisably or not. The question that gets to this last point the best is whether clients continue to use financial services whether or not they've lost money in them or don't trust them.

On the positive side, we've found that the majority of Kenyans are familiar with a selection of financial provider names, with savings groups and M-Pesa being the most frequently recognized. But more worrying, many Kenyans use financial services even though they have lost money in them or do not trust them. We must be careful not to read too much into these results, however, as these could be signalling a lack of available options as much as an inability to see that loss-making products are not appropriate. (See figure 27 below)

4.1.1 Recognizes names of financial service providers. On average, Kenyans are familiar with four out of the possible seven financial service providers[17] about which the survey asked. The large majority of respondents were familiar with more than one provider. Savings groups and M-Pesa are the most widely recognized financial service providers.

Figure 27: Number of financial service provider names recognized

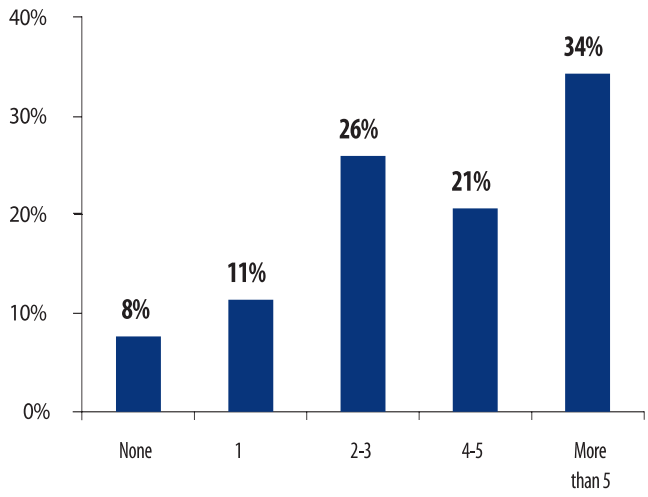


Table 3: Appropriate use of financial services – ability to assess and judge options

INDICATORS OF FINANCIAL CAPABILITY

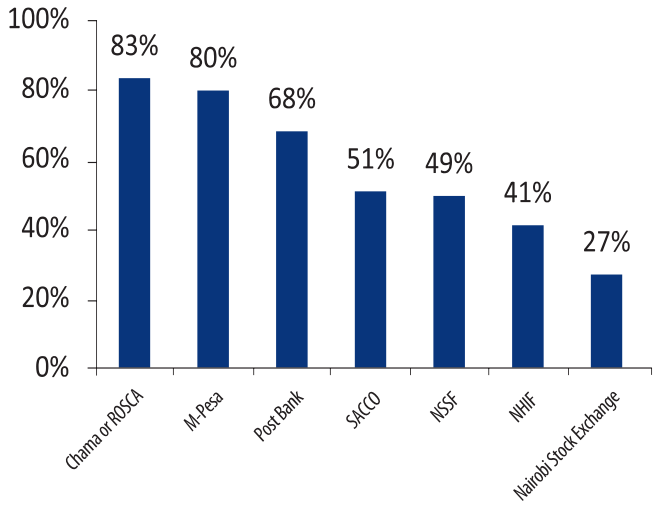
4.1.1 Recognizes names of financial service providers.
Derived from question:
D.3 Which of the following names for financial providers have you ever heard of? 1. Post Bank; 2. M-PESA; 3. SACCO; 4. Chama or ROSCA; 5. NSSF; 6. NHIF; 7. Nairobi Stock Exchange

4.1.2 Uses bank, though distrusts staff.
Derived from questions:
G.4. 1. Interviewer ticks if responds yes to any question about having a bank product in G.3.8,17,19-25.
D.8. I am now going to read out a number of statements about places and people that provide financial services. As I read out each one, I would like you to tell me which, if any of the following places you associate with each statement. You do not need to have used these providers, we just want your opinion of them. 2. Officials/staff are dishonest; 8. They keep your money safe.

4.1.3 Uses savings group even though lost money recently.
Derived from questions:
K.1. Many people belong to informal societies or group saving schemes such as, merry go round, savings and lending groups, chamas, investment clubs, clan/welfare groups to which they contribute on a regular basis. How many do you personally belong to?
K.12. Have you ever lost your savings in a group?
K.13. Did this happen in the last 12 months?

17. Post Bank, M-Pesa, Sacco, Chama or ROSCA, NSSF, NHIF, Nairobi Stock Exchange

Figure 28: Most commonly recognized financial service provider names



4.1.2 Uses savings group even though lost money recently. ROSCAs are the most familiar financial services in Kenya, and about 36% of Kenyans belong to various types of savings group. But, about 10% of those who participate in savings groups have lost money in the past. About 53% of those members lost money in a savings group more than one year ago. Interestingly, those in the lowest expenditure quintile report using a savings group in spite of having lost money in one least frequently.

Figure 29: Use of savings groups by those who have and have not lost money in groups

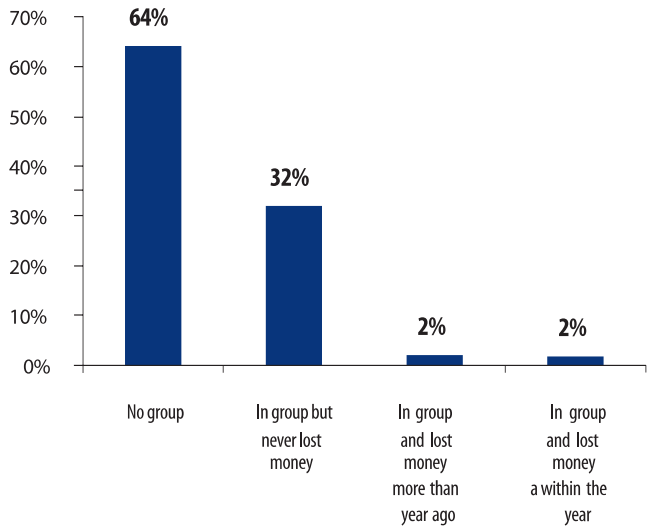
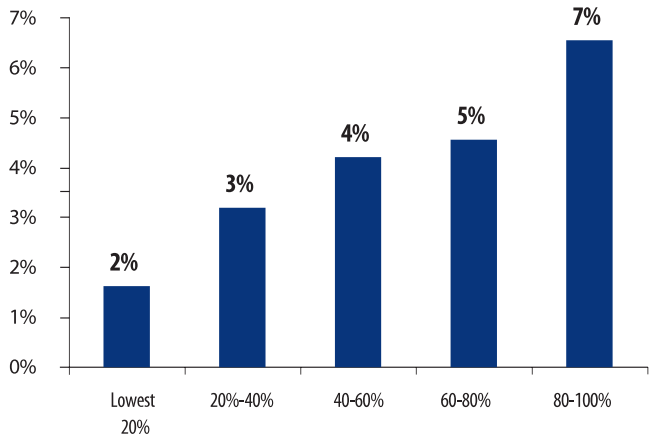
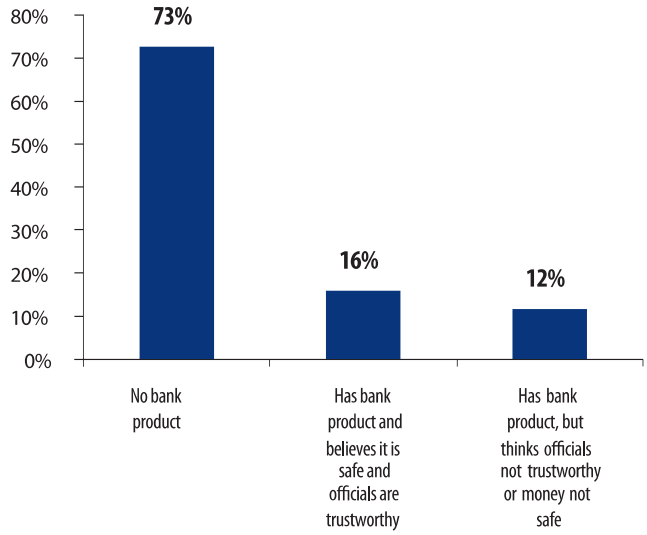


Figure 30: Distribution of those who have lost money in a savings group by expenditure quintile



4.1.3 Uses bank, though distrusts staff. Among the 28% of Kenyans with bank accounts, 42.3% believe that banks are either not safe places to save money or that bank officials are not trustworthy. Urban residents are more likely than rural to maintain a bank account despite this distrust. Looking just at those who have a bank product, despite their lack of trust, we see that these are primarily urban individuals.

Figure 31: Percentage of Kenyans who use and trust banks



4.2 ABILITY TO ASK QUESTIONS AND ADVOCATE FOR REDRESS

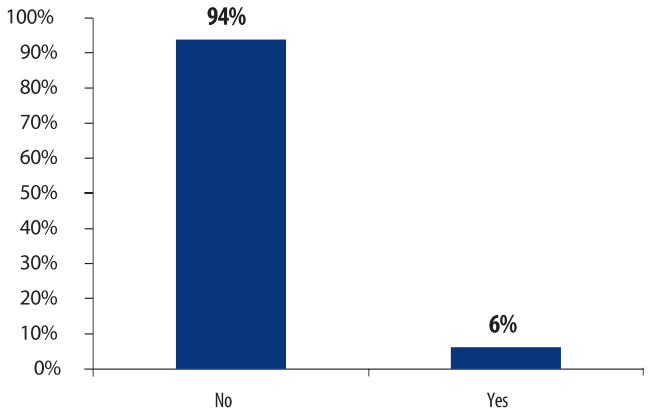
A crucial part of consumer protection is the ability of consumers to ask questions and advocate for attention when they feel that they are being mistreated. FinAccess 2009 unfortunately had very few questions that appropriately measure this element, apart from questions concerning how knowledge inhibits bank account use; where consumers have sought financial advice, and whether individuals have been able to effectively seek redress using M-Pesa, the only financial device about which this was asked.

It appears that many Kenyans do not feel that they need financial advice. However, this may be masking a simple lack of understanding what financial advice may be on offer. We find that as education levels increase, so does the ability to seek financial advice. More disturbingly, of those who felt that they needed financial help, 70% did not seek it. Those who did seek help mainly sought it from friends and family, with banks a distant second. This suggested an enormous gap in the financial capability of consumers in Kenya.

The ability to handle an effective redress situation, at least with M-Pesa, appears to be a skill that many Kenyans have, although further evidence about other products would be helpful going into the future.

4.2.1 Lack of knowledge of opening an account inhibits use. Very few Kenyans (5.3%) report not opening a bank account because they don't understand how. This remains very low (6.2%) even among those who have never had a bank account. It is slightly more problematic for the very poor, illiterate, and uneducated. While this is not displayed graphically below, about 10% of those who had no education considered this lack of being able to understand formal documentation and instructions to be a barrier to entry into formal banking.

Figure 32: Does lack of knowledge about how to open a bank account inhibit uptake of bank products by those who have never had an account?



4.2.2 Seeking advice from trusted sources. The FinAccess data allows us to break the act of seeking active into several components:

- First, we can find out how frequently Kenyans have felt that they have needed financial advice.
- Second, we can know of those who felt they needed financial advice, who actually sought it.
- Last, we can know where those who sought financial advice went.

To answer the first part, few Kenyans reported needing financial advice. A total of 67.3% say they have never needed financial advice, and another 9% say they have not needed advice in the last year. Men (75%) and rural residents (82%) are more likely to report that they have not have needed advice.

Table 4: Appropriate use of financial services – ability to ask questions and advocate for redresss

INDICATORS OF FINANCIAL CAPABILITY

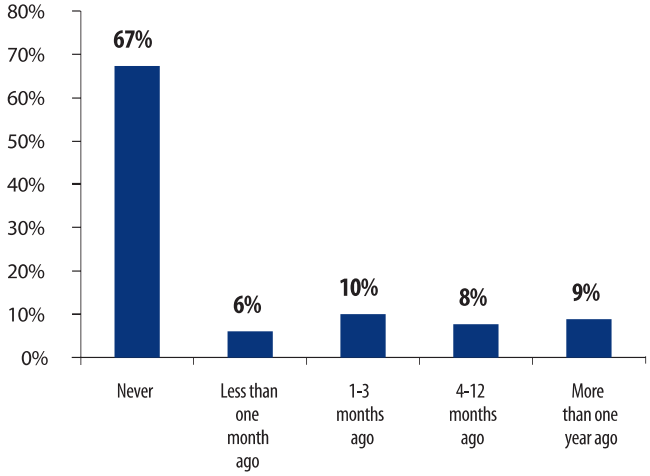
4.2.1 Lack of knowledge of opening an account inhibits use.
Derived from questions:
G.22. You said earlier that you don't currently have a bank account. Why is this? 17. You don't know how to open an account.

4.2.2 Seeking advice from trusted sources.
Derived from questions:
D.4. I want you to think back to the last time you needed financial advice. When was this?
D.5. Who / where did you go to, the last time you needed financial advice? 1. Bank; 2.Insurance company; 3. SACCO; 4. Agricultural co-operative; 5. Church or mosque; 6. Employer; 7. Friends/family; 8. Other; 9. Did not go anywhere for help; 10. Can't remember

4.2.3 Has been able to reclaim lost money from M-Pesa.
Derived from questions:
H6. Have you ever used M-PESA?
H19. Have you ever lost money on M-PESA?
H.21. Did you recover the lost money

It is difficult to draw definitive conclusions from this question, because not feeling one needs advice might express confidence managing finances, but it could also be picking up lack of formal education. Frequently seeking advice could be a signal that a person knows her areas of weakness and looks for help to balance them or it could reflect a lack of confidence managing finances independently. However, not seeking advice seems to be somewhat more common among respondents with lower levels of education. Higher levels of education are associated with greater advice seeking, which suggests that higher levels of education lead to a greater ability to seek information.

Figure 33: Percentage of Kenyans seeking financial advice over a range of time horizons



In terms of the second aspect, a huge 70% of those who reported having needed financial advice did not seek it. This is clearly a concern as it indicates that those who want to find answers do not know where to go.

Among those who did seek advice, 95% relied upon advisors they considered trustworthy. Among those who believe they need financial advice, the most frequent reported source is friends and family (46.2%) followed by banks (18.9%).

4.2.3 Has been able to reclaim lost money from M-Pesa

Being able to seek redress is another important skill for effective participation in the financial system. FinAccess asked about being able to seek redress on one product, M-Pesa transfers. Of the 40% of the sample that used M-Pesa, only about 1.2% of the population had ever lost money using the service. Among those who lost money, 25% were able to recover the lost funds. The total number of survey respondents who lost and reclaimed funds through M-Pesa was just 24, so disaggregating further by their other attributes would be misleading due to the small sample size.[18]

Figure 35: M-Pesa use, losses, and redress

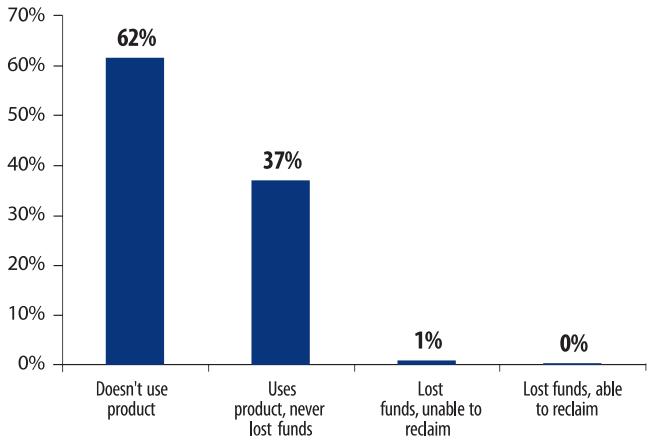
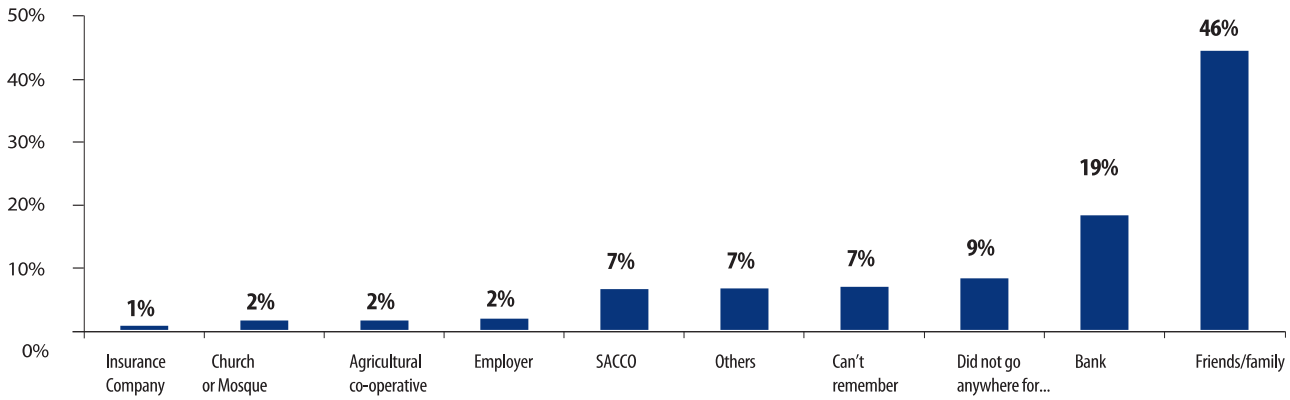


Figure 34: Sources of financial advice sought from those who reported needing financial advice



18. A recent consumer protection survey carried out by FSD-Kenya showed that a larger proportion of the population (84%) were using M-Pesa, a larger percent of those users had lost money thought mis-sending (11%) but of those who lost money all said they were able to get it back, 63% within the same day.

4.3 ABILITY TO MANAGE DEBT

Debt management is likely the most central and enduring aspect of financial capability across the globe. Most people have access to some sort of debt, whether it is from a bank, a local moneylender or credit from the local shopkeeper. Regardless of the source of debt, how people use and manage their debt is a core part of financial capability.

It appears that the majority of Kenyans do not have a problem with debt. They report spending minimal amounts every month on debt service. Most respondents report no debt service spending. When debt is taken on, it tends to be with a singular focus, rather than for multiple, less clear intentions.

However, there are signals that a significant pocket of the population could be having difficulty managing debt. Although the proportion of expenditure spent on debt service does not appear to be high for most Kenyan (only 5% of respondent reported monthly expenditure of 20% or more), often respondents under-report debt in surveys.[19] Those that have debt burdens above 20% are mostly living in rural areas. 28% of Kenyans report taking loans to repay loans. This disturbing pattern is particularly pronounced among wealthier respondents with higher income.

4.3.1 Percentage of monthly expenditures spent on debt service. On average, Kenyans reported spending 3.6% of their monthly expenditures on debt service. While this seems under control, one must be cautious drawing conclusions since the large number of non-borrowers and underreporting of borrowing could distort the picture. If we look at the country as a whole, it seems only about 5% could be highly indebted, i.e. spending 20% or more of their expenditures on debt repayments every month. If we look more carefully at this breakdown segmented by rural and urban samples, we see that those who are highly indebted make up 5.2% of the rural population and 4.0% of the urban population.

Table 5: Appropriate use of financial services – ability to manage debt

INDICATORS OF FINANCIAL CAPABILITY

4.3.1 Percentage of monthly expenditures spent on debt service.
Derived from question:
Q20. Thinking about how you spend your money, and what you spend your money on, I would like you to look through this list of items, and tell me how much you spend on these items in any one month.
1. Mobile/telkom expenses; 2. Personal expenses such as clothing/; 3. Education/tuition/school fees; 4. Household bills such as electricity/water/home maintenance/rates; 5. Entertainment and Socialising; 6. Groceries or food essentials;
loans; 7. Medical expenses and health schemes; 8. Paying off debts on loans. 9. Petrol/transport/taxis/buses; 10. Donations to religious groups and charities; 11. Rent/mortgage on your home; 12. Savings/investment; 13. Supporting other members of the family; 14. Other – list major items

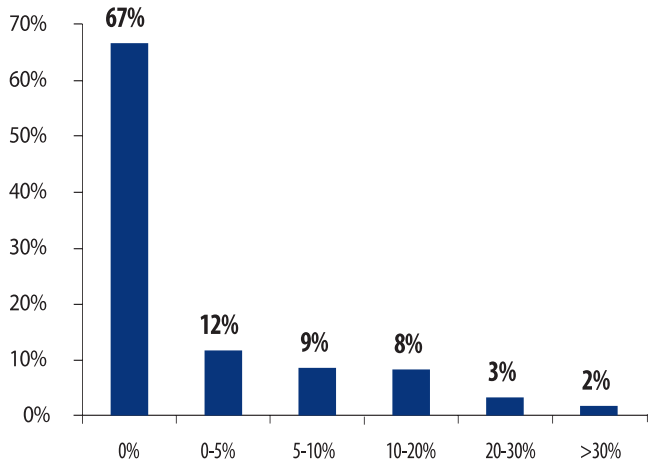
4.3.2 Needs to take loans to repay loans.
Derived from question:
D.9. I am going to read out some statements to you. Please tell me if you agree or disagree with each statement, or don't know.
3. You need to take out additional loans to pay your existing credit/loans. Has large number of credit sources against monthly expenditure.

4.3.3 Number of credit sources.
Derived from question:
G.1.8-18, 23, 25, 27, 28: Which services and products are you currently using? 8. Personal loan/business loan from a bank; 9. Loan from a Sacco; Loan from a micro finance institution; 11. Loan from a government institution; 12. Loan from an employer; 13. Loan from an ASCA; 14. Loan from family/friends; 15. Loan from an informal money lender/ Shylock; 16. Loan/credits from buyer of harvest; 17. Loan to build or buy house from bank or building society; 18. Loan given by government or government related institution to buy land; 23. Overdraft; 25. Credit card; 27. Hire purchase; 28. Local shop/ supplier that allows you to take goods and services on credit.

4.3.3 Borrows for a clear purpose.
Derived from question:
L.2. Thinking back to your last loan, for what reasons did you borrow money or take credit?

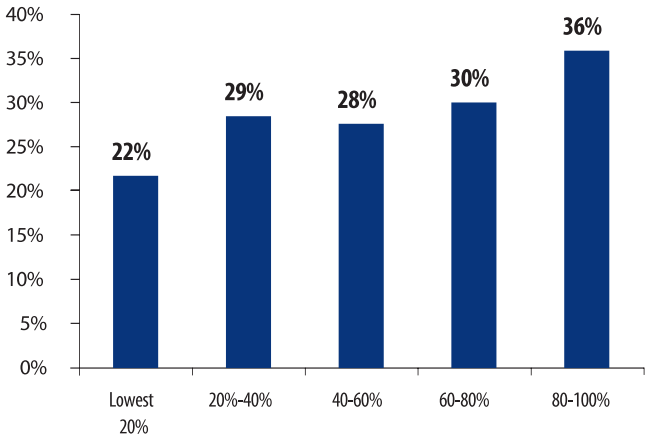
19. Karlan and Zinman (2008) compare survey data to actual administrative data on South African borrowers and find that nearly half of borrowers do not report their loans in surveys. Zinman has done other research in the United States finding that credit card borrowing is underreported by a factor of two. Karlan, Dean and Jonathan Zinman (2008) Lying about Borrowing. Journal of the European Economic Association 6 (2-3): 510-521.

Figure 36: Portion of monthly expenditures going towards debt service



4.3.2 Needs to take loans to repay loans. About 28% of Kenyans report taking loans to repay loans, which is alarmingly high, given that only 36.1% of Kenyans have current loans outstanding. Among those with an outstanding loan, 47.5% report needing to take additional loans in order to repay. This sign of trouble borrowing increases with income and is particularly pronounced among some income groups, including government employees (37.3%), pensioners (37.8%), employees of medium-sized office firms (38%) and investors (40%). This is somewhat worrisome, given that these same careers exhibited risky attitudes towards money management and somewhat careless attitudes towards spending. Those receiving regular salaries may be lulled into a false sense of income security and not be taking appropriate measures to manage consumption spending and borrowing.

Figure 37: Distribution by expenditure quintile of those who take loans to repay existing loans



4.3.3 Does not have large number of credit sources against monthly expenditure. The majority (63%) of Kenyans report having no creditors. Most individuals that have a loan have them from only one or two sources. Those who have three or more credit sources tend to be from the higher income groups.

Figure 38: Education levels of those who use more credit sources than their peers in the same expenditure quintile

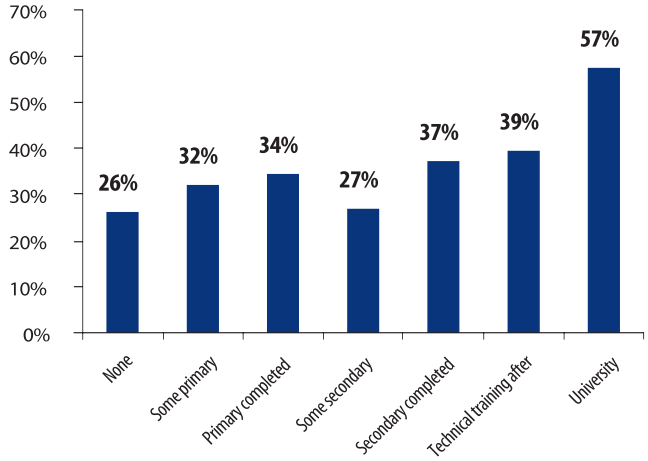
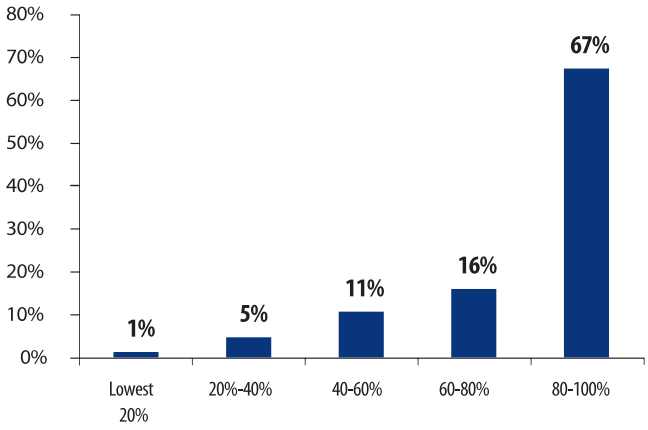


Figure 39: Distribution by expenditure quintile of those with three or more credit sources



4.3.4 Borrows for a clear purpose. One sign of managing credit well is clearly defining the purpose of borrowing, rather than borrowing for multiple purposes as if the credit were more a supplement to income rather than a strategy to address a discrete need. Among the 36.1% of Kenyans with a current loan outstanding, most are borrowing for one clear purpose. However, a significant number have taken loans they intend to put towards multiple uses. Using the same loan for multiple purposes is somewhat more common among higher income earners.

Figure 40: Number of purposes reported for current loan (among borrowers only)

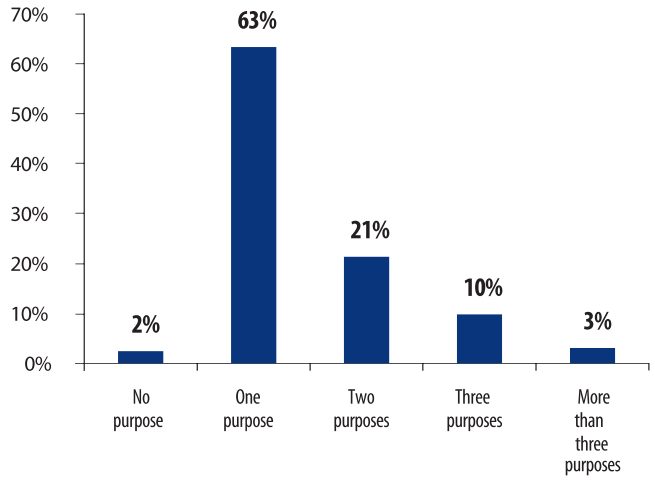
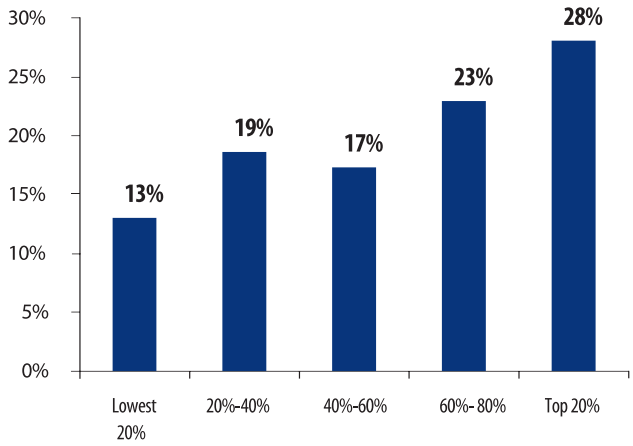


Figure 41: Distribution of those who are borrowing for more than three purposes by expenditure quintile



Chapter 5

USING THE RESULTS FOR A TARGETED FINANCIAL EDUCATION STRATEGY

As highlighted by these initial findings, the needs of the Kenyan people for improving financial capability are diverse. Here we consider strategies that would focus on the three broad categories highlighted in the report – the struggling excluded, the disciplined planners and the engaged elite - to develop different but overlapping curriculums as well as channels which are most likely to reach these various groups. These groups are loosely defined but we found them useful to outline broad and yet need-related programmes, delivered in a way that takes into account the sensitivity and the preoccupations of these groups.

5.1 THE STRUGGLING EXCLUDED

Financial education should be based on the notion of empowerment, with a central message of "It is possible to be more in control of your finances." Quite often this type of programme goes beyond financial education and includes some sort of self-worth/self-management message as well. As this segment is particularly underserved, which could contribute to their financial challenges, a key objective is to ensure that participants are introduced to various types of financial services, which could help them feel in control of their money. Well-designed instruments—including savings commitment devices--can help consumers translate their latent intentions and understanding into action and shift a greater share of their financial portfolios into the formal financial sector.

An appropriate programme would include:

- Introducing various formal financial services that can be easily accessed and used;
- Strategies around consumption smoothing;
- Using financial products for money safe keeping and saving; and
- How to use financial products in case of financial shock.

Appropriate channels would be:

- Community-based workshops, which would leverage community-based organisations and financial services organisations, NGOs, faith-based organizations; and
- Radio programs could also be effective if well targeted.

5.2 THE DISCIPLINED PLANNERS

This group is very diverse in terms of geographic distribution and in terms of demographic characteristics. It might be the most receptive group as it has already engaged in some financial planning activities. The main objective would be to improve knowledge and effective usage of financial products as well as to raise issues related to consumer protection and financial regulation.

An appropriate programme would include:

- Introduction to financial regulation, how to avoid being the victim of fraud and bad practice, recourses available to the consumers;
- Long term financial planning based on various needs;
- Investment and asset accumulation (through savings and credit); and
- Coping with unexpected financial shocks.

Appropriate channels would be:

- Assuming that disciplined planners would be quite motivated to improving their financial capability and given the geographical diversity of this group, mass media - radio, TV, newspapers – could be used; and
- Workshops through large, wide-spread community organizations could also be effective.

5.3 THE ENGAGED ELITE

This group is relatively wealthy, educated, mostly urban and already using financial services. Here the focus should be on individual long term planning as well as on preventing or solving over-indebtedness.

An appropriate programme would include all the topics proposed for the disciplined planner should be included here with more specific focus on:

- Planning for the long term, including for retirement; available financial products should be discussed and compared. At that level, technical detail about costs of products, risk level and risk appetite should be discussed; and
- Credit management, including good and bad usage of credit the true cost of credit, and strategies to prevent and resolve over indebtedness.

Appropriate channels would be:

- Written media or self-help publications, alongside television and radio;
- As this group include many formally employed, it might be worth promoting financial education through employer-based workshops; and
- One on one advice that allows to build long term investment plans or to develop individual strategies to overcome indebtedness. Experience in countries like Uganda shows that a significant number of people belonging to the urban elite are willing to contribute financially for such services.

Annex

BUILDING A BETTER BASELINE

Based on both analysis of FinAccess 2009 data and fieldwork conducted with Kenyan consumers during July 2010,[20] we suggest revising and expanding financial capability-related questions for FinAccess 2011 to get a deeper, richer picture of strengths and weaknesses across consumer groups. These new questions will allow us to establish a sound baseline and build an index—broken down by our three core dimensions[21] —which can track changes in financial capability over time. These new questions are adapted for use in Kenya's developing economy, where access to and experience with formal financial services remains limited for many. They try to capture a comprehensive picture of financial capability while providing more detailed data on the issue that matters most from a policy position: Are Kenyan consumers prepared to take advantage of the opportunities offered by an expanding access frontier?

The following are the new proposed questions for measuring financial capability in Kenya, under FinAccess 2011.[22]

Table 6: Future questions to measure financial capability in the future

1.1 Planning day-to-day expenditures.
New question:
D.9. I am going to read out some statements to you. Please tell me if you agree or disagree with each statement, or don't know. "I have a plan for how to allocate money for things like food, clothing, bills, and other needs from month to month."

1.2 Feeling in control of finances.
Existing question:
D.9.6. I am going to read out some statements to you. Please tell me if you agree or disagree with each statement, or don't know. "You often don't feel in control of your finances."

1.3 Discipline to stick to budget.
New questions in section D.9:
D.9. I am going to read out some statements to you. Please tell me if you agree or disagree with each statement, or don't know. "No matter how hard I try, I just can't manage to stick to a budget."
"I often make spending mistakes that force my family to cut back on essentials, like food and cooking fuel." "I often have trouble making my money last between pay days."

1.4 Attitude towards consumption spending and borrowing.
Revised question:
D.9.11 I am going to read out some statements to you. Please tell me if you agree or disagree with each statement, or don't know.
Old 11. "You love spending money to buy things even if you have to use credit to do so."

1.5 New 11: "I frequently borrow to buy things I want, but don't need to survive."
New questions:
"How often in the past one month have you borrowed small money that you used to buy something small that same day?"
"How many unexpected loans have you taken in the last three months?"

1.6 Having funds remaining after bills are paid
Existing question:
P2. "Once you have paid all your bills and expenses for the month, what do you do with your remaining/excess money, if you have any?" 1. You do not have money remaining after bills.

1.7 Going without the basics in order to save
Existing question:
Question D.9 I am going to read out some statements to you. Please tell me if you agree or disagree with each statement, or don't know. 12. "You go without basic things so that you can save."

1.8 Using financial instruments to smooth consumption
Existing questions
J.1 "Many people have different reasons why they keep money aside or save, for what reasons are you CURRENTLY saving?" Option 01. For meeting day-to-day ordinary household needs when you have little or no money; and
L.2. "Thinking back to your last loan, for what reasons did you borrow money or take credit?" Option 01. For meeting day-to-day ordinary household needs when you have little or no money.

20. Zollmann, Julie and Daryl Collins (2010) ; Rethinking Financial Capability in Developing Economies: New insights from consumers' experience. Forthcoming. This paper presents the findings of a joint research initiative supported by FSDK, CGAP, and Bankable Frontier Associates to apply in-depth qualitative analysis to understand consumers' experience of financial capability.
21. 1. Using financial tools to have control over one's money; 2. Short and long term planning; and 3. Appropriate use of financial services.
22. These suggested questions will be piloted and may change over the course of testing and revising the FinAccess 2011 survey instrument.

Table 7: Future questions to measure short and long term planning

2.1 Has multiple savings types.

Existing questions:

G1 "Which services and products are you CURRENTLY using?" 1. Savings account at SACCO; 2. Savings at microfinance institution; 3. Savings with an ASCA; 4. Savings with a ROSCA; 5. Savings with a group of friends; 6. Savings given to a family or friend to keep; 7. Savings you keep in a secret hiding place. 19. Postbank account; 20. Bank account for savings or investment; 21. Current account; 22. Bank account for everyday needs but no cheque book.

2.2 Saving for multiple purposes.

Existing questions:

J.1. "Many people have different reasons why they keep money aside or save, for what reasons are you CURRENTLY saving?" 01. For meeting day-to-day ordinary household needs when you have little or no money; 02. For emergency (burial, medical); 03. For social reasons (wedding, bride price); 04. For personal reasons (such as clothes, shoes, own travel); 05. For improving a house; 06. To acquire household goods
07. For purchasing a car or motorcycle; 08. Purchase land; 09. Purchase or build a house for your family to live in; 10. Purchase or build a house to rent out; 11. For purchase of shares/stocks/bonds/T-bills
12. For purchase of livestock /cattle; 13. For agricultural improvements e.g. irrigation, a dam, fencing, preparing land; 14. For agricultural implements – plough, hoe, tractor, things to use on the farm; 15. For agricultural inputs – seeds, fertiliser, insemination; 16. For fishing equipment – boat, nets, engine; 16. For expanding your business; 18. For starting up a new business19. For putting money in someone else's business; 20. For later use in life /old age ; 21. For education of yourself, children or siblings or others; 22. To leave something for your children; 23. Other specify

2.3 Planning adequately for old age.

New questions:

"Do you have a plan for how you will get by during old age?" [Yes/No]
"What is your plan?" [a. Draw on savings; b. Draw on employer-provided pension/provident fund; c. Draw on private retirement savings plan; d. Rely on children; e. Continue working; f. Sell assets; g. Not sure/No plan; h. Other.]

Existing question:

D.9. I am going to read out some statements to you. Please tell me if you agree or disagree with each statement, or don't know. 2. "You are worried that you won't have enough for old age."

2.4 Planning for common emergencies.

New questions:

"Do you have a plan for how you would pay for an emergency (list various)?" [Yes/No]
"What is your plan?" [Use options in C3: 1. Use up your savings 2. Borrow money 3. Ask family members to help 4. Call on insurance policy, if it applies 5. Find a better job/additional jobs 6. Sell your assets eg car, business, household goods, livestock 7. Depend on charity from church, mosque, Red Cross 8. There's nothing I can do 9. Don't know (DO NOT READ OUT) 10. Refused to answer]

2.5 Saves to meet day-to-day needs when money is short.

Existing question:

J.1. "Many people have different reasons why they keep money aside or save, for what reasons are you CURRENTLY saving?" 01. For meeting day-to-day ordinary household needs when you have little or no money.

2.6 Able to cope with income shocks.

New questions:

"If you (or your partner if they earn more than you) became completely unable to work for three months or more due to unforeseen circumstances, like retrenchment or illness, what would you do to make ends meet? (New--use options in C3: 1. Use up your savings 2. Borrow money 3. Ask family members to help 4. Call on insurance policy, if it applies 5. Find a better job/additional jobs 6. Sell your assets eg car, business, household goods, livestock 7. Depend on charity from church, mosque, Red Cross 8. There's nothing I can do 9. Don't know (DO NOT READ OUT) 10. Refused to answer)"
"If you were able to draw on these resources as listed above, for how long do you think your family could make ends meet?" [Number of days]

2.7 Had a plan to cope with the last family expenditure shock experienced.

Revised questions:

C2. "Which type of expenditure shock did you experience most

Table 7: Future questions to measure short and long term planning

recently [refer to list]? What was your plan to cope with this type of situation?"

2.8 Able to draw on planned resources to cope with last expenditure shock experienced.
Revised questions:
C3. "What resources did you actually draw on to get through this experience." [List of options must expand to include M-Pesa savings, drawing on secret savings, getting loan from a savings group, getting free support from a savings group or welfare]

2.9 Financial assets available for emergency.
Existing questions:
G4.9. Currently has insurance product.
J.1. Many people have different reasons why they keep money aside or save, for what reasons are you CURRENTLY saving? 02. For emergency (burial, medical); and
K1. Many people belong to informal societies or group saving schemes such as, merry go round, savings and lending groups, chamas, investment clubs, clan/welfare groups to which they contribute on a regular basis. How many do you personally belong to?
K9. Which of the following does . . . . . .(READ GROUP) do for its members? 1. Welfare.

2.1.0 Would draw on financial assets if hit by shock.
Existing question:
C3. What would you do to make ends meet if the biggest risk happened to you or your household? 1. Use up your savings; 2. Borrow money; 3. Ask family members to help; 4. Call on insurance policy, if it applies; 5. Find a better job; additional jobs; 6. Sell your assets (car, business, household goods, livestock); 7. Depend on charity from church, mosque, Red Cross; 8. There's nothing I can do; 9. Don't know.

2.1.1 Saving for investment, both as a yes/no and as a percentage of monthly expenditure.
Existing questions:
J.1. Many people have different reasons why they keep money aside or save, for what reasons are you CURRENTLY saving? 11. For purchase of shares/stocks/bonds/T-bills; 21. For education of yourself, children or siblings or others;
K9. Which of the following does [group name] do for its members? 5. We invest in the stock market; 6. We make other kinds of investments eg. Property, business.
Q20. Thinking about how you spend your money, and what you spend your money on, I would like you to look through this list of items, and tell me how much you spend on these items in any one month.
1. Mobile/telkom expenses; 2. Personal expenses such as clothing/; 3. Education/tuition/school fees; 4. Household bills such as electricity/water/home maintenance/rates; 5. Entertainment and Socialising; 6. Groceries or food essentials; 7. Medical expenses and health schemes; 8. Paying off debts on loans; 9. Petrol/transport/taxis/buses; 10. Donations to religious groups and charities; 11. Rent/mortgage on your home; 12. Savings/investment; 13. Supporting other members of the family; 14. Other – list major items

2.1.2 Saves in advance for anticipated expenditures.
New questions:
Section J: [if saving for education] "Are you saving for secondary school expenses?" [Yes/No]
Section J: [if yes above] "When did you begin saving for children's secondary school expenses?" [X years in advance]

Table 8: Future questions to measure ability to assess and judge options

3.1 Recognizes names of financial service providers.
Existing question:
D.3 Which of the following names for financial providers have you ever heard of? 1. Post Bank; 2. M-PESA; 3. SACCO; 4. Chama or ROSCA; 5. NSSF; 6. NHIF; 7. Nairobi Stock Exchange.

3.2 Familiar with practices of service providers.
New & revised questions:
(New questions for D.8, adding 11-15) 11. Allow you to save money with or without interest. 12. Pays a dividend to members. 13. Provides loans. 14. Pays out only when you are affected by a specific type of problem (for example, an illness, accident, or crop problems). 15. Allow you to withdraw your savings at any time without closing your account.

3.3 Uses savings group even though lost money recently.
Existing questions:
K.1. Many people belong to informal societies or group saving schemes such as, merry go round, savings and lending groups, chamas, investment clubs, clan/welfare groups to which they contribute on a regular basis. How many do you personally belong to?
K.12. Have you ever lost your savings in a group?
K.13. Did this happen in the last 12 months?

3.4 Uses bank, though distrusts staff.
Existing questions:
G.4. 1. Interviewer ticks if responds yes to any question about having a bank product in G.3.8,17,19-25.
D.8. I am now going to read out a number of statements about places and people that provide financial services. As I read out each one, I would like you to tell me which, if any of the following places you associate with each statement. You do not need to have used these providers, we just want your opinion of them. 2. Officials/staff are dishonest; 8. They keep your money safe.

3.5 Understands key concepts about engaging with the formal financial sector.
New questions:

- "A guarantor is. . . A. Someone who tells the bank whether or not you are capable of repaying your loan. B. Someone who agrees to repay a loan on your behalf if you do not repay. C. Someone who processes loan paperwork on the behalf of the person who is borrowing money. D. Don't know."
- "A pyramid scheme is. . . A. A program for the government to distribute grants to needy individuals. A group of members who save their money together and give loans to one another. C. A financial operation that accumulates funds to disburse as interest mostly by attracting new members and larger contributions rather than by giving loans to individuals and companies. D. Don't know"
- "Insurance is. . . A. A financial service that you pay into regularly and that will pay out to you if you experience a certain kind of emergency. B. A way to become a partial owner in a business and share in that business's profits. C. Is a type of investment in which you pay a certain value now in order to be guaranteed to get back a certain percentage more after several months or years. D. Don't know"
- "An interest rate is. . . A. The percentage of a borrowed sum that you pay in order to get the loan. B. The total money you earn in your business once you have subtracted your costs. C. How much you pay to withdraw your money from M-Pesa or a bank. D. Don't know"
- "You often find that you are surprised by the final amount you have had to pay for a loan or credit (New, was I2.18 in 2006 survey)" [Yes/No]

3.5 If has bank account:

- "How accurately do you know the current balance of your main bank account?" [I have no idea; Approximately, but not within Ksh5,000; I know within Ksh5,000; I know within Ksh2,000; I know within Ksh500; I know within Ksh250; I know within Ksh100; Don't know; Refused]" (Will be analysed proportionate to reported consumption expenditure.)
- "Have you ever been surprised by your balance?" . . ."If so, What was the problem?" [Lost track of deposits and withdrawals; The bank made a mistake, but were able to fix it; The bank made a mistake, and did not fix it; The bank deducted fees and charges I did not know about; The bank deducted fees and charges I forgot about; Other:_____; Don't know; Refused]

3.6 Demonstrates financial numeracy.
New & revised questions:

- "You are in a chama/group and win a promotion or competition for KSh 200,000. With five of you in the chama, how much do each of you get?" [A. 20,000; B. 30,000; C; 40,000; D 50,000] (E1)

Table 8: Future questions to measure ability to assess and judge options

- "You have a lot of mangoes on your farm and your neighbour has lots of tomatoes. You make a bargain and he says he will give you three tomatoes for every mango you give him. If you give him ten mangoes, how many tomatoes do you expect him to give back to you?" [A. 10; B. 15; C. 30; D. 50] (Revised E2.)
- "You go to buy a cell phone that normally costs Ksh 2,000, but the shopkeeper tells you the phone is on sale for 25% off. How much do you pay for the cell phone?" [A. Ksh 1000; B. Ksh 1500; C. Ksh 2025; D. Ksh 2250] (New E3.)
- "You have Ksh 4,000 in a savings account that pays 10% interest per year. If you don't withdraw any money, at the end of two years, how much will be in the account?" [A. Less than 4,000 B. Between 4,000-4,300; C. 4,300-4,600 D. More than 4,600] (New E4.)
- "You take a loan for Ksh 10,000 that you will repay over ten months. The loan officer explains that your interest rate is 10% calculated on a flat basis from the total value of the loan. Each month you will pay the lender the same amount of both principal and interest. Once you have finished repaying the loan, how much will you have paid in interest?" [A. Less than Ksh 1000 B. More than Ksh 1000 C. Exactly Ksh 1000] (New E5.)

3.7 Lack of knowledge of opening an account inhibits use.
Existing questions:
G.22. You said earlier that you don't currently have a bank account. Why is this? 17. You don't know how to open an account.

3.8 Demands clarity from providers.
New questions:
"You ask financial service providers all of your questions about how to use and understand their service." (New D.9.13)

3.9 When I open a new bank account I ask about the following issues always, usually, sometimes, rarely, never:

1. I ask about all the accounts available.
2. I ask which option is best for my needs.
3. I ask about the options they have to make it more convenient for me to transact.
4. I ask about regular monthly charges.
5. I ask about withdrawal fees.
6. I ask about fees for not making regular deposits.
7. I ask about fees for overdrawing on my account.
8. I ask about benefits I can get for saving more or staying with the bank longer.
9. I ask how to get help if I have a problem.

3.1.1 When I take a new loan I ask about the following issues always, usually, sometimes, rarely, never:

1. I ask about all the options available.
2. I ask which loan is best for my needs.
3. I ask how long it will take to process my loan application.
4. I ask when I will need to start making payments.
5. I ask about the interest rate and what it means for the total amount I will have to repay.
6. I ask about the value of each payment.
7. I ask what will happen if I make a late payment.
8. I ask about the possibility and penalties for early payment.
9. I ask about any other fees associated with the loan.
10. I ask how much of my savings they will hold as security.
11. I ask how taking this loan will affect future opportunities to borrow.

If you didn't "always" ask some of these questions, why not? (Don't prompt) [A. Teller/loan officer was too busy; B. I was a little embarrassed and many people were around; C. I didn't know it was important; D. I thought I already knew how the product worked; E. Since they gave me paperwork, I felt bad about asking questions; F. My friend/relative did this before, so I thought I could ask them; G. Other:_____)

3.1.2 Ability to interpret provider communications.
Revised question:
Please rank your understanding of each topic a scale of 1-5 with 1 very strong understanding and 5 being no understanding.
D7.13 "Understanding of interpreting financial statements from financial service providers."Would you like more information on this topic?
Please rank your understanding of each topic a scale of 1-5 with 1 very strong understanding and 5 being no understanding.
D7.10 "Understanding fees charged on loans."Would you like more information on this topic?

Table 9: Future questions to measure ability to ask questions and seek redress

4.1 Seeking advice from trusted sources.

Existing questions:

D.4. I want you to think back to the last time you needed financial advice. When was this?

D.5. Who / where did you go to, the last time you needed financial advice? 1. Bank; 2.Insurance company; 3. SACCO; 4. Agricultural co-operative; 5. Church or mosque; 6. Employer; 7. Friends/family; 8. Other; 9. Did not go anywhere for help; 10. Can't remember

4.2 Knows how to resolve a problem with common financial services.

New questions:

"If you have a problem with your [bank/M-Pesa] account, like confusion over fees, lost funds, or other problems, how can you resolve the problem?" (DON'T PROMPT) [A. Call customer care. B. Go to service provider's office. C. Go to an agent. D. Write a letter. E. Other _____ F. Don't know. (New sec. G for bank and H for M-pesa)]

4.3 Has been able to reclaim lost money from M-Pesa or a bank.

New & existing questions:

H6. Have you ever used M-PESA?

H19. Have you ever lost money on M-PESA?

H.21. Did you recover the lost money

New:

Have you ever used a bank?

Have you ever lost money in a bank?

Did you recover the lost money?

If yes, how long did it take to recover the money? [days]

Table 10: Future questions to measure ability to manage debt

5.1 Needs to take loans to repay loans.
Existing question:
D.9. "I am going to read out some statements to you. Please tell me if you agree or disagree with each statement, or don't know.
3. You need to take out additional loans to pay your existing credit/loans
Has large number of credit sources against monthly expenditure."

5.2 Knows how to work out how much credit he or she can afford to repay.
Revised question:
Please rank your understanding of each topic a scale of 1-5 with 1 very strong understanding and 5 being no understanding.
D7.9 "Knowing how to figure out what size loan I can afford to repay."Would you like more information on this topic?

5.3 Number of credit sources.
Existing questions:
G.1.8-18, 23, 25, 27, 28: Which services and products are you currently using? 8. Personal loan/business loan from a bank; 9. Loan from a SACCO; 10. Loan from a microfinance institution; 11. Loan from a government institution; 12. Loan from an employer; 13. Loan from an ASCA; 14. Loan from family/friends; 15. Loan from an informal money lender/ Shylock; 16. Loan/credits from buyer of harvest; 17. Loan to build or buy house from bank or building society; 18. Loan given by government or government related institution to buy land; 23. Overdraft; 25. Credit card; 27. Hire purchase; 28. Local shop/ supplier that allows you to take goods and services on credit.

5.4 Percentage of monthly expenditures spent on debt service.
Revised question:
Current Q20. Thinking about how you spend your money, and what you spend your money on, I would like you to look through this list of items, and tell me how much you spend on these items in any one month.
1. Mobile/telkom expenses; 2. Personal expenses such as clothing/; 3. Education/tuition/school fees; 4. Household bills such as electricity/water/home maintenance/rates; 5. Entertainment and Socialising; 6. Groceries or food essentials; 7. Medical expenses and health schemes; 8. Paying off debts on loans; 9. Petrol/transport/taxis/buses; 10. Donations to religious groups and charities; 11. Rent/mortgage on your home; 12. Savings/investment; 13. Supporting other members of the family; 14. Other – list major items

Proposed Revision: Instead of lumping all debt repayments as #8, we would break this down to ensure it is comprehensive: Loan repayments to an MFI; Loan repayments to a bank; Payments on a credit card; Repayment to shop where you have taken things on credit; Repayment on supplier credit; Repayment to a moneylender; Repayment to friend/family member/ neighbour who lent you money.

5.5 Borrows for a clear purpose.
Existing question:
L.2. Thinking back to your last loan, for what reasons did you borrow money or take credit? [Looking at number of reported purposes.]

5.6 Keeps up with repayments.
New questions:
"Have you had any late loan payments in the past 12 months?" [Yes/No]
"Have you had to give up any property to a lender, because you were having difficulty repaying a loan?" [Yes/No]
"Have you had to depend on guarantors to help you repay a loan?" [Yes/No]

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Financial Sector Deepening

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