

## Social Capital as a Coping Mechanism for Women Small Scale Traders in the Informal Economy in Nairobi, Kenya

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### Abstract

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Gender relations are increasingly being transformed in the informal urban economy in Kenya. Women small scale traders (WSSTs) have had to cope by neither relying on their spouses as traditionally expected nor on profit maximisation. This paper argues that social capital is at the core of WSSTs business operation as their networks are sources of social support as well as capital and credit. WSSTs control their resources irrespective of their marital status. This paper is based on primary data collected from 398 WSSTs in five urban informal settlements in Nairobi between June and August 2015 using a mixed method approach. The study found that access to credit for WSSTs was a major handicap as the requirements by the credit institutions available were too stringent for small businesses due to requirement for guarantee and collaterals. WSSTs resorted to forming groups (merry go round or chamas (67.5%), women groups (27%) and associations including SACCOs (6%.) so that, besides other benefits, including networking, they could get financial credit. While many of these groups are not registered, they are mainly involved in giving loans and credit besides offering welfare support to their members. The spouses/partners have no say in the businesses. This Paper concludes that WSSTs belong to groups (chama) for social support and also financial support. They do not revert to their spouses/partners for support. The membership of the chama serves as guarantors for WSSTs to access credit. Thus interventions targeting WSSTs should have focus on the social capital development mechanisms as entry point. Equally the emerging gender dynamics of women having full control of their resources needs to be appreciated as an important turning point in gender relations and rights.

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**Keywords:** Social capital, informal settlements, women small scale traders; informal economy, Nairobi.

### Background

Sustainable livelihoods by women in urban informal settlements can be a significant challenge given the intricate urban dynamics that require mastery of the dynamic urban terrain ranging from urban governance issues to capital to start up and manage business. Social capital is but one of the capital assets that women small scale traders require so as assure their livelihoods. It can also be said to be a necessary condition for sustainable community development as it enhances linking ties that increase access to resources outside the community (Dale & Newman 2008). Putnam (1995) defines social capital as the connections among individuals - social networks and the norms of reciprocity and trustworthiness that arise from them. He also suggests that social capital facilitates co-operation and mutually supportive relations in communities and nations and is therefore a valuable means of combating many of the social disorders inherent in modern societies, including poverty and crime. Bourdieu (1980) further defines social capital as 'the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition'.

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It is in this context social capital is in this paper conceptualised as a coping mechanism in dealing with the many challenges women small scale trader's face in the dynamic urban economy in Kenya. Indeed social capital is equally important in informal settlements given the challenges of ensuring reasonable livelihoods. People organise themselves into networks that underwrite their needs. Moreover, in situations of adversity as in informal settlements, consummators social capital (otherwise referred to as solidarity) is an adaptation to adversity (Portes, 1998).

The challenges of informal settlements and informal work require adaptation. Mitullah(2007) observes that the challenges of informal work require informal workers to organize, but most of these workers belong to business and welfare associations which are weak and not well positioned to engage in advocacy for the rights of informal traders. Often, informal sector workers organize themselves around welfare issues, and many operate rotating savings and credit schemes. Notably these schemes underwrite the risky business and social environment in which they operate. In the case of WSSTs who have limited to no access to social protection, these informal networks offer them rational safety nets.

It is a fact that living in informal settlements in any major town is an adversity. This is especially when majority of the residents of informal settlements fall amongst those categorised as poor. Kinyanjui (2014) observes that economic informality that abounds in African cities is manifested by an emerging population that lives in slums and ekes out its livelihood from informal sector activities. Some of the activities include hawking, market trade, craftsmanship, manufacturing, vegetable trading, beauty services, catering, and repairs, among others. The emerging reality is that this economic informality provides livelihood and employment to a majority of urban population in most developing countries cities. The 1972 ILO study in Kenya on Employment, Incomes and Inequality was a landmark study that highlighted the importance of the informal sector, which overtime has become the source new employment in developing countries. Habitat (2007) estimates that the informal economy in Africa represents 42% of GDP. The percentage is much less in other regions but nevertheless significant. According to UNdata (2016) the Kenyan scenario is that about 56% of the urban population in Kenya lives in informal settlements. Most of these informal settlement workers are involved in the informal economy. Increasingly women constitute a large and significant proportion of in the informal economy. They control significant trade in food and clothes. IIED (2011) observes that in developing countries, the sector is composed of the urban poor and predominantly women. Kinyanjui (2014) also documents that one cannot speak of the informal economy in Africa without thinking about women. She further sees women's engagement in informal economy as a step forward in a woman's social transformation and liberation. The informal sector worker environment is often hostile as and subject to harassment by central and local authorities, middlemen who control access to commodities, insecurity as well as harsh physical terrain which barely has basic sanitation facilities.

Moreover, the sector also covers a wide range of activities which are not included in national accounts, such as subsistence farming, small scale enterprises and illegal activity (Henry and Sills, 2006). Indeed ILO (2002) sees the informal economy as falling into two categories, coping strategies (survival activities) and unofficial earning strategies (illegality in business). Thus the reality of informal economy workers needs critically examination if its dynamism is to be appreciated.

Chambers (1995; 2012) observes that the realities of poor people are local, complex, diverse and dynamic. Reliance on social capital is thus an important stabilising factor, as one links and relates with those connected to them. Jointly they undertake activities that enhance their livelihoods. In *Portfolios of the Poor: How the World's Poor Live on \$2 a Day* (Princeton University Press, 2009) Jonathan Morduch and Stuart Rutherford argue that the highest percentage of those in extreme poverty save about a third of their household income. Saving is a necessary strategy to ensure survival. Informal settlement actors save through their networks. In the Kenyan context these include chamas, women groups and table banking networks. These are networks which offer a fall-back position for many of the marginalised. It is also important to point out that in as much as these networks are important, Portes (1998) argues that the social networks are not a given and must be constructed through investment strategies.

This paper draws from a baseline study done for SITE Kenya and other partners which sought to generate information on livelihoods among WSSTs in the informal settlements of Kenya. The main objective of this paper is to demonstrate that social capital is at the core of WSSTs operations and is a phenomenon that should be developed and supported as one of the ways of enhancing the livelihoods of WSSTs in informal settlements.

## 2. Methodology

The research design adopted for this study was survey research design. Primary data was collected from 398 WSSTs in Kibera, Korogocho, Mukuru, Mathare and Kawangware, the five urban informal settlements in Nairobi. Data collection entailed face-to-face interviews with women small scale traders (WSSTs), focus group discussions (FGDs) with selected WSSTs, key informant interviews and case studies. The unit of analysis was WSSTs who run businesses and in the study locations. The targeted enterprises were women-owned and/or operated businesses of at least one year. Secondary data was obtained by reviewing relevant literature, in the form of books, reports and journals. Data collection and management entailed use of a smart mobile phones technology, kMACHO data management system ([www.kmacho.co.ke](http://www.kmacho.co.ke)), whose software was installed in the enumerators' smart phones who were also trained on the use of the software including data capturing, saving and uploading. Access to the data thereafter was restricted to the researchers and kMACHO administrator. The data was downloaded into Excel files and then exported to SPSS for analysis.

## 3. Results

### Socio-Demographic Status of WSSTs

Most of the women traders (59%) were youth (aged between 20-35 years) while those between 36 and 55 years accounted for 38%. The ages of the respondents ranged between 20 years for the youngest and 70 years for the oldest. With a median of 34 years, this meant that majority of the WSSTs were youth. Most of the respondents were Christians (97%). Muslims accounted for only 3%. With regard to marital status, 72% of the respondents were married, while 11% and 10% were singles and divorced/separated, respectively. The widowed were 6.5% while two (2) respondents indicated that they were in a cohabiting relationship. Most of the respondents reported that they were the heads of their households despite majority of them being married. Asked about their education status, (39%) of the respondents had completed primary school education, 33% had completed secondary school education while 12% had completed college or had vocational training. To that extent majority of WSSTs could be said to have reasonable level of education to enable them undertake their business as only 4% of the respondents had never attended school.

### Nature and location of businesses

Most WSSTs (55%) were involved in retail trade businesses which entailed service (31%), production (13%), and wholesale trade (1%). The main businesses included cereals and green groceries, retail shops, food kiosk/hotel/food vending, salon barber and cosmetics and tailoring. Youthful WSSTs also operated salons and ICT businesses including M-Pesa services (see Table 1).

**Table 1: Type of Businesses operated by WSSTs**

<b>Business type</b>	<b>Frequency</b>	<b>Percent</b>
Cereals/green grocer	76	19.0
Retail Shop	62	15.5
Food kiosk/hotel/food vendor	60	15.0
Salon/barber/cosmetics	54	13.5
Tailoring/dress making	43	10.8
Clothes (new and 2 <sup>nd</sup> hand)	38	9.5
Chemist/clinic	11	2.8
Posho Mill	7	1.8
M-Pesa	7	1.8
Egg/Chicken (Poultry Business)	5	1.3
Wholesale shops	5	1.3
Water Vending	4	1.0
Paraffin/firewood/timber	4	1.0
Charcoal Selling	4	1.0
Hardware	3	0.8
Secretarial Services	3	0.8
Butchery	2	0.5
Beads & Crafts	2	0.5

Several factors reportedly influenced location of businesses. The main ones included proximity to customers (36%), closeness to residence (29%), availability of space (19%), and having lived in the neighbourhood for a long period (10%). It could be deduced that the length of stay in the locality enhanced the amount of networks, social bonds and thus the amount of social capital a WSST had.

### **Social capital and savings culture among WSSTs**

The saving culture among WSSTs was low. Only 43% of the WSSTs indicated that they saved regularly, 27% saved occasionally when they had excess money, whereas (21%) did not save at all. Among those who saved money, 25% saved in commercial banks, 25% used mobile banking options and 15% saved through chamas (merry-go-round and table banking). The mobile banking services that were popular among WSSTs were M-Shwari, M-Pesa, Equitel and MKesho. Only a small proportion of WSSTs (1.3%) indicated that they saved their money by buying stocks. From the foregoing statistics, it is apparent that although about half of the WSSTs had bank accounts, most of the WSSTs who saved money preferred to do so through non-formal saving systems so that they could easily access their money when they needed it. They trusted their social networks more than the formal savings systems.

Moreover, whereas savings is an important source of WSSTs start-up capital as well as growing business, the purpose of saving, particularly through the chamas was reportedly not purely to support WSSTs businesses. It was for purposes of underwriting their basic welfare needs. The business proceeds assured then self-reliance. This may compare with what Kinyanjui (2014) reports - financial independence, being occupied and the creation of a social space as the benefits of working. The study established that welfare forms an important reason for saving for 30% of the WSSTs. Such savings were used to meet family and personal needs including catering for welfare needs, holidays and celebrations. Indeed through the resources saved through the groups, members were assured of support in case of sickness, school fees loan, and financial support in case of death of a member or loss of close family member to cater for funeral expenses. FGDs participants also indicated that the savings are also shared among the members as dividends at the end of the year. They justified this practice as one of thanking themselves for the hard work done throughout the year (kupigiamwili pole – saying sorry to one's body). In any case sound business principles indicate that you pay yourself first. This the WSSTs did, but through the enablement of their social networks. It is therefore important to understand the concept of saving from the WSSTs perspective. WSSTs are able to accumulate savings, but the savings go beyond boosting their businesses, but also building safety nets through social capital development in chamas and merry go rounds.

### **Social capital and WSSTs access to credit and business support services**

Credit facilities were available to WSSTs. The study established that many organizations had credit facilities open to WSSTs. Some of the organisations mentioned by study participants included Faulu Kenya, KREP, Uwezo Fund, JamiiBora, Ujamaa-Africa, Small and Micro Enterprise Programme (SMEP), Ufanisi Sacco, UNAITAS Sacco, Muramati Sacco, Komoko, Kivaship, Hope International, ACK Church and M-Shwari. These organizations provided not just business finance, but also business related training and mentorship.

Virtually all these institutions recognised the value of channeling business finance and credit through organised groups and thus the value social capital injected to WSSTs business operations in relation to access to credit. Three banks that were covered in this study. For instance, two mainstream banks (Equity and Family Bank) which were mentioned by WSSTs and KIIs have micro-credit products that avail credit and training to SSTs. Equity Bank has a product for individuals small scale traders and for groups. Individuals can be funded subject to availing collateral, usually household goods and business assets (stock and or equipment). Groups are divided into Cells of about five members. The Cells are funded in turns until all are funded. The groups are trained on financial management as part of the funding requirements. Similarly a key informant from Family Bank indicated that they fund groups as long as they are undertaking a common business.

It is however also important to point out that whereas credit facilities are available to WSSTs, the uptake is very low. This study established that only 16.1% of respondents had applied for credit whereas the majority (83.9%) had not (see Table 2). This was despite the fact that 49% of the WSSTs thought that it was easy to access credit. Much of the credit by WSSTs was obtained through and from their networks – their chamas which gave loans that were proportionate to one's ability to pay as indicated by their shares (contributions) in the chama. Normally one could borrow up to three times the value of their savings in chama. This study's results are in line with Kinyanjui's (2014) findings that chamas are the next most important source of income after spouse and relative.

The social capital element and especially trust is key as members rarely default. This may be seen in terms of what Krishna and Shrader (2002) indicate that trust generated through repeated social interaction reduces opportunistic behaviour.

**Table 2: Organizations that WSSTs had sought credit from**

Source of credit	Frequency	Percent
Chama/women group	30	7.5
Equity bank	13	3.3
Sacco	7	1.8
KWFT	5	1.3
Religious organisation	3	.8
MUSONI Microfinance <sup>4</sup>	2	.5
Cooperative Bank	1	.3
Faulu bank	1	.3
Women Enterprise Fund (WEF)	1	.3
Shylock	1	.3
N/A	334	83.9
<b>Total</b>	<b>398</b>	<b>100.0</b>

Chamas were reportedly more friendly sources of business finance and credit. The WSSTs reported that they did not apply for loans/credit from banking institutions due to the high interest rates and what they also termed as 'difficult requirements' that required them to put together elaborate paperwork. They also feared that default would lead to being blacklisted by the Credit Reference Bureau (CRB). FGD participants in Kariobangi indicated that some credit organizations gave them loans to purchase food and household items with extended repayment period, but also charged high interest that ended up eating into their businesses. Thus, as one WSST stated:- 'atamkini wekeapesakwamlangoyangusiwezikuchukua'- (even if the money is placed on my door, I cannot take it).

On the other hand, use of personal household items as collateral was also a challenge. Many respondents expressed hesitance in using their household assets as collateral due to fear that default (of even group members) could result in their assets being taken away. Respondents were concerned that some institutions that gave loans to women traders were notorious with selling debtors properties including household goods when the loanees failed to repay. They referred to one such organisation as 'ng'oamabati' which meant 'remover of roofs'.

Of course it was a fact that using groups as entry to credit and or as source of credit also posed challenges. For instance the group guarantee system which was preferred by most organisations or the requirement for collateral as barriers to accessing credit posed a challenge at times. In the FGDs the WSSTs thought that the group guarantee system was punitive and not the best for informal settings given that the residents are highly mobile. Examples were cited of WSSTs who had taken loans and had migrated to their rural homes without repaying the loans and the group members had to pay the defaulted loan. Similar concerns were raised about the WEF funds. Officials from these departments noted that some women intentionally took loans and left for their rural homes where they could not be traced. Group members had to unfortunately carry the burden.

Thus to avoid the punitive nature of group approach, WSSTs who needed collateral mainly used their group or banks savings to secure credit, personal assets (car, phone, equipment, posho mill) and/or household goods such as television, fridge and radio. Some however lacked these assets and were therefore not able to access loans. Of course there were also isolated cases of groups which could finance their businesses and or businesses of their members. Thus whereas they may have required to access credit, they seemed unaware about their potential for self-financing. Examples include such groups like the Vision Sisters in Kibera who expected to get donors or loans to support their public toilet business, yet they had group money lying in the bank. Another group in Kibera (Ritongo self-help group) indicated that they lacked security to get loans for business expansion, yet they had about ten (10) acres of group land which they could have used as security. This indicates that WSSTs need training on resource mobilization so that they do not take expensive loans that eat into their business profits, when they can internally generate resources.

<sup>4</sup>Musoni Investments supports best practice microfinance institutions serving micro-entrepreneurs in the developing world  
<<http://musoni.eu/musoni-kenya/>>

From the foregoing it can be discerned that social capital based sources of credit were preferred by WSSTs than those from formal banking entities. The lesson that could be drawn is that lending entities need to factor in social capital development imperatives in the WSSTs credit facility designs.

### **Social capital and non-financial support services to WSSTs**

Several organizations provided non-financial services that could benefit WSSTs. Those covered in this survey were the Kenya Industrial Research and Development (KIRDI), the Micro and Small Enterprise Authority (MSEA) and Kenya Institute of Curriculum Development (KICD), and legal and rights based CSOs. Whereas these organizations were mentioned by the KIIs, they were hardly mentioned by the WSSTs implying that they may not have had contact with the WSSTs.

KIRDI supports development and expansion of SMEs through skills building by offering tailor-made short term training. It also links SMEs with relevant support institutions such as Export Promotion Council (EPC) which supports them in value addition of their products, and with the Kenya Bureau of Standards (KEBS) which supports them in quality control of their products. KIRDI also supports SMEs by giving them equipment for use in processing their products. KIRDI primarily offers support to SMEs through groups or associations. This means that WSSTs can only benefit from KIRDI support if they are in groups or associations.

MSEA supports the coordination and capacity building of MSEs through groups. Members of the groups are offered training on diverse issues like business growth, stock control and book keeping. One of MSEA's roles is to link with the local and county authorities in order to negotiate and get operating spaces for MSEs. It also exposes SMEs to best practices in the region and integrates them with ongoing SMEs support programmes. SMEs that have demonstrated success are linked to regional and international trade and markets through the EPC. Groups that qualify for MSEA's support must meet certain criteria. (i) The group must have a tangible income generating business(es). (ii) The SMEs must be in a group and the group must belong to an association of SMEs.

The Chiefs were mentioned heavily by WSSTs in the various sites. As noted, they provided support to WSSTs and other traders. They assist SSTs, including women traders, in certification of groups prior to registration, writing introduction letters for SSTs who need to take loans, solving disputes involving SSTs, and awareness creation on the need for SSTs to pay levies. The chiefs also represent government in planning and development meetings, and are often aware about planned evictions and demolitions affecting SSTs. Also chiefs, together with the village elders, allocate trading spaces to WSSTs.

What can be deduced from the foregoing is that WSSTs are also served by civil society entities. The benefits are however achievable where WSSTs operate in groups and thus are in social networks that bond them together. Public administration offices are facilitative as indicated by the role played by Chiefs in informal settlements.

### **Social capital and use of ICT Applications for Business by WSSTs**

More than half of the WSSTs indicated that they used ICT in business (55.6%) mainly the mobile phones (Table 13, Appendix 7). The WSSTs identified mobile phones as the most suitable and useful gadget for their businesses. They used mobile phones for communication (58.9%) and 38.6% for money transactions. Compared to other ICT equipment, like computers, WSSTs indicated that mobile phones were easy to operate and that they enabled the WSSTs businesses since they did not need to travel to do business. For instance, WSSTs could make stock orders via phone, and make and/or receive payments using mobile phones. A tailor in Mathare indicated that, "I am able to get orders and measurements from my customers on phone and do the clothes for them". Another respondent noted that 'my phone is my office'. What however needs to be pointed out is the aspect of trust that goes into accepting use of ICT in business. Trust is an integral component of social capital and thus as much as ICT applications facilitated business operations, these rode on the social capital developed by the WSSTs in that there was trust and expectation of reciprocal action.

### **Social capital and WSSTs Social Protection**

Several social protection schemes, financial and risk management safety nets that could cushion WSSTs against losses incurred due to sickness, accidents, disasters (e.g. fires and floods) and financial losses exist. They include health insurance schemes such as the National Hospital Insurance Fund (NHIF), the Britam Linda Jamii health care plan.

The retirement benefit schemes that were mentioned by WSSTs included the National Social Security Fund (NSSF), the retirement benefits plans such as the Retirement benefit Association (RBA) Mbao Pension Plan which is meant for small business operators; and the CIC Jipange Pension Plan .

The study revealed however that most WSSTs (71.6%) were not in any social protection schemes and only 113 (28.4%) had enrolled in medical insurance and formal social protection schemes. Of these, 104 (26%) were members of NHIF and one (1) Britam medical schemes and two (2) in other medical insurance; whereas 17 were members of NSSF, 5 Mbao pension plan. A small percent of WSSTs had enrolled in retirement benefit schemes such as NSSF (5%), Mbao Pension Plan (1%) and 1 ICEA. FGD participants and key informants mentioned the CIC severally but none of the WSSTs had enrolled in CIC scheme. In as much as WSSTs could benefit from their spouses cover, only 13.8% of WSSTs had spouses who contributed to social protection schemes.

This suggests that programmes aiming at supporting WSSTs should have special focus on unmarried WSSTs. Further, the monthly payments appeared to be preferred more by WSSTs. Thus, as stated earlier, it is important to promote the saving culture of WSSTs and to capitalize on monthly savings. The chances of default are likely to be high in an unstructured payment mode.

Moreover, the risk perception among WSSTs in the informal settlements was high (60.8%). The risks cited by 242 WSSTs that could affect their businesses were fire (36.4%), theft (20.4%), harassment and demolitions (16%) and financial losses (9.9%) (see Table 3).

**Table 3: Social security schemes that WSSTs belonged to**

<b>WSST enrollment in medical and social protection schemes</b>		<b>Frequency (N=398)</b>	<b>Percent</b>			
Proportion of WSSTs who had enrolled in a scheme		113	28.4			
<b>Type of schemes WSST had enrolled in</b>						
NHIF		104	26.1			
NSSF		17	4.2			
Mbao Pension Plan		5	1.3			
BritamKingayaMkulima		1	0.2			
Mission of Hope medical scheme		1	0.2			
ICEA		1	0.2			
Other medical insurance		1	0.2			
<b>Main contributor</b>						
Spouse		55	13.8			
Self		52	13.1			
Parent		2	0.5			
Other (sponsor, relative)		5	1.3			
<b>Frequency of contribution by self</b>						
Annual		3	0.8			
Monthly		42	10.6			
Weekly		1	0.3			
No regular mode		6	1.5			
<b>Cross tabulation of main contributor versus respondents marital status</b>						
Marital status		Main contributor				<b>Total</b>
		Spouse	Self	Parent	Other	
Married	195	52	36	0	3	<b>286</b>
Single/never married	37	1	5	1	0	<b>44</b>
Divorced/separated	31	1	7	0	1	<b>40</b>
Widowed	20	0	4	1	1	<b>26</b>
Cohabiting	1	1	0	0	0	<b>2</b>
<b>Total</b>	<b>284</b>	<b>55</b>	<b>52</b>	<b>2</b>	<b>5</b>	<b>398</b>

Despite the perceived risks, most of the WSSTs (60.1%) had not acted to safeguard their business against the risks. Only three WSSTs indicated that they had insured their business through Equity Insurance, UAP and business association. Among those who had not insured 132 (33.2%) indicated that they would be willing to pay for insurance. Most of the WSSTs further indicated that they would do so if the premiums are affordable (62.9%), if businesses are profitable (50%), and if they were sensitised about insurance, and if given insurance loans. The only recourse cited by WSSTs in times of adversity were their chamas, where members contribute to assist in case of death or sickness. This spending on welfare whenever a member is sick or when there is death of one of their own ate into business money.

### 3. Conclusions

This paper concludes that in as much as efforts and programmes need to be designed to address the many challenges faced by WSSTs in informal settlements, the place of social capital as a coping mechanism in the business lives of WSSTs in the informal economy cannot be gainsaid. The social networks, bonds and trust that WSSTs deploy and rely on in the course of their business operations are critical investments that should be factored in interventions by government and other non-state actors who work with WSSTs in informal settlements. In as much as WSSTs identified training needs in the books and record keeping, business management and administration; customer relations so that they are able to attract and retain customers; credit related issues, as well as savings and loans (when and how to borrow); managing debtors who fail to pay; insurance and social protection schemes suitable for WSSTs; value addition of WSSTs products; and laws and policies that govern SST businesses, equally training should also focus on social capital development and especially in areas of group dynamics and especially group formation, development and management. This would strengthen WSSTs social capital, which they harness and develop in the form of 'Chamas' which are not just pillars of their social organisation but also of their business operations and livelihoods.

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