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SAVING HABITS OF LOW-INCOME FAMILIES IN NAIROBI

- a case study with a view to housing.

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SAVING HABITS OF LOW-INCOME FAMILIES IN NAIROBI

a Case-Study with a view to housing

1. Introduction: The aim, background and method of the study
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3. Findings: Characteristics of the sample: income, employment, schooling, housing, rent,
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Expenditures:
4. Projections:
5. Consequences for Housing Policy:
6. Conclusions: a) about the survey
b) about the findings

SAVING HABITS OF LOW-INCOME FAMILIES IN NAIROBI

- a case study with a view to housing.

Introduction:

The following are some of the interim results of a survey of 68 families and individuals comprising the same number of households selected at random from four peri-urban areas of Nairobi, where one would expect to find members of the low-income groups, viz. Kariobangi, Mathari Valley, Langata and Makadara.

The Aim:

The intention is to make this initial "pilot survey" part of a more comprehensive survey of saving habits in the low-income groups, because it is normally assumed to be that part of the population which has a "negative saving".¹⁾ By analysing the actual savings - if any - of these families in relation to their income, one would, per definition, also find out about their expenditure on consumption. In as much as expenditure on housing could be a saving to the extent that it is a repayment of a loan on a house or other major item, which does not depreciate at the same rate at which it is being paid off, it is also considered in this connection. The aim of the study is thus also to find out to what extent people, who are presently paying a certain amount of their income in rent, could be contributing to savings by owning a house of their own. Subsequent to these major aims the results would also show the propensity of low-income families to pay for housing, their present "need" for accommodation, their methods of saving, their indebtedness, their assets and their ability to capitalize on self-help efforts among other things.

1) See any standard textbook on economics and the empirical proof in statistical abstract for Kenya 19 .

The Method:

The study was carried out by an administered questionnaire . The interviews were for the most part conducted in Swahili and the interviewers were quite experienced in this type of surveying. It was our impression that the persons interviewed made a sincere effort to answer all the questions - including those on income - truthfully and without hesitation. Some of the questions needed extra explanation in order to be understood and a couple of questions could not be answered by anybody unless they had been given more time to find the answer (e.g. the number of square feet of the dwelling). On the basis of this pilot survey some of these questions will be revised or dropped.

The results of the pilot survey are being prepared for processing by computer when the survey has been expanded to include about 2,000 families in the low-income urban group. But at this preliminary stage already some general patterns appear and because of the urgent need for such information it would seem justified to point to some of these patterns even at this early stage of the investigation.

Definitions:

It is essential that from the outset the key words and concepts be defined and explained.

SAVING:

Saving is that part of income which is not consumed over the period before the next regular receipt (on a monthly basis). In the case of self-employed people and others who do not receive regular income, saving is measured as their expenditures for consumption over the same period. Savings thus determined are checked against the total savings at the time of interviewing divided by the number of months it has taken to save. If a major item has been bought during the last month its value is ascertained and added onto savings with its relative weight (value divided by number of months it took to save it). If bought H.P. terms, the monthly payment is then adjusted for depreciation and added to savings. These "ex-post savings" also include other repayments on loans in the same manner. Transfer payments to parents, for instance, will be included

in savings event though they may ultimately be used for consumption. The reason for this is that the amount transferred is often looked upon as an investment by the remitter himself.

HABITS:

By asking not only how much is saved over the last month but calculating the number of months it took to accumulate the present savings and (in the revised questionnaire) how much people normally save per month and what they do with their savings, it is assumed that this habit is a pattern, which they normally follow.

LOW-INCOME:

There is no lower limit, but in order to get a fairly homogenous sample anyone who makes more than sh. 1,000/- per month in regular income will be removed from the sample. Income may consist of regular as well as occasional income and be in cash as well as in goods and services, all are included with the adjustment of occasional income on a monthly basis. It may be difficult for a self-employed person, e.g. businessman, to rightly estimate his income per month as he has no clear idea of movements in his net assets, but he normally has an idea of how much he withdraws from the business every month. This will be taken to be his income thus disregarding any appreciation or depreciation in his net assets unless specially mentioned under the question of investments.

FAMILIES:

The head of the household has been chosen to represent the family and from his explanation of the kinds and number of people who live in his house the family is well-defined for the present purpose, - especially since the house is easily defined in an urban setting.

RENT:

The term is used to mean the monthly payment for the space occupied by the living group i.e. family members and lodgers staying on a permanent basis (or those who the head of the household considers permanent residents). In case of the house being owned by the occupier, the monthly payments - if any - would be treated as a separate item i.e. neither as rent nor investment.

CONSUMPTION:

Analagous to savings this means that part of Income, which is not saved nor invested. Investment being defined as consumption for future income.

The sample itself was drawn at random from the four parts of Nairobi mentioned earlier. The method being that of approaching those who were found at home, (some of the interviewing was done in the evenings, for that reason). As this was only a pilot survey and one mainly concerned with the relationship between savings and income, rent and income etc. the redomization on a scientific base was not applied, but will be later.

Findings:

The average income of those interviewed was sh. 272/- per month. Ranging from 0 to 900, and with the most typical income (mode) being sh. 150/-. Only three of those interviewed had to be dropped because they had an income of over sh. 1,000/-, and only two gave their income as 0. There was a distinct difference in income between the four areas under investigation. Someone who knows the areas might well have guessed this: Langata with no one under sh. 350/- per month, then Kariobangi, followed by Makadara and decidedly lowest was the average of Mathari Valley with a typical income of less than 80/- per month. Illegal activities such as brewing and prostitution are common and account for some of the income among otherwise vagrants.

INCOME

Unemployment was officially prevalent but most of the heads of household had been in the same employment for a number of years. Most of them, of course, were unskilled or semi-skilled people in the age group from 25 to 40.* $\frac{3}{4}$ or 76% of them were married the rest being single for one reason or another. Likewise $\frac{3}{4}$ were male with only Mathari Valley as a marked difference with 50% of each. It was also here that most half had never been to school whereas the average for the sample as such was 27%. In Langata only 10% had no schooling. The average number of years in school for the total sample was 5 years. The average number of children in a family was 4.3.

EMPLOYMENT

HOUSING

As regards home ownership the overall position was 35% homeowners and 65% renting. The main difference here was again,

as could be expected, 50% ownership in the Mathari Valley, where people put up their own small shanties - down to less than 25% ownership in Kariobangi, which is probably even less than indicated, because the interviewers made a point to get at least a couple of home-owners in order to see how their income and savings position was. However, the survey quite clearly shows that house ownership is much more prevalent in the lowest income groups in all four areas, simply because people have very little other choice but to build their own house, modest though it may be.

Of particular interest is the relationship between income and rent. Of those renting the average rent paid was shs. 46/- which formed about 17% of income. The variations in rent as well as the percentage it formed of the respective incomes were big, but with a definite trend (see below). It showed an average for the lowest income groups of 35% of income down to 6% for the groups earning from sh. 700/- 900/-. When asked, however, how much they would be able to afford for rent if they had accommodations of their own choice, the % went up to 21 and with the same general trend as before. This is significant because it indicates that people, especially in the "middle" and "higher" income-groups (shs. 250-900/- per month) can afford better housing if they could only get it. An even more interesting finding is the fact that the amount people are prepared to spend on a house of their own is still a bit higher namely 25% of income on the average with the same trend as found before. This shows clearly that they have some notion of the desirability of owning their own house. Whether they were conscious of the saving element in house ownership was not quite clear, but when it was pointed out to them, they could clearly see it.

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*(see page 4)

List of occupations is attached as appendix A.

The details of the above paragraph is presented here:

1. INCOME SH/MO.	2. RENT as % of I.	3. RENT AFFORDED as % of I.	4. HOUSE PAYMENTS as% of I.
- 149	34.6	35.0	35.2
150 - 249	24.4	23.7	25.8
250 - 299	17.0	16.2	18.5
300 - 399	16.0	23.8	26.1
400 - 499	13.4	20.0	28.6
500 - 699	6.6	19.6	25.7
700 - 901	5.7	10.7	16.9
Average	16.8	21.3	25.2

HOUSE
PREFERENCE

To get an idea of the type of house low-income families wanted, the following question was asked: What kind of house would you prefer, say at shs. 50/- a month, provided you could afford it now? These realistic alternatives were given:

	Answers:
Stone house with 2 rooms	45%
Wooden house with 4 rooms	31%
Mud and Wattle house with 5 rooms	22%
Don't know	2%

These answers were nearly what we expected, reflecting the somewhat prestigious nature of the stone houses at the expense of more space. The low maintenance cost was one other reason given for choosing a stone house.

But these answers should be looked upon also from the income point of view. It gives the following picture:

REGULAR INCOME IN SHILLINGS PER MONTH

	less than sh. 149	150-299	300-699.	700-999	Total
HOUSE PREFERENCE					
Stone house	9%	18%	15%	3%	45
Wooden house	14%	5%	6%	6%	31
Mud & Wattle House	7%	6%	9%	-	22
Don't know			2%		2

In the very low income groups apparently timber housing is preferred to the other two types. It still remains to be found out why these people feel the way they do. One reason may be the considerable improvement it would mean to them. Another, that they are familiar with the material and that timber housing can easily be altered and extended. This is important because the marginal value of an extra room is higher for these families as they have more children on the average than those with more income, or they may, in order to afford the house perhaps even think in terms of sub-letting rooms. When it came to the question of being able to build or assist in building the answers revealed that only 24% did not think they would be able to spend time helping and most of those being able to help could spend 10-20 hours a week. There was no marked difference between income-groups or residential area in these answers. But the amount of time which $\frac{1}{4}$ of the sample could spend on construction represents a worthwhile contribution in terms of a reduction in cost of the house. An approximate calculation reveals the following:

sh. 1/- per hour for 15 hours per week for 12 weeks = sh. 180/-
as % of a house costing sh. 3,000/- it represents 6%

The main purpose of the survey was to find out about savings - if any - in these low-income groups. We consequently asked most of the questions in this field. But, as may have been realised from the definition of savings, it was necessary to approach the subject from several angles in order to cross check the information we obtained. The reason for this was that our definition of savings was wider than the common one, in that it included such things as loan-payments and transfers. In addition the purchase of major items which may be considered investments rather than consumption (e.g. bicycle, building materials, stock of goods for sale) was also included as they form part of genuine savings.

On this basis the following table was "constructed". It is an adjusted table, which still carries the impact of the individual answers, but will have to be substantiated by a much larger number of questionnaires to prove anything significant.

1. Income sh/mo.	2. Savings as % of Income	3. Transfers as % of Income	2+3 as % of Income
- 149	2.9	8.7	11.6
150 - 249	4.7	19.8	24.5
250 - 299	8.0	11.0	19.0
300 - 399	3.3	12.5	15.8
400 - 499	4.8	8.8	13.6
500 - 699	8.9	5.9	14.8
700 - 901	13.4	8.0	21.4
Average	6.6	10.7	17.3

The overall percentage of 17.26% for savings in relation to income is perhaps a surprise to some of those who claim that low-income families cannot save. However, it does correspond fairly well to the figure of 14% found in the Central Province survey three years ago.

This survey did not include Nairobi, thereby giving it a bias towards the lower income-groups, because the rural areas

...../contd.

dominated the survey by numbers and this is where incomes are generally lower.

It would be wrong to place much significance in the tendencies shown from one income group to the other, because the range within each group was so wide as to throw doubt on some of the answers. In some cases where people claimed to be saving more than they earned, the answers were disregarded. These discrepancies should be eliminated in the larger survey by reformulating the questions and/or making the interviewers aware of such possible inconsistencies in order to correct them on the spot.

If any tendency appears, it would be the expected one that the higher the income the higher the % of savings in relation to income. This is also borne out by the fact that more people in the upper groups have bank accounts than those in the lower groups, who tend to keep their savings at home. The middle group is characterized by using the Post Office savings more so than banks.

Loan Payments

It is evident that the lowest groups do not engage much in H.P. or in other loan payments. This seems to indicate that these people do not use financial institutions to any large extent. Almost without exception, however, all those who use these institutions find their service excellent, but have on the average a distance of 6 miles to travel to get to their bank, which may account for the little use they make of them. When asked who they would approach for a loan to build a house, almost 50% said the Government, 10% said N.H.C. 8% the Bank and 28% did not know. 45% of the sample had a plot where they could build such a house.

Investments

When asked about investment one third of the sample said they made regular investments, mostly, in land, but some also in businesses. The holding of shares and bonds was an odd exception. Strangely enough it was the middle part of the income groups (from sh. 300/- to sh. 600/- a month) who had the largest investments, larger proportionately than the higher incomes. The payment of dowry was listed as a possible outlet for money, but with a single exception there was no one spending for this purpose. This, considering the age groups interviewed, was to be expected.

Consumption

Apart from expenditure on housing the survey was not meant to deal with consumption. It was necessary, however, to ask questions in this field in order to check the consistency in the allocation of the income. Unfortunately this was not done altogether satisfactorily, and there were cases where these questions had to be disregarded because of obvious misinformation.

The following table gives a summary of some of the major items on the consumption budget within the various income groups

Projections:

It can be assumed that savings will increase in these families as their income increases, not only in proportion to but progressively so. The change can be assumed to be greater when a family moves from say sh. 200/- to sh. 600/- a month than when it moves from sh. 600/- to sh. 1000/- a month. That we shall still expect a progressive increase in income when income rises is due to the fact that in the population chosen as representing the low-income groups i.e. those making less than sh. 1000/- per month, the proportion of those earning less than sh. 500/- is much larger than those earning more than that, - in the present sample 85%. This is encouraging but as is well known more people in the very low income groups come to these areas in larger numbers than others in high-income groups come to other parts of Nairobi. The problem then becomes one of securing that the increased savings of those who get higher income is transferred into investments, which in turn will create jobs and better incomes for the newcomers.

To make sure that savings are made available, even for the short term purposes, it is necessary to have the institutions, which can collect and distribute them. At the present moment only a few use such institutions, partly because they are far away and offer no other incentive than a modest interest rate of 2 to 3% (except for security and prestige - but no borrowing privilege). Savings and Credit Societies seems to be the obvious solution in this situation. Though they normally lend on short term for such purposes as school fees, hospital expenses, furniture etc., there is no reason why they should not, through the Cooperative Bank, lend on longer term for investments in land, buildings and small scale enterprises. The seasonal (monthly) fluctuation in demand and supply of funds could thus be bridged by an institution, which has access to much bigger funds with a different fluctuation.

contd..

The comparatively low unemployment rate is an indication that people find something to do, even if this is in areas of activity where there is already many under-employed (business) or in varying degrees of illegal activities. Urbanisation per se does create a goodmany jobs of all kinds, and it is this fact, which forms the "pull-factor" in the movement of people from rural to urban areas. This is a reality with which we have to cope, but it does not mean that people will stay in the towns, about half of the interviewed had plots in rural areas, where they wanted to build houses. It is doubtful whether this is a trend, which will continue in the next and following generations, as experience in other countries shows the opposite flow, i.e. the older people moving from rural to urban areas to be with their children.

This latter aspect could prove very significant for the long term policy. In addition, the understanding and desire many of the people in the low-income groups have to build houses of their own is such as to argue very strongly for plots to be made available for this purpose. Not only will the shacks and shanties be build anyway, but it will happen in a most unorderly fashion and be difficult as well as costly to service or - which is the order of the day now - to remove, with a net loss in the housing supply and consequent rise in prices for accommodations.

There are two further points to be made in this regard. When people are asked, what they can afford to pay for a new house, the amounts quoted earlier will not be enough to cover the monthly instalments for the Council Housing on a sound economic basis. Since Council cannot justify an economic housing policy it means that it should not build these houses, but leave it to the individual families themselves, - who, in another survey have indicated that they would much prefer serviced plots to Council housing.

The other point is that with whatever money the Council has available it is obvious that at least twice the number of plots can be prepared for private construction and thus result in twice the number of houses than if Council was to build even the most modest accommodation. Furthermore the much advocated mobilization of private capital and enterprise would have a chance to prove its capacity, - and from what has been seen so far in Mathari Valley and Kariobangi, the sources are practically unlimited. The continued frustration of private enterprise under the disguise of preventing exploitation and subletting, which is not prevented anyway, should stop. Likewise the advocacy of present policies on the grounds that economies of scale and a more uniform development is better assured in Council projects than in individual projects loses its weight in face of three strong facts: Popular demand for private projects, doubling, or more, of the number of the houses constructed and the avoidance of deficits on the housing budget. In short, the survey indicates, that much more capital could be generated for housing if home-ownership is implemented in all possible forms, including the sale of most, if not all, present Council housing.

The lessons to be learned from this small pilot survey are at least five:

a) Conclusions about the survey:

1. The sample must be extended to about 2000 stratified interviews to be of significance.
2. Some of the questions should be dropped and others simplified, a few added.
3. The definition of savings should possibly be simplified.
4. More care should be exercised by interviewers by cross checking information on the spot.
5. On the housing question, it should be clear how many would actually prefer a house, and how they would go about constructing it.

contd.

contd.

b) Conclusions about the findings:

As far as the conclusions are concerned there are a few, which, in spite of the smallness of the sample, can still be drawn:

1. The typical income of the sample is sh. 150/- per month. Average is sh. 272/- and the range from sh. 0 - 900/-.
2. Officially unemployment is common (about 40%) but only two families report "no income". This can only be explained by various kinds of illegal employment and by subletting.
3. House-ownership is claimed by 35%, but up to 50% income group own houses, because many of them have to rely on subletting and could otherwise not afford rented accommodations.
4. Those renting accommodations pay on the average 17% of their income in rent ranging from 35% in the lowest income group down to 6% in the sh. 700-900/- per month group.
5. When asked what they could afford for accommodations of their choice, provided they could get them, the average went from 17% to 21%.
6. When asked what they could afford for a house of their own: the answers came to 25% of income on the average. The rise being influenced mainly by large increases in the higher of the low-income groups.
7. Practically all would like their own houses. Preferably a stone house, however, people with very low income prefer timber houses to "mud and wattle", perhaps realizing that they could not afford a stone house.
8. 75% volunteered self-help at an average of 15 hours per week. If this was utilized it could cut the cost of a modest house by 6%.
9. Low income families do save. It is on the order of 6% of income ranging from 3% to 13% depending on income group (lowest save less)
10. In addition to savings the great majority also transfer money to parents and relatives on the order of 10% of income.

contd.

contd.

11. 33% made regular investments in land, primarily, and in businesses. Most of these were from the middle groups earning sh. 300 - 600/- per month.
12. It is evident that the very low income groups do not engage much in H.P. arrangements or have much to do with financial institutions. But as they save and as they also have to borrow from time to time, Savings and Credit Societies seems to be the best suited institutions for them. Banks are far from their place of work and living and would probably not extend loans to them anyway.
13. More money will be saved and progressively so as incomes are raised. More people with very low incomes will move into the city. By providing them with a house they will not be better off socially, but it will make them directly involved in capital formation.
14. Since public authorities can obviously not provide them all with housing and since they are able and willing to do their own construction public funds should be used for making plots available. It would result in more than twice as many dwellings than at present being provided.
15. It would give rise to speculation and exploitation, but that goes on anyway. The only way to effectively control that, is by increasing supply relative to demand.

N.O. Jorgensen
26 - 2 - 1969

APPENDIX A
LIST OF OCCUPATIONS

A.D. Officer	1
Ayahs	7
Barmaid	1
Businessmen	6
Businesswomen	9
Carpenters	2
Cleaner	1
Clerk	1
Cook	1
Control Officer	1
Cultivator	1
Dobis	2
Drivers	2
Engineers	2
Labourers	6
Legal Assistant	1
Mason	1
Massengers	2
Machine Operators	5
Mechanic	1
Petrol Attendant	1
Police Corporal	1
Salesman	1
Shamba Boy	1
Spaner Boy	1
Steward	1
Shop Assistant	1
Tailor	1
Tyres Examiner	1
Typist	1
Watchmen	2
Waiter	1

In all there are:-

32 Wage-Earners
16 Self-Employed People
20 Unemployed People = 40%

EXPENDITURE PER MONTH- % OF SAMPLE

Sh.	Food	Lodging	School fees	Clothing	Transp.	Dowry
less than 29	6	9	27	13	19	3
30 - 49	7	34	6	6	21	..
50 - 69	25	24	4	6	5	..
70 - 89	5	2	..	2	..	..
90 -124	13	2	2	2	3	..
125--159	19	..	2	3	..	..
160 -169	3	..	..	..	..	..
170 -259	7	..	1	1	4	..
260 -299	..	..	..	..	..	..
300 -399	5	6	1	..	..	..
400 -499	2	1	..	..	..	..
500 & Over	2	..	..	..	..	..