Assessing the Demand for Microinsurance in Kenya

Francis Simba

May-June 2002
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Exchange Rate: Ksh.78 to US$1

MicroSave-Africa – Promoting high-quality financial services for poor people
Assessing the Demand for Microinsurance in Kenya

Executive Summary
May-June 2002
Francis Simba

In Kenya’s developing economy, the general population is vulnerable to a broad range of risks and crises that directly affect its livelihood. Sickness, death, economic liberalisation and deterioration, and crime/theft are some of the risks that affect households. These risks directly affect the level and/or sources of income and productive assets of these households. Low-income people are especially vulnerable because their incomes are low and they are often less able to build up their assets or save. This limits the capacity of low-income communities to effectively manage risks when they do occur.

In Kenya, the poor have very limited support from the formal insurance sector to help them manage some of these risks. Informal insurance systems remain the only, albeit imperfect, means by which the poor can deal with these risks. Therefore, whether they are lifecycle risks, crisis risks, or structural risks (Rahman and Hossain, 1995), low-income people have developed a variety of strategies to manage risks and crises in their households.

This study sought to assess the potential demand for microinsurance by poor households in the rural and urban areas of Kenya. It did this by identifying the most common crises/risks/vulnerabilities that rural and urban households face and the means by which these households cope, and assessing the effectiveness of these means (coping strategies).

Understanding the nature and types of risk and coping strategies form the foundation on which options for microinsurance may be derived. The results of this study are designed to suggest the most appropriate microinsurance products for low-income households that will assist them to mitigate risk in more effective ways.

In examining and interpreting the data relevant to insurable risks in Kenya, we grouped participant responses into four categories: life cycle risks, emergencies, structural risks, and business risks. Then, we examined risks that are potentially insurable: health, theft, fire, death, floods, bad debts, and motor vehicle accidents. Each of these potentially insurable risks is analysed from four different angles: impact of risk, household response to risk, effectiveness of response, and the implication/potential of microinsurance for the risk. We illustrate the impacts and responses through case studies, included in Appendix Three. Finally we discuss the risks of demolition, life cycle risks, and adverse economic conditions, again in terms of impact, response, effectiveness and the potential for microinsurance.

It can be concluded from this study that low-income people in Kenya have a variety of coping mechanisms for risks posed by health, thefts and burglaries, fire, death, motor vehicle accidents, demolition, floods, life cycle risks and adverse economic conditions. Out of necessity, informal coping mechanisms are the norm for low-income communities because Kenya lacks formal protection systems for the low-income economic sector. The most common ones are:

- The sale or mortgage of assets including business equipment and machinery
- Borrowing money from friends and relatives
- Borrowing money from MFIs
- Organising harambees
- Withdrawing savings from ROSCAs, ASCAs, and other welfare organisations
- Diverting MFI loan funds
- Diversification of sources of income, for example, operating two to four businesses
- Purchase of assets that are easily convertible to cash during times of crisis
- Seeking credit from suppliers
- Soliciting contributions from fellow credit group members
- Lobbying elected representatives for policy changes
- Use of business capital to pay for recurrent expenditures like school fees
- Saving for emergencies
Participants told us that they have two main problems with the management of risk. The first is uncertainty as to whether or not given risks will occur. The second is that risk is unpredictable: no one knows when a risk event will occur. Consequently, planning for risk management is not widely practised, but informal coping mechanisms for reacting to risks when they do occur is more developed.

However, participants recognised that some forward planning would assist them in mitigating the effects of risks, but they did not have a sound understanding of insurance concepts or its advantages. Therefore there are a number of challenges in designing appropriate microinsurance products. These include:

1. **The Intangibility of Insurance**: Paying insurance premiums means paying for a product that is intangible. It cannot be touched or felt and after a period of time paying insurance premiums, the subscriber is sometimes hard pressed to understand what he is purchasing.

2. **Communication of Insurance Concepts**: One challenge for microinsurance products is that the terms, conditions, and limitations are difficult to understand or grasp. These must be clarified.

3. **Customer Service**: The experiences of many participants who have dealt with insurance companies and who have MFI loan insurance products are not positive. Customer service is important.

4. **Cost of Premiums**: A microinsurance product should be priced at a level that is affordable to low-income communities but also makes business sense for the insurer.

5. **Seasonality of Incomes**: Seasonality of incomes must be matched with premium outflows before any microinsurance product is introduced in the market.

6. **Microinsurance Institutions**: This niche in the market may be best exploited by MFIs introducing insurance products as part of the loan process or as stand-alone products for their customers.
Assessing the Demand for Microinsurance in Kenya
Main Report
May-June 2002
Francis Simba

1. Purpose of the Study

1.1. Background
In Kenya’s developing economy, the general population is vulnerable to a broad range of risks and crises that directly affect its livelihood. Sickness, death, economic liberalisation and deterioration, and crime/theft are some of the risks that affect households. These risks directly affect the level and/or sources of income and productive assets of these households. Poor people are especially vulnerable because their incomes are low and they are often less able to build up their assets or save. This limits the capacity of low-income communities to effectively manage risks when they do occur.

In Kenya, the poor have very limited support from the formal insurance sector to help them manage some of these risks. Informal insurance systems remain the only, albeit imperfect means by which the poor can deal with these risks. Therefore, whether they are lifecycle risks, crisis risks or structural risks (Rahman and Hossain, 1992), low-income people have developed a variety of strategies to manage risks and crises in their households.

1.2. Objectives
This study sought to assess the potential demand for microinsurance by poor households in the rural and urban areas of Kenya. It did this by identifying the most common crises/risks/vulnerabilities that rural and urban households face and the means by which these households cope, and assessing the effectiveness of these means (coping strategies).

Understanding the nature and types of risk and coping strategies form the foundation on which options for microinsurance may be derived. The results of this study are designed to suggest the most appropriate microinsurance products for low-income households that will assist them to mitigate risk in more effective ways.

1.3. Key Questions
The questions that guided the field study include:

- What key risks do poor urban and rural households in Kenya face?
- How do these risks impact families?
- How do people respond to these risks?
- How effective are these responses?
- What can MFIs and other institutions do to improve the effectiveness of responses?
- Do people understand the concept of formal insurance?
- Are they willing to pay for formal insurance?

2. Methods

2.1. Sample/Market Segment
Clients of K-Rep Bank Limited participated in this study. A total of 205 clients from low-income households were interviewed, 98 from Nairobi (urban) and 107 from Central Province (rural). Table 1 below shows the urban/rural and gender distribution of participants.

<table>
<thead>
<tr>
<th>Table 2.1: Urban/Rural and Gender Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Groups</td>
</tr>
<tr>
<td>Urban</td>
</tr>
<tr>
<td>Rural</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

1 We intended to interview clients of Kenya Women Finance Trust (KWFT), but they were not available at the time of the study.
2.2. **Data Collection**

Focus group discussions (FGDs) and participatory rapid appraisal (PRA) were the primary research tools. The FGDs assessed the key risks facing poor households, how they deal with these risks, the effectiveness of the responses, and ranking of wealth. The PRA tools used were time series analysis of crises, lifecycle of risk, seasonality of income and expenditure, and seasonality of savings and credit. The FGD and PRA sessions lasted, on average, between 1 and 2½ hours. Occasionally, some sessions took 3 hours. Table 2.2 shows the number of sessions that were carried out. Individual interviews were used to assess client use of loans, savings, and insurance, and ranking of wealth.

**Table 2.2: Number of Sessions and Research Tools**

<table>
<thead>
<tr>
<th>Tool</th>
<th>Urban</th>
<th>Rural</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus Group Discussions</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Interviews on the Use of Loans and Savings</td>
<td>6</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Times Series Analysis of Crises</td>
<td>3</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Lifecycle of Risks</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Seasonality of Income, Expenditure, Savings and Credit</td>
<td>2</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>FGD/Simple Wealth ranking</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>16</td>
<td>16</td>
<td>32</td>
</tr>
</tbody>
</table>

2.3. **Participatory Rapid Assessment Tools**

2.3.1. **Seasonality of Income and Expenditure**

This PRA tool was used to establish key risks facing poor households and whether or not there was a seasonal pattern. It was also used to establish cyclical patterns in the inflows and outflows of money in the participants’ households during a given year, and how these patterns influenced or were influenced by the key risks faced by the community.

2.3.2. **Time Series Analysis of Crises**

This exercise was used to track trends in key crises or risks facing poor households. This tool was crucial in helping the research team to establish the magnitude and pattern of key crises from the perspective of the financial outlay required to deal effectively with the same.

2.3.3. **Simple Wealth Ranking**

Four key informants were used in each of the two sessions where this tool was applied. It involved 41 households. The purpose of this tool was to explore the participants’ own definition of livelihood categories, identify which risks affect which category, and identify responses to the identified risk.

2.3.4. **Individual Interviews**

Six participants from rural areas and six participants from urban areas participated in this exercise. The purpose was to understand how MFI clients use savings, loans, and insurance and to assess the extent to which the savings and loans are used to manage risk.

2.4. **Data Analysis**

The information collected was organised using the analysis matrices included in Appendix One. All PRA exercises were tape recorded and used to complement the notes. Tally sheets were used to isolate predominant risks.

3. **Findings**

In examining and interpreting the data relevant to insurable risks in Kenya, we grouped participant responses into four categories: life cycle risks, emergencies, structural risks, and business risks. Then, we examined risks that are potentially insurable: health, theft, fire, death, floods, bad debts, and motor vehicle accidents. Each of these potentially insurable risks is analysed from four different angles: impact of risk, household response to risk, effectiveness of response, and the implication/potential of microinsurance for the risk. We illustrate the impacts and responses through case studies, included in Appendix Three. Finally we discuss the risks of demolition, life cycle risks, and adverse economic conditions, again in terms of impact, response, effectiveness and the potential for microinsurance.
3.1. Identified Risks

The participants identified numerous risks/crises. These have been grouped into four categories: life cycle risks, emergencies, structural risks, and business risks.

<table>
<thead>
<tr>
<th>Category of Risk</th>
<th>Type of Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Cycle Risks</td>
<td>Death, sickness, family instability/separation and education/school fees</td>
</tr>
<tr>
<td>Structural Risks</td>
<td>Economic down turn and fluctuating/low prices of agricultural produce</td>
</tr>
<tr>
<td>Emergencies</td>
<td>Thefts/burglaries, fire, floods and accidents</td>
</tr>
<tr>
<td>Business Risks</td>
<td>Bad debts and demolition of business stalls by local authorities</td>
</tr>
</tbody>
</table>

We have rank ordered participant responses on severity of risk in terms of perceived severity, from most financially stressful to least, shown in Table 3.2.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Rank</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>1</td>
<td>The risk of illness exerts a lot of financial stress on a household due to its unpredictability (timing, duration and frequency). Families lack access to health facilities and thus incur additional expenses such as transport and accommodation. Diseases such as diabetes, drug resistant malaria, and HIV/AIDS escalate the cost of health care because people suffering from these illnesses fall sick more frequently or for longer periods. A household’s health care budget includes medication, doctor’s fees and hospitalisation.</td>
</tr>
<tr>
<td>Death</td>
<td>2</td>
<td>Death results in tremendous financial stress arising from expenses related to the funeral e.g. coffins and transport. Transport costs can be quite substantial if the deceased has to be transported to a distant rural home. If the deceased is the manager of a business or the sole breadwinner, the loss of income leads to great financial stress to the household.</td>
</tr>
<tr>
<td>Economic Downturn</td>
<td>3</td>
<td>This is a structural risk that results from economic shocks including liberalisation and high inflation. This crisis has led to increased poverty, job losses, lost income, increasing competition for informal sector employment as well as an increase of commodity prices.</td>
</tr>
<tr>
<td>Theft and Robbery</td>
<td>4</td>
<td>This results in loss of business/livelihood and inability to meet basic needs. Theft has increased over the years due to lack of productive opportunities and adverse economic conditions.</td>
</tr>
<tr>
<td>Fire</td>
<td>5</td>
<td>The risk of fire has increased due to congestion in slum areas and has led to community members losing assets, sources of income, stock for businesses, and homes.</td>
</tr>
<tr>
<td>School Fees</td>
<td>6</td>
<td>These are sometimes paid for from business capital, resulting in reduced business stock.</td>
</tr>
<tr>
<td>Bad Debts</td>
<td>7</td>
<td>Most people are paid wages on a monthly basis. For this reason, small business people (or the MFI clients) tend to allow monthly wage earners to purchase household goods and commodities on credit. However, there are instances when the debtor does not pay for the goods he has purchased when the month ends. This results in MFI clients losing business capital.</td>
</tr>
</tbody>
</table>

3.2. Health

3.2.1. Impact

Participants told us, in PRA and FGD sessions, that the health status of Kenyans has deteriorated in the last 10 years. The poor in rural areas especially lack access to basic health care and often receive low quality care. There are a few hospitals run by churches (mission hospitals) and a few private clinics mainly owned and operated by nurses, but qualified doctors have left government employment, moved to the private sector, and have remained in urban areas. This has caused a situation whereby health facilities...
in the rural areas are few and services inadequate. Since poor people have to travel long distances just to reach a health care facility, transport costs sometimes form a substantial portion of health care expenses.

The impact of health care expenses depends on various factors such as the costs of health care, the nature of the illness (whether it was short-term or long-term) and whether hospitalisation was necessary. Details of these factors are given below.

### 3.2.2. Costs of Health Care

Many participants identified the following costs they incur to access health care:

- **Economic Opportunity Cost**: During periods of ill health, participants are unable to operate their businesses.
- **Transportation Cost**: These are especially significant if the family member is very sick.
- **Doctor’s Cost**: Consultation fees, admission fees, and the like, make health care very expensive.
- **Medical Costs**: Medicine, laboratory tests, X-rays and generally the cost of medical treatment.
- **Hospitalisation Costs**: These are the costs incurred if the sick person must be admitted into a hospital or health care facility.
- **Diet**: This can be expensive if a special diet is needed.
- **Preventative Costs**: Taking preventive measures (immunisations or purchasing mosquito nets) add to the cost of health care.

### 3.2.3. Short-Term Illness

Participants ranked illness highly as a risk facing both rural and urban communities. Short-term illnesses like typhoid and highland malaria were cited as the most common ones. Short-term illness forces a household to spend more money on medical expenses (medicine, doctors’ fees, tests, and so forth) and sometimes transport, but households normally do not plan for these expenses.

Participants told us that the overall productivity of the household during and after a bout of illness is undermined. Many participants are reluctant to leave their enterprises to someone else, therefore whether it is the primary income earner or any other member of the household who is sick, the family business will usually be closed for the period when health care is being sought.

The degree of impact of short-term illness on household finances depends on the seriousness and duration of the illness but all agreed that it is severe. First, the household cannot meet its routine cash requirements since the cost of treatment increases the demand for money. Second, a household’s income flow is disrupted. Third, since the business may not be generating income, the costs of health care are sometimes met from the business capital, a productive asset. This curtails a household’s ability to earn income in the future as well as manage the risk of short-term illness if it reoccurs. Fourth, financial stress for a household is increased by prior cash commitments to third parties. For example, most MFI clients must continue making loan instalments even when they are hospitalised and their businesses are closed. They also must continue paying rent, school fees and other debts. In many cases a household is unable to meet all obligations during periods of short-term ill health in the family.

### 3.2.4. Long-Term Illness

The cost of ill health has great impact on the cash flow of a household, particularly where the illness is long-term like HIV/AIDS, diabetes, or cancer. Long-term illness drains household finances significantly due to the recurrent nature of costs of medication and/or hospitalisation. In many cases, healthy members of the family must take care of the sick person. This means that they (healthy members of the family) are not available for other household tasks including operating the family business.

### 3.2.5. Hospitalisation

Participants revealed that in cases of ill health resulting in hospitalisation, they were even more financially constrained than in the cases of short-term and/or long-term illness. The costs of hospitalisation include transport costs due to frequent visits to check on the condition of the sick household member, the actual costs of hospitalisation, medical costs, doctor’s costs and opportunity costs.

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3 A strain of malaria has recently appeared in highland areas with no history of the disease.
Assessing the Demand for Microinsurance in Kenya – Francis Simba

(during the time the member(s) of the household spends travelling and staying with the patient, the business may be closed or the children out of school).

3.2.6. Responses
Participants identified a range of strategies that they use. These strategies are mostly informal and many of them are hampered by the uncertainty surrounding illness. Participants stated that they are unable to plan for the risk of ill health because they do not know when it will occur or how serious it will be.

“We put aside something small but we do not know how much the drugs will cost.” (Maurice, SAGA Welfare Association, Nairobi)

A member of Mitumba Self Help Group, who is also a community health worker in Nyahururu, commented that lack of money and little education has made it difficult to control and reduce chances that some diseases, like tuberculosis and sexually transmitted diseases, would recur in the same individuals.

“When people feel well before they are completely cured, they stop medication and have probably run out of money. They seek treatment again soon after, sicker, and require stronger, costlier drugs.”

The coping strategies that participants use include:
- Loan diversion
- Drawing upon savings
- Borrowing from relatives and friends
- Fundraising
- Borrowing from associations
- Selling or mortgaging assets
- Seeking alternative medicine
- Diversifying their sources of income
- Resorting to the National Hospital Insurance Fund
- Acquisition of assets
- Preventative measures.

Details of these strategies are discussed below.

3.2.7. Loan Diversion
Although many participants did not join MFIs to get loans to finance medical bills, MFI loans have been widely used to meet health care expenses. Indeed, upon analysis of the trend of risks, more and more loans are being used for medical treatment, and this has progressively worsened in both rural and urban areas. PRA exercises revealed that over the last 10 years, the cost of health care has substantially increased and individuals divert loans as well as seek other sources of support.

“We could divert a loan to pay our doctor’s bills, among many other expenses, and still repay the loan. Now we have to struggle to repay loans if we don’t use this money in the business.” (FGD participant, Nairobi)

3.2.8. Savings
People who have put a little money aside and accumulate assets during good times regularly use them to meet costs associated with illness. However, although households regularly draw on their savings to meet health care costs, the rural participants stated that they never saved specifically for medical treatment. The reasons for these were myriad, such as the one below:

“Saving for medication would bring bad luck to the family . . . We pray to God that no one falls sick.” (FGD participant, Irima in Nyeri)
Many participants, however, agreed that this strategy is inadequate because savings are small and one can easily use all of a household’s savings or income to manage an illness. Participants told us that using one’s own income for a health crisis is limiting because there are a lot of demands on that income for other household expenses, especially food. Many households spend a large proportion of their income on food, the prices of which fluctuate with the seasons in Kenya.

Seasonality and wealth ranking data analysis indicates that the cash available for health expenditures fluctuates with relative food prices during the year and between the wealth groups. For example, during the dry season, food prices are high leaving households with very little extra cash, thereby reducing their capacity to cope with financial stress brought about by sickness. When food prices are low during the rainy season, a household has more extra cash and has a better chance of managing a health crisis.

Harvest seasons were also a factor. During the harvest season in rural areas, the community as a whole spends less money on food and sells part of the produce to raise money for emergency expenses. During the time of farm preparation or drought, poor households have nothing to sell but need money to prepare their farms.

3.2.9. Borrowing From Relatives and Friends

Many participants told us that they borrow from relatives and friends as a coping strategy for managing the risk of ill health. However, participants noted that assistance from relatives and friends is relatively small because of the economic problems affecting the wider community. In addition, the effectiveness of this strategy is undermined by the fact that ill health is a risk that is common to all and will affect everyone in the community at some time or another, including relatives and friends. Another disadvantage of this strategy is that participants from urban areas were wary of explaining their problems to their friends.

“People we could borrow from also do not have the money.” (Seasonality Calendar, Nyeri)

3.2.10. Fundraising

Fundraising, commonly referred to as harambee, is a common coping strategy to manage financial problems caused by ill health. A household in financial stress invites friends and sometimes the public to these fund-raising events where people contribute money or assets or auction items to offset huge medical bills. Hospitals often ask relatives and friends of patients to bring guarantors who can pledge some form of security to guarantee that the bill will be settled after the patient leaves the hospital. For example, a title deed for a piece of land would be kept by the hospital until the bill clears. They may agree on a time frame and how much will be paid periodically, say monthly.

“This could have cultural roots. The harambee spirit is very strong and it is possible for many people to feel that their misfortunes would be taken care of by contributions from others.”

(Erwin Brewster, Managing Director, ALICO-Kenya, Daily Nation, 2 July 2002)

3.2.11. ROSCAs and ASCAs

Rotating Savings and Credit Associations (ROSCAs) and Accumulated Savings and Credit Associations (ASCAs) are very common in rural areas and market places. All the groups that participated in this study have members that belong to ROSCAs or ASCAs. Although the purpose of these associations is to enable its members to accumulate assets (and are not timed to any particular risk), many members used their assets in a ROSCA to deal with cases of financial stress. It should be noted that some groups equated participating in ROSCAs and ASCAs, as well as having a loan from an MFI, to having multiple loans. But they rationalised this by arguing that membership in both an MFI and a ROSCA or ASCA was a precautionary strategy, not just for managing ill health but also for managing a wide range of other crises and risks.

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4This KiSwahili word means “pulling together” and it is synonymous with fundraising drives that are a very common occurrence in Kenya. Harambees are organised for specific purposes, for example, to raise funds to pay school fees or medical bills. Appendix Two has a more detailed description of harambee.

MicroSave-Africa – Promoting high-quality financial services for poor people
3.2.12. Sale or Mortgage of Assets
Many participants stated that they sold household items to cope with expenses related to illness. This was particularly true in cases of prolonged or long-term illness.

3.2.13. Alternative Medicine
Herbalists are generally considered to be cheaper than conventional doctors (although there are instances when the reverse is true). Notwithstanding the fact that many herbalists are not licensed, lack standards, and could in fact be a risk (misdiagnosis for example), participants identified seeking treatment from herbalists as a coping mechanism for managing ill health.

3.2.14. Diversification of Sources of Income
In rural areas many households diversify their sources of income. A farmer might have, for example, coffee or tea bushes and another non-farm enterprise, say a shop or taxi. The non-farm enterprise cushions the farmer against sharp income fluctuations in coffee or tea prices, especially if the rains fail, the harvest is bad, or if the prices are very low. Other farmers diversify their crops, and grow both maize and potatoes, or own livestock and conduct arable farming. Either way, the purpose of diversifying enterprises or businesses is to lessen dependence on one enterprise as the single source of income. If one enterprise fails, the second enterprise is able to provide some form of income thereby enabling a household to manage ill health.

3.2.15. National Hospital Insurance Fund
For many years only people who were salaried employees benefited from employer provided health insurance schemes such as the National Hospital Insurance Fund (NHIF). These schemes excluded self-employed people (particularly small manufacturers in the jua kali sector), the majority of which are MFI clients. However, the NHIF has now changed its policy to include self-employed people who pay a premium of KShs60 (about 77 US cents) a month in exchange for coverage by a range of services (except prescription drugs) at NHIF designated health facilities. However, the NHIF’s ability to effectively provide health insurance in rural areas is undermined because health facilities are few and far between and because the rural population has a limited understanding of insurance concepts and operations. In fact, two groups in the study were already in the process of joining the NHIF. However, since focussing on self-employed low-income people is a relatively new NHIF strategy, this study was not able to identify personal experiences with the NHIF from participants.

3.2.16. Assets Acquisition
Households normally purchase items such as bicycles and/or animals that can be used in times of crisis to transport people to clinics and hospitals when they fall ill. Households also purchase assets that can be sold quickly to raise money or converted easily into cash to cover emergency health costs. Other households sometimes pawn assets with moneylenders, which are repossessed once the crisis is over and the cash situation in the household improves.

3.2.17. Preventive Measures
Participants mentioned preventive health care as cheaper than seeking medical treatment upon the occurrence of the disease. This was mentioned particularly in the case of malaria where the purchase of mosquito nets or the destruction of mosquito breeding areas was cheaper than purchasing drugs (which in some cases could not treat drug-resistant forms of malaria anyway). Preventive measures (such as the use of condoms or being in a monogamous relationship) were also considered more effective in managing sexually transmitted diseases like HIV/AIDS.

3.2.18. Effectiveness of the Responses
Most health facilities in Kenya do not admit a patient unless an admission fee or deposit is paid. Therefore, a patient must obtain money before visiting a medical facility. In many cases it takes a day or two for the patient to raise the amount of money needed. The situation is further complicated by the reality that people cannot identify a single source for the lump sum of money they need to deal with this risk. In addition, the likelihood of getting help if the risk is repeated is reduced since the person will have gone round to all sources of money in the first instance of ill health.
3.2.19. Implication for Microinsurance

The responses of participants in managing cases of ill-health range from diverting loans, borrowing from friends and relatives, and fundraising activities to selling household or business assets. These responses are not effective for various reasons, including:

- **Inadequacy**: Sometimes a household’s savings or the income derived from the household’s business is not sufficient to treat the sickness, particularly long-term illness or when hospitalisation is required.

- **Timeliness**: A household is required to pay costs up front when hospitalisation is required. However, when a household seeks money through a fundraising drive or appealing to friends and relatives, admission is delayed. Health then deteriorates even further, requiring additional medical costs.

- **Lack of Planning**: Most households do not save money or assets with the express purpose of managing the occurrence of ill health. In the event that illness occurs, households are often caught unprepared and must sell valuable assets, even the capital assets of a business, to pay for medical treatment. After treatment, the household is poorer and sometimes left without a business.

- **Opportunity Costs**: When a member of a household falls ill, the energy of the rest of the household is diverted to treating the patient. This situation is compounded if the patient is the breadwinner because this means that he is not able to look after his business or go to work and earn his livelihood.

- **Fatigue**: A community is able to pull together to assist a household in the first case of illness, but if illness re-occurs they are less able to assist because the community itself has its own economic problems to deal with. Therefore, community members may become fatigued and unable to help during subsequent episodes of ill health in a household.

A microinsurance product designed with an eye to the weaknesses of these informal coping strategies could be successful. Such a product would have to ensure that low-income households:

- Have enough money to cater for medical treatment
- Have timely access to money particularly in the case of an emergency
- Are less dependant on relatives and friends (particularly in urban areas where the sense of community is not as strong as in rural areas)
- No longer have to obtain or divert loans
- No longer have to sell valuable assets.

A microinsurance product has the potential to ease the financial stress on households by permitting them to plan for the risk of ill health through the payment of insurance premiums. Such a product would have to be well communicated and marketed because understanding of insurance concepts is weak in low-income households. Many people will not understand the need to pay regular premiums for the occurrence of ill health if ill health itself does not occur, and there are still some superstitions about deliberate planning for misfortunes like sickness. The product would also have to be linked to the seasonality of incomes for low-income households. Many of them are not in formal employment and therefore do not have access to a regular weekly or monthly wage. Their income is irregular and therefore the microinsurance products would have to have a mechanism that allows for the payment of premiums in a more informal and unstructured manner that facilitates the needs of the household but also allows for the insurer to plan for his business.

3.3. Theft and Burglaries

3.3.1. Impact

All participants in the urban study cited theft and burglary as a major risk. In the rural study, a few participants mentioned it but in some FGDs the risk of theft did not come up at all. Unless the context indicates otherwise, ‘theft’ shall be used to refer to both ‘theft and burglary.’ This is possibly because the rural community is closely knit and people know each other well.

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5Unless the context indicates otherwise, ‘theft’ shall be used to refer to both ‘theft and burglary.’
6This is possibly because the rural community is closely knit and people know each other well.
lead to long-term psychological problems or even death for the victim. The impact of theft on MFI clients is also particularly significant since they must continue repaying their loan even though they have lost their source of income or investment.

3.3.2. Responses

Victims of theft responded to this risk in similar ways. Some opted to start a new business and sought help from one or a combination of the following:

- Borrowing money from friends and relatives
- Selling assets
- Seeking credit from suppliers
- Borrowing from ROSCAs and/or ASCAs
- Seeking contributions and gifts from group members

Some households took precautionary measures against theft by, for example:

- Hiring security guards or night watchmen
- Installing burglar proofing
- Purchasing dogs to roam around the household compound or business premises

Some communities devised unique ways of protecting themselves against theft. In one community, the participants slept at the business premises. This is because the thieves, who were invariably relatives or known to them, would want to avoid being caught stealing from the business. In a second community, thieves were lynched as a deterrent measure against further theft. In other communities, the risk of theft was not proactively handled but “left in the hands of God.”

3.3.3. Effectiveness of the Responses

Most participants coped with this risk by borrowing from friends, MFIs, and ROSCAs to start over again. Unfortunately, they told us that these coping mechanisms were not effective when they could not get the monetary support that they required.

Not all victims of theft are eligible for credit or monetary support from an MFI or ROSCA, particularly if they are not members or did not have savings with the respective organisations. Loans from friends, credit from suppliers and contributions from ROSCAs are not always timely. Finally, some participants mentioned that a business restarted after a theft is usually smaller than the previous one. This is, perhaps, because the monetary assistance that they obtain after a theft is not adequate to start the new business on the same scale as the one that was burgled.

3.3.4. Implication for Microinsurance

Theft is particularly devastating to microenterprises because most, if not all, of the assets of the business are kept in one location. Therefore, one attack from robbers can wipe out all the assets, work-in-progress, equipment, and machinery of the low-income or jua kali entrepreneur. Most entrepreneurs are at their most vulnerable after a burglary because their first response is to try and resuscitate the business, but they face numerous obstacles due to lack of money or credit facilities from suppliers or MFIs. In addition, they actually need larger sums of money to purchase new equipment and assets so they can continue with their work. But, without any form of collateral and with usually inadequate savings with ROSCAs and other welfare associations, a victim of theft is left with very few options.

Theft is a potentially insurable risk because it is not common to all members of the population. A microinsurance product could assist an entrepreneur to recoup his lost business or obtain enough capital to start another business or continue with his old one. Because microentrepreneurs have a regular source of income, they would be able to keep up with regular insurance premium payments just as they are able to keep up with regular loan repayments to an MFI.

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7 A pistol wielding gang attacked Mwireri Women’s Group from Nairobi’s Kariobangi Estate during its weekly group meeting. The treasurer was robbed of all loan repayments and savings she was preparing to take to the bank. The group lost almost KSh50,000 (about US$650). Their meeting place and common knowledge that they handle cash perhaps made them vulnerable to theft.
However, there are three difficulties in tapping this market. First, the valuation of loss to microenterprises is tricky since most of these businesses have widely fluctuating stock. Second, insuring microenterprises may be more prone to fraud than insuring other businesses. For example, ownership of assets may be more difficult to prove and there are also documented cases where some insurance subscribers have colluded with third parties to stage a robbery. Third, it would be difficult to estimate the potential loss of business to a microenterprise.

3.4. Fire

3.4.1. Impact

The cases of fire cited by the participants almost always led to a loss of personal, household, and business assets, sometimes everything that the participant owned. Many participants believed that sometimes the causes of fire were not accidental but deliberate. Among the most common causes of fire cited included:

- Politicians or the rich who have been allocated those plots by the government
- Devil worshippers who want sacrifice
- Rich Asian businessmen who are unhappy with competition from microentrepreneurs
- Congestion
- Inappropriate, flammable building materials
- Failure by local authorities to adhere to building codes due to bribery or corruption
- Increased cases of unprofessional electrical wiring and installation

The participants in the urban study mentioned three incidents of fire that led to widespread losses at the markets in which they operated their businesses, namely Freemark, Gikomba, and Garissa Lodge. In all three cases the loss was total and very little was salvaged. Although fires are not common occurrences, when they do occur the losses are huge and demand large amounts of money to enable the entrepreneur to overcome the impact of the crisis. Our data from PRA time series analysis of crises exercises reveal that most urban participants thought that the risk of fire had increased over the last 10 years due to poverty and congestion in informal settlements. According to participants, the highest cost components are the costs of rebuilding stalls, securing alternative residential dwellings, and replacing lost stock or machinery and equipment. Some participants believed that the loss of fire was so great that it led not only to the loss of one’s source of livelihood but also one’s identity.

3.4.2. Responses

The victims of fire responded to these risks in the following ways:

- Borrowing from friends/relatives/MFIs
- Selling assets
- Seeking credit from suppliers
- Participating in ROSCAs
- Harambees

3.4.3. Effectiveness of Responses

Many participants felt that their responses to loss caused by fire are neither adequate nor timely. For example, when a participant’s business is devastated by fire, he/she normally turns to a ROSCA to access money. However, the money obtained is not commensurate with the loss. This is because savings with the ROSCA are not linked to the value of a business but rather to the regular contributions to the association. One participant reported seeking access to credit from an MFI. However, in order to access credit he had to continue to save with the MFI and had no break between the receipt of the loan and the commencement of loan repayments. However, his ability to save let alone service loan repayments was severely constrained due to the loss of his business through fire.

3.4.4. Implication for Microinsurance

The impact of fire on a household or business is similar to the impact caused by theft. However, the impact of fire can be even more devastating if the business premises or the household dwelling is also destroyed. Therefore, victims of fire may also have to look for alternatives in locations that are not as conducive to business or as comfortable to live in. For a business to move, the loss is even more serious because the entrepreneur will have to create a new customer base and goodwill in the new premises, a time consuming and laborious process.
Just like theft, fire is a potentially insurable risk because it is a risk that is not common to all members of the population. Just as in the case of theft, a microinsurance product that enables an entrepreneur to recoup the costs of his lost business or obtain enough capital to start another business or continue with his old one would be the sort of assistance that an entrepreneur would need to get back on his feet again.

There are, however, three complications in developing a microinsurance product aimed at covering the loss caused by fire in low-income communities. First, many poor people live in areas where building codes are not honoured and dwellings are made from cheap, flammable materials. Second, poor people invariably live and/or work in congested areas where the risk of fire is even greater because once a fire starts it cannot be contained and it quickly catches on to the rest of the neighbourhood. For these reasons, microinsurance against fire in such areas would be difficult to design and/or obtain because the risk of fire is very high. It is not a manageable risk in low-income communities because the risk of its occurrence is greater than the risk of its non-occurrence. Therefore, taking protective or preventative measures against fire might be more appropriate and easier than obtaining microinsurance to cover the risk of fire.

3.5. Death

3.5.1. Impact
There was a consensus amongst participants that the occurrence of death has increased over the years. This was attributed to emergence of new diseases, poverty, and deteriorating levels of medical services in government hospitals. Many participants thought that death was amongst the worst of their crises since they could do little to prevent it. They know that a death will inevitably occur within their families but not when it will occur. Participants identified the impact of death as both financial and psychological.

Short-Term Impact: Although participants in the urban study said that death brought with it a lot of financial stress, the participants in the rural study did not feel that the financial stress was significant. This is because in most rural communities, death is a community-wide affair and everybody gets involved with contributions in cash or in-kind. Urban dwellers are considered immigrants and many communities, as a matter of tradition, bury their dead in their rural homes. This normally entails many expenses including mortuary fees and transportation costs.\(^8\) Once the body reaches the home of the deceased there is normally what is referred to as ‘feasting’ or ‘taking care of the visitors.’ In many cultures, people are obliged to pay last respects to their dead relatives and friends by visiting the home of the deceased, sometimes for several days.

Long Term Impact: The long term impact of death includes the loss of a companion, additional family responsibility for the surviving spouse, increased social and financial burden on households that have to take care of orphans of dead relatives, and the loss of a breadwinner leading to a loss in the source of livelihood for the household.

3.5.2. Responses
To cope with death, many participants depend on others for financial and/or moral support. Participants from urban communities depend on welfare associations, formed precisely for helping each other in the event of bereavement. Participants from rural communities depend on their clan and neighbours. Many of these coping strategies focus on managing the expenses related to the burial and funeral arrangements such as coffins, preservation of the body, and transportation costs. This coping strategy is only available to members of the community who actively participate, since it is a reciprocal arrangement. Most MFI clients have their own welfare arrangements within their groups and some contribute KShs200 (about US$3.00) per member in case a member dies or loses a close relative. The contribution is general and is not tied to any specific aspect of the burial arrangements. Many MFI customers are also able to access a loan insurance product from the MFI that helps defray some of the funeral or burial costs. Coping strategies, more often than not, do not focus on the livelihood of the members of the household of the deceased and do not normally consider the orphans or the spouse of the deceased. In addition, the

\(^8\)Transportation costs vary with the distance between one’s rural home and location where the death occurred. For instance, if the place where death occurred is Nairobi, people from the central parts of Kenya will incur relatively lower costs than those from the further western parts of Kenya, for example.
mechanisms are not designed to address long-term financial pressures on the household arising from a death in the family.

3.5.3. Effectiveness of Responses
None of the coping mechanisms, including loan insurance from an MFI, cover the full costs of funeral and burial arrangements let alone the continuing costs of the household afterwards. The payouts, as in the case of K-Rep Bank, cover the amount outstanding on a loan and an amount equivalent to the initial principal loan is given to the next of kin of the deceased. Welfare associations or clan funeral committees only cater for expenses during the funeral. They do not consider any loans the deceased might have had at the time of death and in many cases the family has to meet a substantial proportion of the costs from their own resources.

It also takes time for funeral welfare associations to respond to the needs of the family of a deceased member. Many participants cited cases where bodies were kept in local mortuaries for up to a month before enough money had been collected to pay for various costs. Funeral welfare associations are always overwhelmed in times when they have more than one death at the same time or members’ businesses are not doing well, thereby limiting their ability to contribute to the funeral fund. The association will be unable to meet the full costs of the risk in such situations.

3.5.4. Implication for Microinsurance
Death is an insurable risk notwithstanding its covariant nature. There are two components of the loss. First is the short-term loss, which requires the family of the deceased to make suitable funeral and burial arrangements. This is inevitably costly where the culture requires the deceased to be buried in the ancestral or rural home, and where feasting forms an important component of the burial ritual. Secondly, there is the long-term loss caused by a death in the family. If the deceased was the breadwinner, the loss is particularly acute because the source of family income is affected. In addition, the deceased may have left obligations that the family is unable to meet such as loan payments, household expenses, and school fees.

Practitioners designing an appropriate microinsurance package would have to consider these two aspects carefully. On the one hand, the insurance product should facilitate quick payout that would allow a family to make timely arrangements for the funeral (thus mitigating many of the major weaknesses of funeral welfare associations). On the other hand, the insurance product should assist the family to cope with the long-term loss occasioned by death, especially in the case of a breadwinner. In addition, the microinsurance product should be designed according to the cultural diversity in Kenya. A one-package-fits-all microinsurance product that covers death would be completely inappropriate as Kenya is a multi-ethnic society with different cultural practises, beliefs, and needs in relation to death.

Currently, MFI clients pay a percentage of their loan, usually 2% percent, for insurance against death. If the customer dies, the insurance covers the payment of the loan outstanding at the time of death and an amount equivalent to the initial principal of the current loan is paid to the next of kin. If a client does not have loan or if a family member is not an MFI client, then they cannot benefit from such insurance cover. Another option would be for MFIs to expand their loan insurance products and make it less restrictive.

3.6. Motor Vehicle Accidents
3.6.1. Impact
The participants defined accidents as calamities that were non-fatal but resulted in serious permanent or temporary physical disabilities. Participants in the study felt that motor vehicle accidents have increased over time due to an increase in the number of vehicles, the un-roadworthiness of many motor vehicles, and the poor conditions of many roads. Participants noted that the risk of motor vehicle accidents increases during the Christmas holidays as many people travel during this time.

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9 Covariant risks are those that are common to all or most members of a group.
10 For example, Muslims are required to inter dead bodies immediately and, therefore, Muslims are buried in towns or other locations where they die. Other communities in Kenya, especially those from the western parts, always bury their dead at their rural homes, so if they die in other places the bodies must be transported home. The costs of funeral expenses for a Muslim family would therefore be less than those of Luo family where transportation costs are much more significant.
Motor vehicle accidents are potentially devastating, particularly when they result in disability. Therefore the impact and effect of a motor vehicle accident is similar to the effect of ill health on a family, especially where the affected person is the breadwinner of the family.

Current MFI insurance arrangements do not cover motor vehicle accidents. Therefore, the client of an MFI who is injured as a result of a motor vehicle accident must continue to repay his loan even if he has lost his ability to effectively run his business.

The response by motor vehicle insurers is weak and this exacerbates the overall impact of accidents. In Kenya, the motor vehicle insurance industry is notorious for tardiness and the awards, if they come at all, are often too little too late. One participant in the study who was injured in a motor vehicle accident waited five years before the compensation award came through. Meanwhile, her husband had medical insurance at his place of work and this paid for the treatment that she required immediately after the motor vehicle accident. The process for claiming insurance is usually done through lawyers, and this makes claims much more expensive and time consuming.

3.6.2. Responses
Participants told us that there are two key ways in which they respond to the risk of motor vehicle accidents, neither of which is preventive. First, they attempt to claim compensation from the insurer of the motor vehicle. This is because, at the very least, the owner of a motor vehicle must have third party insurance. Second, they seek ways to obtain money for treatment, for example through a medical scheme.

Surprisingly the participants in the study did not mention any particular coping or preventive mechanisms they use for the risk of motor vehicle accidents although they knew colleagues who had suffered disabilities as a result of accidents. Although many participants understood that this risk requires insurance just like illness or death, none of them was insured. The reasons included the cost of insurance premiums and insurance coverage terms and conditions that they did not readily understand.

3.6.3. Effectiveness of Responses
The coping mechanisms in the case of motor vehicle accidents are not timely and the cost of the loss is possibly way above what the coping mechanism can cover, for example in the case of permanent disability. The coverage provided by third party insurance is inadequate because the victim of motor vehicle accident must always pay for his own medical care, thereby forcing him to raise the cash to meet his medical expenses. Furthermore, part of the claim documentation is medical bills, all of which must have been settled by the victim before they can be processed. Participants therefore noted that they must source money first and obtain medical treatment before they can seek compensation from the insurers of the motor vehicle.

3.6.4. Implication for Microinsurance
Participants told us that they are well aware of the need to insure against motor vehicle accidents. Therefore, low-income communities would readily understand microinsurance product for motor vehicle accidents. This is an important finding because it means that this particular microinsurance product will not be a tough sell as are microinsurance products for ill health. Such a microinsurance product should aim at mitigating the weaknesses of processing motor vehicle accident insurance claims, specifically the time-consuming process of filing a claim, the expense of filing a claim if lawyers are used, and the requirement that the victim pay medical costs first and then seek reimbursement later.

The challenge, therefore, is in developing a microinsurance product that covers motor vehicle accidents that is cost effective for low-income communities and does not have terms, conditions, or limitations that make it less attractive to the target market. Another challenge would be to develop a product that covers not only the immediate costs of medical treatment resulting from an accident but also covers the costs of

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11In Kenya all motor vehicles are required to have, at a minimum, third party insurance cover. Under this cover, whenever a person or property is injured by a motor vehicle, the insurance cover purchased by the owner of the motor vehicle compensates the injured party. Third party insurance, however, does not cover damage to the motor vehicle or injury to its owner. It also does not cover passengers who have paid a fare to board private vehicles, that is, motor vehicles that are not licensed to carry fare-paying passengers.
disability, including loss of income and continuing medical treatment. Finally, the microinsurance product should have a mechanism for easily verifying motor vehicle accident insurance claims.

3.7. Demolition
3.7.1. Impact
The majority of urban participants have had their business structures demolished or knew someone whose stall had been demolished by the Nairobi City Council or local authority. This has caused widespread loss of business and livelihoods. Many respondents thought these demolitions were due to corruption. For example, demolitions seemed to occur around the same time the plots on which the businesses were located had been allocated to an individual. Many victims of these demolitions are MFI clients. After a demolition victims find they are unable to repay their loans since their businesses have been destroyed. Although demolitions are only occasional events, the financial pressures are quite high because MFI clients not only have to look for money to restart their businesses but they also have to relocate to new areas and start building a new customer base.

3.7.2. Responses
Demolition of business premises results in the loss of assets for many microentrepreneurs. Some have taken to lobbying their local elected leaders against this practise. In some communities, victims of demolitions responded to the loss by borrowing money from friends or ROSCAs.

3.8. Effectiveness of Responses
Some of the responses, such as lobbying, have been effective in preventing further demolitions. They do not, however, compensate for the loss. None of the current coping mechanisms (borrowing from friends, relatives and/or ROSCAs) can completely cover losses resulting from demolition.

3.8.3. Implication for Microinsurance
The risk posed by demolitions is better managed by seeking changes in policy or legislation rather than insurance.

3.9. Floods
3.9.1. Impact
Although participants saw floods as a potential risk, only a handful had witnessed floods in the last two to three years. Since the extensive flooding caused by an unusual weather pattern (El Nino) in 1997/98 there have been very few incidences of flooding. In terms of costs, flooding results in widespread (covariant risk) loss to life and of assets. Financial pressures of this risk are quite high since the victims have to look for an alternative source of livelihood.

3.9.2. Responses
Many coping mechanisms related to floods are geared towards assisting the victim to start another business. They borrow money from ROSCAs, friends, and relatives. Occasionally victims are helped by the government or relief agencies.

3.9.3. Effectiveness of Responses
The responses are always relief-based and temporary. Victims are given shelter, food, and perhaps medication.

3.9.4. Implication for Microinsurance
Insurance is perhaps not an effective response to this risk because flooding does not occur frequently in Kenya. Precautionary policy level measures would be more effective. Resettlement in areas that are not prone to floods as well as building protective walls and dykes would also be very effective measures in dealing with the loss and damage caused by the infrequently occurring risk of flooding.

3.10. Life Cycle Risk
3.10.1. Impact
The life cycle crisis that caused the greatest financial pressures for both urban and rural communities was the high cost of educating children. This financial pressure has adverse consequences on both business operations and the household. For example, school fees are sometimes paid from business capital,
thereby reducing business stock and preventing the business from expanding. Loans from MFIs are sometimes diverted to pay school fees, and some children are forced to stay at home because their parents are unable to raise money. The financial pressure on households can be even more severe when they have to pay school fees for children of relatives as well, particularly those who have been orphaned as a result of the HIV/AIDS pandemic.

3.10.2. Responses
Most participants cited school fees as a risk because financing has become more difficult in the years since the government reduced funding for education. School fees and related expenses have tended to increase every year and participants largely feel unable to plan in such a situation. Participants have often used business capital to fund their children’s education. In extreme cases, they have sold productive assets or borrowed from multiple sources. Another coping mechanism was to call a harambee.

3.10.3. Effectiveness of Responses
This risk has been worsened by Kenya’s poor economic situation. With business not doing well and per capita income steadily declining, people are often unable to cater for their household needs let alone school fees for their children. Most responses are inadequate (the cost of school fees, uniforms, books and so on is prohibitive), untimely (by the time a harambee is organised it is usually because a child has been sent home from school), or unproductive in the long run (when part of the business capital is used or assets sold to pay for school fees, the growth of a business is limited). No one plans these responses in advance and they are normally reactive, that is, they are employed when a child is already languishing at home and not going to school.

3.10.4. Implication for Microinsurance
Although many formal insurance companies in Kenya have education insurance to cover a range of education-related expenses, they operate like savings schemes. The insurance aspect of an education policy is that if the guardian or the subscriber dies, then the premiums are waived. The other terms and conditions, however, remain the same. For MFI clients, a loan product or a savings and loan product would be more feasible than insurance. Perhaps a policy level response from the government or more bursaries and fellowships from public or private organisations would go much further in easing the stress of financing education during very bad economic times.

3.11. Adverse Economic Conditions
Though this risk is not insurable, it came up in almost all the FGD and PRA discussions irrespective of whether the participants were from rural or urban communities. It is discussed in this study in order to provide a context for other risks that are exacerbated by it.

3.11.1. Impact
In the past five years Kenya’s per capita income has registered an average negative growth rate of minus 1.13% per annum.12 This situation has had a negative impact on businesses, especially those owned by MFI clients. Poverty levels have increased caused by the loss of formal sector jobs, increasing competition for economic opportunities in the informal sector, and increasing prices of basic commodities making it impossible, sometimes, for low-income households to afford even a simple meal.

Other problems have also emerged. Small businesses owned by low-income people have suffered greatly due to increased competition and lack of diversification. Many small business operators and low-income people invested heavily in these businesses when many formal enterprises closed due to stiff competition (from imports and lack of markets), and many people were retrenched and laid off. Credit sales are risky and incidences of bad debts are high. Subsequently MFI clients lost their customers and their investments seemingly overnight. In rural agricultural areas, the problem has manifested itself in terms of low prices for agricultural produce. The crisis has disrupted many households’ ability to generate income and their ability to manage risk.

The government has few well-functioning mechanisms and limited resources to provide services to the poor segments of the population. Low-income communities therefore suffer from unemployment and

lack adequate income to buy food, pay school fees for their children, or pay for medication when they fall sick. Although this risk affects both the poor and the relatively wealthy, the poor are more adversely affected since they are unlikely to have substantial savings or assets to fall back on. In addition they may have less diversified sources of income. They also lack effective insurance systems to fall back on during the difficult economic times. Participants were able to cite cases of children they knew that had dropped out of school because the parents could not afford to pay their school fees and related expenses such as books, school uniforms, and fares for transport to school. Adverse economic conditions have potentially irreversible and long-term effects on children. It may affect their adult life, ensuring they also remain as poor if not worse off than their parents.

In the time series analysis of crises exercise with Mageria Ushindi in Othaya, the issue of family stability emerged as a distinct result from poor economic conditions. PRA and FGD discussions revealed, however, that the root cause of family instability was the inability of the husband or the breadwinner to be able to provide for the family and this caused substantial tension and instability within the family. Other family members often view the inability of the breadwinner to buy food, clothes, pay for the children’s education, or repay MFI loans as absconding from his/her responsibilities. Such stress and tension sometimes causes the family to disintegrate as some men abandon their families.

3.11.2. Responses
Low-income earners are coping with risks arising from adverse economic conditions in many different ways. The coping strategies are both financial and non-financial. Both urban and rural participants reported that they must borrow from relatives, friends, ROSCAs, or MFIs. In some cases, they borrow from a combination of sources to resolve a single crisis. Others diversify and create new businesses. Many of the participants have savings but these are not generated with a particular risk or crisis in mind. The savings are used to address whatever calamity the household experiences. The money saved comes from different sources including business and remittances from relatives, especially offspring. As a precautionary measure, many people purchase assets, especially land, as way of saving to manage risk, but in a crisis they are sometimes forced to dispose of these assets at a fraction of the purchase price. Some participants in the study even reallocate cash from daily consumption; for example, they reduce or eliminate meat from their diets or take their tea without milk to be able to make ends meet.

3.11.3. Effectiveness of the Responses
Adverse economic conditions are covariant risks that affect the whole population, if in differing degrees across wealth groups. This risk, however, increases the number of poor people since many more people are out of work. The effectiveness of responses is undermined because adverse economic conditions force people to sell assets, including business equipment, machinery, and land, at a fraction of their cost and the buying power of customers is also severely hampered.

3.11.4. Implication for Microinsurance
Microinsurance against adverse economic conditions is not feasible because of the covariant nature of this risk. Perhaps a more effective response would be at the government policy level. The ‘Social Dimension of Structural Adjustment’ was one such programme. Unfortunately, this programme did not work very well due to its complicated bureaucratic design. Policies that ensure that the poor have adequate safety nets, that maintain their access to education, health, and other services, and that ensure they do not lose whatever assets they have accumulated could be a starting point.

4. Discussion
4.1. Informal Coping Mechanisms
It can be concluded from this study that low-income people in Kenya have a variety of coping mechanisms for risks posed by health, thefts and burglaries, fire, death, motor vehicle accidents, demolition, floods, life cycle risks and adverse economic conditions. Out of necessity, informal coping

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13One member from Trust Self Help Group in Kibera simultaneously runs four businesses (taxi, a shop, second hand clothes, and a bar).
mechanisms are the norm for low-income communities because Kenya lacks formal protection systems for the low-income economic sector. The most common ones are:

- The sale or mortgage of assets including business equipment and machinery
- Borrowing money from friends and relatives
- Borrowing money from MFIs
- Organising *harambees*
- Withdrawing savings from ROSCAs, ASCAs, and other welfare organisations
- Diverting MFI loan funds
- Diversification of sources of income, for example, operating two to four businesses
- Purchase of assets that are easily convertible to cash during times of crisis
- Seeking credit from suppliers
- Soliciting contributions from fellow credit group members
- Lobbying elected representatives for policy changes
- Use of business capital to pay for recurrent expenditures like school fees
- Saving for emergencies

4.2. *Coping Mechanisms of Rural and Urban Communities*

This study identified some differences between the coping strategies used by rural and urban communities. The differences are most marked in the case of managing loss caused by bereavement. For urban communities, death causes great financial stress mainly because urban dwellers must meet the high costs of transporting the deceased to his ancestral home. For rural people, the financial stress caused by death is not as severe because the closer-knit community often assists the family with funeral and burial arrangements, and also provide the needed psychological support.

When a risk has the likelihood of recurring, for example with chronic illness, members of urban communities are more likely to join welfare organisations as they recognise the financial burden associated with chronic ill health. In rural communities, the practise of planning for ill health is not as entrenched and therefore the coping mechanisms tend to be reactionary (borrow money from friends and relatives) rather than proactive.

4.3. *Challenges in Designing Microinsurance Products*

Participants told us that they have two main problems with the management of risk. The first is uncertainty as to whether or not given risks will occur. The second is that risk is unpredictable: no one knows when a risk event will occur. Consequently, planning for risk management is not widely practised, but informal coping mechanisms for reacting to risks when they do occur is more developed. However, participants recognised that some forward planning would assist them in mitigating the effects of risks, but they did not have a sound understanding of insurance concepts or its advantages. Therefore there are a number of challenges in designing appropriate microinsurance products.

1. The Intangibility of Insurance: Paying insurance premiums means paying for a product that is intangible. It cannot be touched or felt and after a period of time paying insurance premiums, the subscriber is sometimes hard pressed to understand what he is purchasing. This problem becomes more acute when the risk being insured against does not occur within the insurance term. The subscriber begins to sense that he does not need the insurance cover, starts defaulting on premiums, or drops coverage altogether. Most low-income communities need to be advised that they are getting value for their money by obtaining insurance for key risks such as health, death, and school fees, even if the risk event does not happen.

2. Communication of Insurance Concepts: Some participants understood the need for planning against ill health, motor vehicle accidents, and the like and some even went so far as to say they would consider insurance. However, one challenge for microinsurance products is that the terms, conditions, and limitations are difficult to understand or grasp. In addition, there is limited knowledge among the average low-income earner on how insurance actually works. Therefore when developing a microinsurance product, practitioners will have to develop one that is easily communicable to its target market and is not deemed too complex.
Due to inadequate knowledge of insurance, pre-launch marketing processes and materials must be developed to suit the clients. In areas where community participation is thought to be essential (for example in communities where there is mistrust of insurance representatives), then some tasks, such as community education, could be left to community members. A local MFI could train community leaders to undertake this role.

Some insurance companies in Kenya operate coverage that is similar to a savings account. Members pay their premiums and if the insured risk does not occur then they get their money back. MFI clients should be educated that microinsurance is not a savings plan and that if they do not fall sick they do not get their money back.

3. Customer Service: The experience of many participants who had dealt with insurance companies and who had MFI loan insurance products was not positive. Some participants felt that the insurance companies or the MFI did not seem to value their business, did not want to talk to them, and did not acknowledge them as valued customers. Participants would like better customer care from their insurers and would like to be acknowledged once in a while as valued customers, for example offered calendars or Christmas cards once a year. Participants do not wish their relationship with the insurance company to be only the payment of premiums.

4. Cost of Premiums: Low-income communities generally do not have excess liquidity and their income is used for very many and sometimes competing claims. This ranges from household expenditures to loan repayments and paying off creditors. In addition, the capacity of low-income households to save or plan for future expenditure is hampered by low returns in business due to adverse economic conditions. Therefore, a microinsurance product should be priced at a level that is affordable to low-income communities but also makes business sense for the insurer. Clients must understand what it is that they are paying for.

5. Seasonality of Incomes: Selling microinsurance in urban areas may be easier than selling the same product in rural areas. In urban areas, entrepreneurs are more likely to have a steady source of income and are therefore better able to make regular premium payments on a monthly basis. However, many low-income people, not only in rural areas but also urban areas, do not have regular sources of income. They are, therefore, unable to plan more than a week at a time. For them, weekly payments may make more sense than monthly, bi-annual, or annual premiums. In addition, farmers have seasonal incomes. They usually have extra cash during the harvest season, but during farm preparation season they are straining to make ends meet. Therefore the seasonality of incomes must be matched with premium outflows before any microinsurance product is introduced in the market.

6. Microinsurance Institutions: MFIs were established because the traditional banking sector deemed low-income communities as risky. In the same way, insurance firms are unlikely to insure low-income communities or entrepreneurs because they are considered a risk and expensive to insure. There is the possibility that the low-income community will be unable to access microinsurance products from formal insurance companies. Therefore this niche in the market may be best exploited by existing MFIs acting as agents for insurance companies and introducing insurance products as part of the loan process or as stand-alone products for their customers.

4.4. Recommendations for Microinsurance Products

In this study, health insurance, life insurance, and asset insurance were identified as the most feasible risks to be covered by microinsurance. These opportunities are discussed in greater detail below.

4.4.1. Health Insurance

There is an active demand for health insurance in the low-income market. The issues of affordability, accessibility, and moral hazard need to be addressed, however, for this product to be successfully targeted for low-income communities.
Moral hazard needs to be addressed. In Kenya, many formal health insurance companies are overcharged by designated health facilities. This is because the facilities perceive that it is the insurance company that is paying and not the client. This kind of moral hazard would have to be dealt with in designing microinsurance cover for health care.

Quality of service is an issue as well. It is important to choose a reputable health service provider, especially in cases where the health service provider does not manage the insurance scheme itself. The health service provider should have the facilities, medicines, and appropriate personnel. If possible, clients could be involved in selecting the health care facility. This offers clients a choice of the service provider they feel gives the best quality service at an affordable price.

The cost of health microinsurance must be examined. Although the majority of MFI clients do not know much about insurance, the few who do mentioned the cost of premiums as the biggest obstacle to purchasing. If affordability is addressed then poor people will be able to join health schemes, since they indicated they would pay an affordable premium in exchange for the peace of mind knowing their medical expenses are covered should ill health occur.

The terms and conditions of the health microinsurance should be clear and easily understood by subscribers. Key terms such as the dates and deadlines for paying premiums, criteria for becoming a beneficiary; claims processing procedures, restrictions that may be imposed on members, for example, should be clearly explained. Clients need to understand why there is a waiting period before members begin receiving coverage, the number of members that can be covered in a household, whether chronic medical conditions are covered, what illnesses are covered, and if the scheme allows members to make partial payments of their premiums.

A health microinsurance scheme could also be managed by the health facility itself and MFI clients could get loans from an MFI and pay for the insurance at the health facility directly. This would eliminate delays processing claims.

Many MFIs are wary of engaging in microinsurance. To mitigate this concern, MFIs could form partnerships with formal insurance companies to provide not only affordable insurance coverage but also premium schedules that address the problem of seasonality of household cash flow. Providing a separate health loan product that is paid directly to the insurance company, which in turn provides health coverage to the client, could do this. The client, in turn, would repay the loan in small affordable instalments to the MFI.

4.4.2. Asset Insurance
Households try to insure themselves by accumulating assets. Some of these are productive assets and are used by households to generate income. But some of these assets are often exposed to other risks, such as fire, theft, and floods. When a carpenter loses his tools or a tailor loses her sewing machine through fire at the market or flood, the household loses its ability to earn a living and therefore becomes more vulnerable.

Covariant risks such as floods and fires often affect a large segment of the population and hence are not insurable. An MFI could, however, introduce a microinsurance product that covers only certain categories of productive assets (either by age, value, use, or those bought with an MFI loan) against irreparable damage or loss. The MFI would also decide whether the insurance is optional or a compulsory product alongside its other microfinance products. However, the insurance policy should clarify whether the loss needs to be independently verified to limit the moral hazard of insuring against asset loss. For example, to avoid fraud the MFI would avoid cash payouts and instead replace the lost item.

4.4.3. Life Insurance
The impact of death is always devastating. It includes the loss of income if the deceased is also a breadwinner, creates more responsibility for the surviving spouse, causes financial stress for the household through funeral and burial expenses, and the burden is increased if the household must take care of orphans.

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The current life insurance provided by MFIs tends to cover only its clients and only during the loan period. Upon the demise of the client, the insurance takes care of the balance of loan repayments. Ideally, an MFI life insurance product should offer complete coverage and the payout should include more than just the immediate needs for cash (for transportation, funeral and burial costs); it should include coverage for long-term purposes like the education of the children of the deceased client.

However it should be noted that in many cases informal arrangements like funeral welfare associations are quite strong. Microinsurance should therefore seek to complement and not replace these social support systems. This will ensure acceptance, a sense of ownership, and sustainability of the microinsurance product.
Appendix One: Analysis Matrices

**Time Series Analysis of Crises: Othaya**

**Location:** Othaya-Mageria-Ushindi  
**Moderator:** Francis Simba  
**Assistant Moderator:** Jane Mbaisi  
**Date:** 6 June 2002  
**Number of Participants:** 14  
**Businesses:** Utensils, food kiosks, bar, grocery shops, second hand clothes

<table>
<thead>
<tr>
<th>Risk</th>
<th>This year</th>
<th>Last year</th>
<th>Five years</th>
<th>Ten years ago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Down Turn</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Theft</td>
<td>5</td>
<td>5</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Fire</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>School Fees</td>
<td>5</td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Bad Debts</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Sickness</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Family Instability</td>
<td>5</td>
<td>5</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

**Time Series Analysis of Crises: Othaya – Analysis Matrix**

**Location:** Othaya-Mageria-Ushindi  
**Moderator:** Francis Simba  
**Assistant Moderator:** Jane Mbaisi  
**Date:** 6 June 2002  
**Participants:** 14  
**Businesses:** Utensils, food kiosks, bar, grocery shops, second hand clothes

<table>
<thead>
<tr>
<th>Event</th>
<th>Trend</th>
<th>Reasons</th>
<th>Coping Mechanism</th>
<th>Trends</th>
<th>Limitation</th>
<th>Implication</th>
</tr>
</thead>
</table>
| Economic Down Turn | 5-4-2-1 | 1. The economy has been on the decline since the 1992 elections when most world bank loans were suspended.  
2. High inflation due to government printing money.  
2. ROSCAs  
3. Diversion of loans due to lack of demand for goods.  
4. Multiple loans. | Borrowing from these sources has become even more difficult. | Friends and relatives can only lend a person so much. Multiple loans are expensive because one has to fill in many application forms and attend many meetings. | 1. Many MFIs provide only enterprise loans. However, these loans are being diverted due to poor business prospects. MFIs should be able to respond to this.  
2. MFIs should create products for needs caused by economic down turns. |
<p>| Theft            | 5-5-2-0 | Many theft cases used to exist but they have now increased due to lack of productive opportunities, | 1. Spend money on burglar proofing and guards | 1. Expensive and sometimes does not work, for example, the |</p>
<table>
<thead>
<tr>
<th>Issue</th>
<th>Score</th>
<th>Description</th>
<th>Solutions</th>
<th>Notes</th>
</tr>
</thead>
</table>
| Fires                      | 4-3-2-1 | 1. People no longer follow building codes, they lack fire extinguishers, and build under power lines  
2. Lack of land leads to congestion  
3. Many cases of arson | 1. *Harambees*  
2. Welfare  
3. ROSCAs | No security against fires insurance don’t want to insure structure that are improperly constructed or illegal |
| School Fees                | 5-5-0-0 | 1. This year is bad since we have no money for tea coffee or milk.  
2. Business is bad purchasing power is low | 1. Negotiate with the head teachers to pay by instalments  
2. Use some microfinance loans to pay school fees  
3. Borrow from friends | These sources are not assured sometimes the headmasters refuse, friends have little money |
| Bad Debts                  | 4-3-2-1 | Most cannot afford cash because some are paid monthly and therefore for the business people to stay competitive they sell on credit. But some who buy on credit run away | Kaa ngumu*- insist on cash or people leave their National Identity Cards  
Good clients suddenly fail to pay | Clients used to pay well.  
Can an MFI that has the systems “buy” some of the debts at a profit |
| Sickness                   | 5-5-5-2 | 1. New diseases like HIV/AIDS, typhoid  
2. Because of bad economy people are not eating good food  
3. People cannot pay for hospitalisation so they go to hospital when the situation is really bad | 1. MFI loans  
2. Borrow from friends  
3. Many are thinking of joining NHIF | |
| Family Instability         | 5-5-2-1 | 1. Effect of stress in the families is they are not able to pay loans and other bills  
2. Breadwinner unable to provide for the family | 1. Tolerance  
2. Pray to God | |

* Kaa ngumu is a Swahili word, which literally means ‘sit tight’. Translated, however, this phrase means insisting on cash or some form of security before one sells on credit.
**Focus Group Discussion: Nyeri – Analysis Matrix**

**Location:** Nyeri-Irima-Kati Kati  
**Date:** 05 June 2002  
**Participants:** 6  
**Businesses:** All Auto Spares

<table>
<thead>
<tr>
<th>Risk Event</th>
<th>Impact of the Risk</th>
<th>Response or Coping Strategy</th>
<th>Effectiveness of the Coping Strategy</th>
<th>Implications</th>
</tr>
</thead>
</table>
| **Economic Down Turn** | 1. Unable to repay the loan  
2. Anxiety and stress  
3. Inability to purchase enough stock  
4. Lack of customers | Purchase of only essentials and reduction of consumption  
Extra cash reinvested in the business so that they can have something to fall back on as well as the expectation that this will bring in extra profits | The stock might remain unsold due to lack of customers | Leads to sale at low profit margins and leads credit sales. This creates potential for bad debts |
| **Theft** | 1. Collapse of business  
2. Unable to repay loan/rents  
3. Unable to pay school fees for the children  
4. Unable to pay rents | 1. Hire of guards  
2. Burglar proofing | 1. Sometimes they kill the guards  
2. Or use gas torches  
3. Some have master keys | 1. Potentially insurable because it also direct affects the business  
2. There are very few coping mechanisms in terms of cash. |
| **Fires** | 1. Loss of stock or business  
2. Loss of dwelling units and business premises | Relatives, friends, or neighbours may give some assistance e.g. food | 1. Ensure appropriate wiring to limit the possibility of electrical fires.  
2. Generally be careful | Difficult to prevent because fires may originate from the neighbours since the houses are too close |
| **School Fees** | Reduces stock since many business people simply utilise part of the capital. | Request the head teachers to let children stay in school and while they look for the cash. | They do not save for school fees as such but any extra cash is reinvested into the business so that when time for school fees comes, the business at least can accommodate the extra demand. | 1. It depends on the goodwill of the head teachers  
2. In households there are many unpredictable problems that require lump sums and the ability to prioritise is undermined because needs are dealt with as they come on “first come first served basis”  
1. It appears that, although school fees are relatively predictable it is still difficult to plan for it due to other needs that interfere with the “plans”.  
2. Some form of savings- maybe compulsory with limited access – can be encouraged |
| **Sickness** | 1. Costly treatment and cannot wait.  
2. Unable to operate the enterprise  
3. Unpredictable | Circulate the cards for contribution from public  
Join NHIF | 1. The contributions are normally small and some people pledge but do not eventually contribute.  
2. Getting permits to collect money from the public is normally difficult | 1. Coping strategies are inadequate since many of them are untimely and cover only some aspects of health expenditure e.g. bed only.  
2. Government hospitals lack facilities and essential drugs. The only alternatives are private clinics that are too expensive.  
3. MFI can introduce a product that covers costs of associated with sickness and meet loan instalments that come due |
### Death

| 1. Loss of income if the deceased is also a bread winner |
| 2. More responsibility if either of the spouses dies |
| 3. Expenses that go with the death e.g. burial expenses |
| 4. Orphans left behind by relatives also become the responsibility of surviving relatives |
| 5. Many people have to close their business while making burial arrangements for relatives/friends |

1. Neighbours and friends do burial arrangements and also contribute cash non cash e.g. transport
2. Also these are done in the understanding that it is reciprocal

Ensuring that they participate in these functions since it is a form of insurance, others will only get involved in yours if you go to theirs

1. One gets assistance if one has done it to the others
2. The contributions are rarely enough since there are so many expenses
3. During the preparation many expenses e.g. meeting, refreshments transport

The MFI could improve the existing strategy/product to take into account the many expenses associated with this crisis.

### Starting Home

Requires a substantial lump sum of cash which usually comes from
their business

Start with fewer rooms and use not so expensive materials

1. Prepare a “long term plan”-start planning early
2. Seek mortgage from HFCK

1. Lack of awareness among MFI clients
2. Initial deposit still way above what MFI can afford

1. MFI can help create awareness
2. MFI can develop products to cater for this.

### Floods

1. Business and/or residential premises are destroyed as well as stock
2. They have to relocate to new premises/areas which costs money
3. They have to capture new customers

Unaffected neighbours, friends and relatives provide assistance, some food for few days.

The only assistance provided is food and only for a few days (2-3 days).

MFI should focus beyond relief

### Credit Sales

1. Leads to bad debts especially when the economy is bad
2. Failure to purchase more stock
3. Closure of business
4. Delayed payments

1. Follow the defaulting clients
2. Write off if the cost of following is too high

1. Avoid giving large credit to few individuals
2. Insist on cash only
3. Insist on down payment of at least 50%

Debt collection is difficult among the MFI clients since when they follow the debtors they sometimes sympathise with them e.g. give them 100/= or buy a cup of tea for them

Insurance for credit sales or training or hire professional debt collectors

### Over-Indebtedness

Multiple loans from different MFIIs at the same time as well as from friends, etc.

Pay the one that is tough and insistent first, then pay the rest as it becomes manageable to do so

Leads to anxiety and stressful situations and they avoid meeting other group members

1. MFI should introduce products that responds to several needs of the clients
2. Or make the current products appropriately flexible

### Notes: Overtaxation:

There are too many taxes on the business in January, which needs a lump sum of money, and so the clients try to evade tax and give bribes, which prove to be more costly
### Focus Group Discussion: Kibera Trust – Analysis Matrix

**Location:** Kibera Trust  
**Date:** 23 May 2002  
**Participants:** 5  

**Economic Down Turn**
- 1. Failure to pay school fees, rents  
  2. Unable to repay the loan  
  3. Anxiety and stress  
  4. Inability to purchase stock  
  5. Lack of customers  

**Impact of the Risk**
- 1. Costly treatment  
  2. Opportunity cost of time to look after the patient  
  3. Special diet costly  

**Response or Coping Strategy**
- 1. Keep proper hygiene and good diet  
  2. Seek treatment from herbalists  
  3. Visit witch doctors  
  4. Visit a clinic, hospital  

**Effectiveness Of the Coping Strategy**
- 1. Avoid multiple partners  
  2. Use condoms  
  3. Mosquito nets  

**Implications**
- 1. They save even when they do not have surplus  
  2. Inability to purchase leads to further loss of customers since the goods they need may not be in stock  
  3. Inability to repay the loan leads to delinquency in the lending MFI  
  4. Loss of assets

**Theft**
- 1. Collapse of business  
  2. Unable to repay loan/rents  
  3. Unable to pay school fees for the children  
  4. Unable to pay rents  

**Impact of the Risk**
- 1. Loss of stock or business  
  2. Loss of dwelling units and business premises  

**Response or Coping Strategy**
- 1. Sale of personal assets (land) to start another business  
  2. May get credit from suppliers  
  3. Loans from friends  

**Effectiveness Of the Coping Strategy**
- 1. Hire of guards  
  2. Burglar proofing  
  3. Prayers leaving it to God  

**Implications**
- The new business is normally smaller  

**Fires**
- 1. Loss of stock or business  
  2. Loss of dwelling units and business premises  

**Impact of the Risk**
- 1. Costly treatment  
  2. Opportunity cost of time to look after the patient  
  3. Special diet costly  

**Response or Coping Strategy**
- 1. Keep proper hygiene and good diet  
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  3. Visit witch doctors  
  4. Visit a clinic, hospital  

**Effectiveness Of the Coping Strategy**
- 1. Avoid multiple partners  
  2. Use condoms  
  3. Mosquito nets  

**Implications**
- Witch doctors take advantage of AIDS patients with expensive treatment and risk re-infection  
- 1. HIV/AIDS is recognised as a killer and many prevention strategies include prevention of HIV/AIDS  
  2. Government hospitals lack facilities and essential drugs. The only alternatives are private clinics that are too expensive.
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<table>
<thead>
<tr>
<th>Time Series Analysis of Crises: Kibera Trust</th>
</tr>
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<tbody>
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<td><strong>Location:</strong> Kibera – Trust</td>
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<tr>
<td><strong>Moderator:</strong> Jane Mbaisi</td>
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<tr>
<td><strong>Date:</strong> 22 May 2002</td>
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<tr>
<td><strong>Assistant Moderator:</strong> Francis Simba</td>
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<tr>
<td><strong>Participants:</strong> 5</td>
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<tr>
<td><strong>Businesses:</strong> Utensils, food kiosks, bar, grocery shops, taxi, landlord</td>
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</tbody>
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<th>Last year</th>
<th>Five years</th>
<th>Ten years ago</th>
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</thead>
<tbody>
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<td>4</td>
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<td>0</td>
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<tr>
<td>Theft</td>
<td>5</td>
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<td>1</td>
</tr>
<tr>
<td>Fire</td>
<td>5</td>
<td>5</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>School Fees</td>
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<td>0</td>
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<tr>
<td>Demolition</td>
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<td>1</td>
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<tr>
<td>Sickness</td>
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<td>5</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Death</td>
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### Times Series Analysis of Crises: Kibera Trust - Analysis Matrix

<table>
<thead>
<tr>
<th>Risk Event</th>
<th>Trend</th>
<th>Reasons</th>
<th>Coping Mechanism</th>
<th>Trends</th>
<th>Limitation</th>
<th>Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Down Turn</td>
<td>5-4-3-0</td>
<td>The economy has been on the decline since the 1992 elections, when most world bank loans were suspended. High inflation due to government printing money. The situation got worse with retrenchment of people from paid employment.</td>
<td>Borrow from family and friends, Repayment loans of is difficult</td>
<td>Borrowing from friends has become difficult because generally friends have very little money</td>
<td>Friends and relatives can only lend you so much. The friends have little money and they must know you very well.</td>
<td>No formal protection mechanisms were considered</td>
</tr>
<tr>
<td>Theft</td>
<td>5-5-2-1</td>
<td>Many theft cases used to exist but increased due lack of productive opportunities economy.</td>
<td>Burglar proofing and employment of guards</td>
<td>Many people are using burglar proof more and more</td>
<td>These are normally very expensive</td>
<td>Participation in some form of community policing was considered</td>
</tr>
</tbody>
</table>

MicroSave - Africa

Promoting high-quality financial services for poor people
Fire 5-5-2-1
The risk of fires has increased due to congestion in the slums, congestion has increased because economic problems have led to many people losing jobs - retrenchment. Rich people who have grabbed land and want to evict people from the land start some of the fires. Some fires are also politically motivated the risk increase in election years. They depend on friends who sometimes hold harambees for them and they are sometimes helped by relief agencies such has Red Cross. These sources are not dependable.

School Fees 5-4-2-0
School fees have increased steadily over the years. Sometimes theses are not adequate.

Demolition 5-3-2-1
Demolitions used to occur due to construction of public utilities but now demolitions are due to elections. Politicians want to evict people they perceive to be supporting their opponents.

Sickness 5-5-2-1
There are many new diseases now e.g. Ebola and others whose names we do not know. Pollution of environment has also led to poor health.

Death 5-4-2-1
Deaths have increased a lot due to poor sanitation and lack of medicine and facilities in government hospitals. Cost of hospitalisation has also increased tremendously.

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**Seasonality Of Income, Expenditure, Savings and Credit: Thika**

**Location:** Exodus –Thika  
**Moderator:** Francis Simba  
**Date:** 4 June 2002  
**Assistant Moderator:** Jane Mbaisi  
**Participants:** 8

<table>
<thead>
<tr>
<th>Month</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>Aug</th>
<th>Sept</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
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<tr>
<td>Income</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>3</td>
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<td>Expenditure</td>
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<td>1</td>
<td>3</td>
<td>5</td>
<td>3</td>
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<td>1</td>
<td>4</td>
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<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Savings</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Credit</td>
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<td>3</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
</tbody>
</table>

*MicroSave-Africa – Promoting high-quality financial services for poor people*
### Seasonality Of Income, Expenditure, Savings and Credit: Thika - Analysis Matrix

**Location:** Exodus – Thika  
**Moderator:** Francis Simba  
**Date:** 4 June 2002  
**Assistant Moderator:** Jane Mbaisi  
**Participants:** 9

<table>
<thead>
<tr>
<th>Reason</th>
<th>Impact</th>
<th>Coping Strategy</th>
<th>Effectiveness of Coping Strategy</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High months</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>April, August</td>
<td>People have a little extra cash in April and August since school expenses have reduced. In Nov-Dec people are spending (buying gifts) in preparation for Christmas Festivities.</td>
<td>They invest extra cash in the business in the expectation that this will boost profits and they believe a lot of money had been taken from the business to pay some expenses</td>
<td>The incomes are not smooth and the clients have to find a way of cushioning themselves against fluctuations</td>
<td></td>
</tr>
<tr>
<td>Nov - Dec</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low months</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan-Mar</td>
<td>When people pay school fees, taxes and licenses they have little to spend on other things. Little to spend.</td>
<td>1. They minimise expenditures 2. Take tea without milk</td>
<td>Not very effective especially when the other expenses like sicknesses come in.</td>
<td></td>
</tr>
<tr>
<td>May-July, September</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High months</td>
<td>Expenses are for school fees and school related expenditures. These are Christmas related expenses and preparations but still think they have to meet emergencies like illnesses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan-Feb, May, Sept, Nov-Dec</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low months</td>
<td>People have very little to spend after heavy spending months They reduce their expenses</td>
<td>1. They borrow very from friends and relatives 2. ROSCA 3. MFIs</td>
<td>Borrowing at this stage is minimal since some of the sources have been exhausted by heavy demand to meet expenditures</td>
<td>Most of the expenditure is for school but there are many unforeseen emergencies that are not foreseen. An MFI could provide a emergency loan/education loans</td>
</tr>
<tr>
<td>Jun-Aug</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SAVING</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High months</td>
<td>Argued a lot and decided that they actually don’t save. Whenever they have a little extra they increase stock</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>None</td>
<td></td>
<td></td>
<td>Is purchasing stock for business a saving or investment?</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BORROWING</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High months</td>
<td>Loans for festivities, school fees They borrow a little throughout the year because of emergencies, especially illnesses such as typhoid and malaria</td>
<td>Loans from MFIS are presumably for business but the household cash flows do not have these distinctions</td>
<td>Will an education loan be used in business or health?</td>
<td></td>
</tr>
<tr>
<td>Dec- Feb, April- May, September</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low months</td>
<td>Many people do not borrow during these months there is less demand due to fewer expenditures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mar, June July</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Wealth Ranking: Thika - Analysis Matrix**

**Location:** Exodus – Thika  
**Moderator:** Francis Simba  
**Date:** 4 June 2002  
**Assistant Moderator:** Jane Mbaisi  
**Participants:** 9

<table>
<thead>
<tr>
<th>Wealth levels</th>
<th>Housing</th>
<th>Consumption</th>
<th>Physical Assets</th>
<th>Other</th>
</tr>
</thead>
</table>
| **High**       | Own houses including the one they live in | 1. Has and can support a family  
                 |         | 2. Children good schools | Owns a car or cars | 1. Has a good job  
                 |         |                           |                  | 2. The spouse has big business  
                 |         |                           |                  | 3. Has and can support a family |
| **Medium**     | 1. Owns a house or can afford rent  
                 |         | Can pay school fees for children | Usually does not own a car | |
| **Low**        | 1. Renting one room  
                 |         | 1. Has no family  
                 |         | 2. Children not going to school | 1. Manual labour-pushed hand cart  
                 |         |                           |                  | 2. Works as a bus conductor  
                 |         |                           |                  | 3. Sells maize or pineapples at the road side |
Appendix Two: Case Studies of Informal Insurance Schemes

**Harambees**
In Kenya, the most famous form of social support is the *harambee*, which literally means ‘pulling together.’ This mechanism was popularised by the first president of Kenya, Mzee Jomo Kenyatta, who also used it as a national slogan. The *harambee* tradition has grown from African culture, particularly the age-old extended family system.

In the past, individuals were called upon to take part in activities meant for the benefit of the community as a whole. Individuals participated in the building of roads or laying water pipes and it was then called nation building. It later evolved to include raising funds for schools, hospitals and churches. Eventually, people could call *harambees* (fund raising meetings) for raising money for personal problems like hospital bills, school fees, and to help neighbours after calamities (floods, fires, thefts and the like). According to the 7th National Development Plan, Kshs600 million is raised annually through *harambee* contributions.

The methods of *harambees* vary, but for someone to be able to call a *harambee* one must participate in other peoples’ *harambees*. *Harambees* are also costly. One has to spend money inviting guests (printing cards), hiring the venue, and providing refreshments for the guests. On some occasions, people do not manage to raise enough money to cover the costs since there is no fixed amount that people must contribute when they arrive. Contributions are not necessarily cash, and in some cases people contribute in kind, for example, one might donate a cow that would then be sold by auction at the *harambee*. In some instances there is social pressure to participate in *harambees*, especially if the one who calls it is a close friend or a relative. At times, if a powerful leader/politician calls a *harambee*, and then the whole village or town is expected to attend.

Since *harambees* are not normally organised for anticipated risks, the amount to be raised is normally unknown. But from the trend of this coping strategy, *harambees* are more frequent now than ever before. They are, however, increasingly less successful in terms how much money is raised, especially when compared to the amount of expenses involved in organising one. Many people spend money organising a *harambee* but they rarely meet their targets. For example, if the *harambee* is held to raise funds to settle a large hospital bill of Kshs2,000,000, the organisers will probably be able to raise between Kshs1,000,000 and Kshs1,200,000.

A *harambee* is normally presided over by a guest of honour invited by the organisers. For a *harambee* to be successful, the invited guest of honour should be wealthy. There is also social pressure to contribute since all the contributions are handed over to the guest of honour one at a time. He/she in turn loudly announces the names of the contributors followed by amounts that they each have contributed.

**Sikiza Welfare Associations**
Sikiza Welfare Associations are self-support groups comprised of people originally from three locations in Kitui District, Eastern Kenya, but who currently live in Nairobi. The current members are not sure when it was formed but believe that *Sikiza* was established before 1963. The objective is to help families during times of illness and bereavement.

Any member from the three originating locations can join by paying a membership fee of Kshs200 and a monthly contribution of Kshs100. However, if a member makes an advance annual contribution they only pay Kshs1,000, getting a discount of Kshs200. *Sikiza* currently has about 2,000 members in its register but at the time the research about 120 had defaulted on their monthly contributions.

When there is a death in the family of a member, the family is given Kshs20,000 for the coffin and for making all other arrangements to transport the body. In some instances the burial takes place in Nairobi and therefore transport costs are reduced. If the family decides to transport the body home, then *Sikiza* meets the cost of transportation. Although *Sikiza* members help in the arrangements, many decisions are left to the immediate family members.
If there is death in the family of a member who has defaulted on his monthly contribution, then the member has to pay the amount in arrears in cash before Sikiza will assist him and his family.

In case of an illness, the member has to present the hospital bill to the executive committee. Hospital bills are not paid from the monthly contributions. Instead, sikiza calls a fund raising to meet this bill. However, members have the option of getting an interest-free loan immediately to meet this cost. Sikiza members seem able to afford insurance premiums of Kshs 200 and above to insure against death and sickness.

Appendix Three: Case Studies of Individuals
Name: Kinyanjui
Location: Mwihoko- Oljoro orok-Nyahururu-Kenya.

General Information and Background: Mr. Kinyanjui is 36 years old, has a secondary education, is married, and has four persons in the household (two children and two adults, one child in school). The family lives in their own house with timber walls, cement floor, iron sheets roof, and electricity. There is a separate bathroom and toilet. Mr. Kinyanjui is a farmer and runs a small hotel at Ol joro orok. He grows pyrethrum but gets very little from this because the prices are low. He has to depend on his hotel business for livelihood. His wife is a teacher at local school. Household debt is Kshs95,000; savings in his account is Kshs 34,200.

Loan Use: He has taken three loans from K-Rep bank. Mr. Kinyanjui used the loan of Ksh80, 000 to buy some furniture and as working capital for the hotel business. He thinks he can expand his hotel business so that he can make more profits. He could not estimate how much profit he made with this loan. He has not had any problems repaying the loan.

Interaction with other financial institutions: He has a bank account but refused to disclose how much he had, he just said very little.

Crises and Responses: Thieves stole some furniture from the hotel when he had just started the hotel business two years ago. He replaced the furniture using his own savings. He is scared of the increasing cases of theft. He has no insurance coverage for the premises but thinks he should seek some.

Name: Cyrus Nyaga
Location: Trust – Kibera Kenya.

General Information and Background: Mr. Nyaga is 33 years old, has a secondary education, is married, and has five persons in the household (two children, three adults, with two children in school). The family lives in a one-roomed rented house with stone walls, cement floor, and iron sheets roof. They have no electricity, and a separate bathroom and toilet. Mr. Nyaga is technician and used to own a small electrical repair workshop. Household debt is Kshs 40,000; savings in his account is Kshs169,000.

Loan Use: He has taken two loans from K-Rep bank. Mr. Nyaga used the loan of Ksh40, 000 to buy stock for the business. This was December 2001. The business made a profit, which he used to pay school fees and increase stock. He never had any problems with loan repayments.

Interaction with other financial institutions: He has a savings account with Standard Chartered. The account has around Kshs150,000.

Crises and Responses: He had the electricity to his business premises disconnected for non-payment of bill incurred by the immediate former tenant and, since he uses power most of the time, he lost customers and money. He paid some money but the power people refused to reconnect. He finally started a driving school but due to poor economic circumstances, this one did not do well either and he was forced to close it down. Then he withdrew part of his savings and bought a small car he intended to use as a taxi, but this one also
had an accident. Fortunately, the car was insured by an insurance company (ALICO-American Life Insurance Company) and he was paid compensation of Kshs100,000. He used Kshs50,000 to repair his car and used the other Kshs50,000 to restart the former business.

Name: Dorcas
Location: Kariko- Nyeri-Kenya.

General Information and Background: Ms. Dorcas is 36 years old, has a secondary education, married, five persons in the household, (two children, three adults, with two children in school) The family lives in their own house with brick walls, cement floor and tiled roof. The house has electricity and is self- contained. Her husband works with a government department. She left a teaching job to start a saloon business, and she owns a coffee farm in the village nearby. The family owns a car and also depends on the business. Household debt is Ksh335, 000; savings in her account is Kshs82,000.

Loan Use: She has taken eight loans from K-Rep bank. She took a loan of Ksh400, 000 to start another saloon business in a different part of town. From this investment, she made a profit that she used to complete the construction of their residential house and spend part on household expenses. She could not tell how much profit it was. She never had any problems repaying the loans.

Interaction with other financial institutions: She has two savings accounts at Barclays Bank. One has Kshs 44,000 the other has Kshs18, 000.

Crises and Responses: She has not had any crisis in the recent past but belongs to a ROSCA of 15 members where each contributes Kshs700 per week or 100 per day. Half of it is given to one person and the other is loaned out to members or kept in the bank

Name: Virginia Njoki
Location: Kariobangi -Kenya.

General Information: Ms. Njoki is 41 years old, has a secondary education, is widowed, and has two persons in the household (both adults). They Live in a rented house with brick walls, cement floor and iron sheets. The house has electricity and is self-contained. Household debt is Ksh220, 000; savings in her account is Kshs36,000.

Background: She runs a canteen at a nearby factory and also has a small shop.

Loan Use: She has taken four loans from K-Rep Bank. She took a loan of Ksh120, 000 to improve her canteen at the factory, and used it to buy new cutlery and furniture. She did not make much profit because her sales did not increase. However, the little profit helped her with household expenses. From this investment, she did made a profit that she used to complete the construction of their residential house and spend part of it on household expenses. She could not tell how much profit it was. She never had any problems repaying the loans.

Interaction with other financial institutions: She has bank account with about Kshs20,000.

Crises and Responses: She was robbed of group money, Kshs45,000, when she was the group treasurer. It was the groups’ loan repayment and savings and she was on her way to the bank She had to use savings of Kshs21,000 and borrowed Kshs24,000 from her brother. She is still paying the amount and she resigned as treasurer to the group.
References


