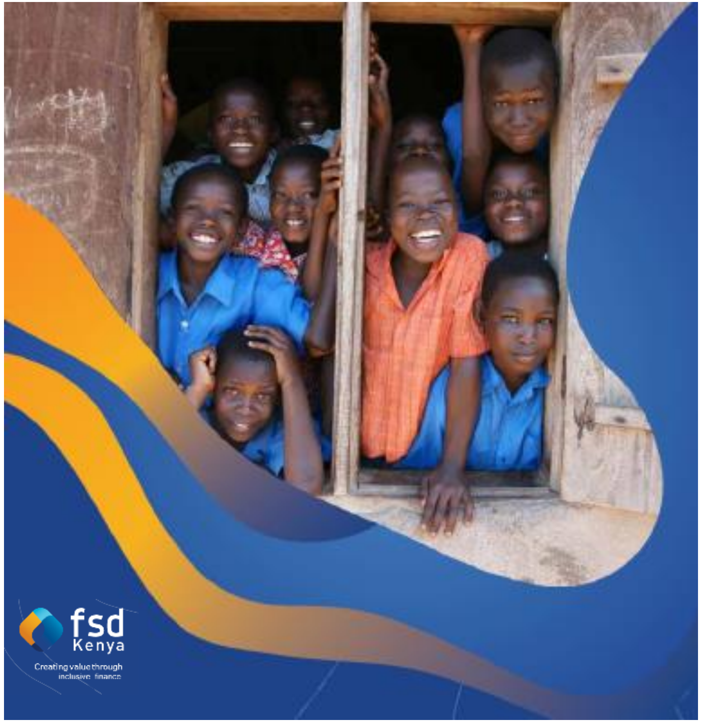

FinAccess 2021: COVID-19 impacts on financial health and resilience

How can finance help to support economic recovery for lower income households?

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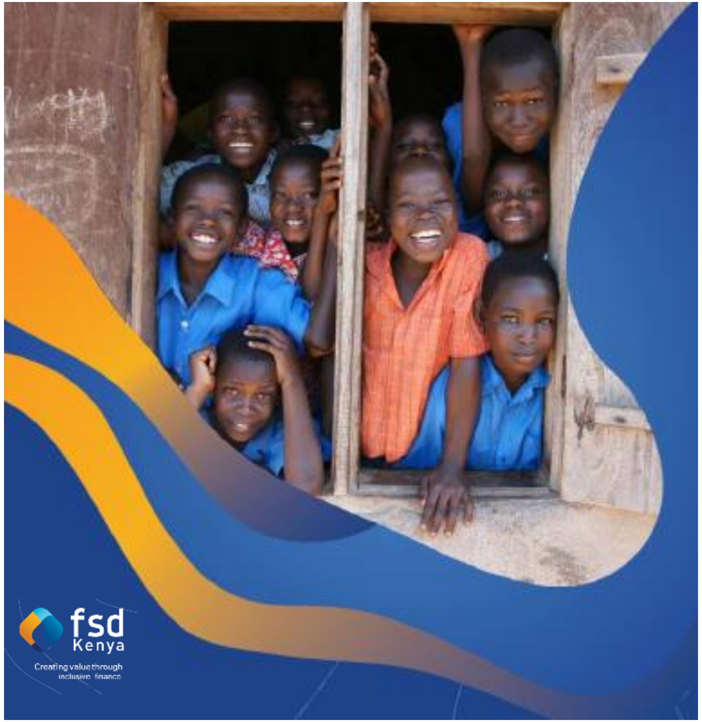


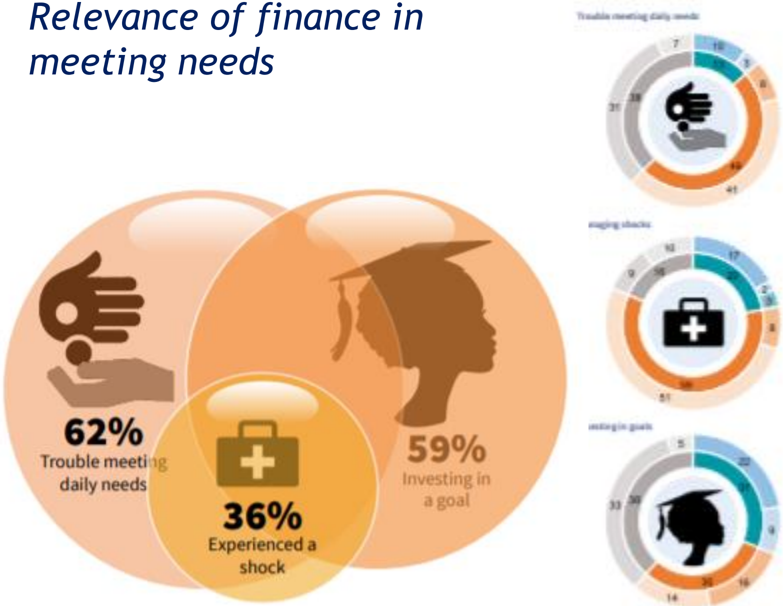
Contents

- Impacts of COVID-19 on household resilience
- Focus on digital finance
- Window on MSEs: opportunities for digital finance to improve resilience and growth
- Discussion

Beyond the access strand: Innovation in developing new frameworks to measure the relevance and impact of financial inclusion

Financial Needs:

Relevance of finance in meeting needs



Financial Heath:

Impact of finance in supporting financial health

The financial health index

Ability to manage day to day:

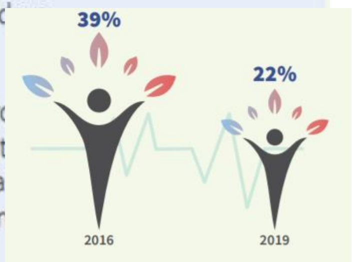
- never went without food during the last year
- doesn't have trouble making ends meet between income cycles
- has a plan/budget for allocating income and expenses

Ability to cope with risk:

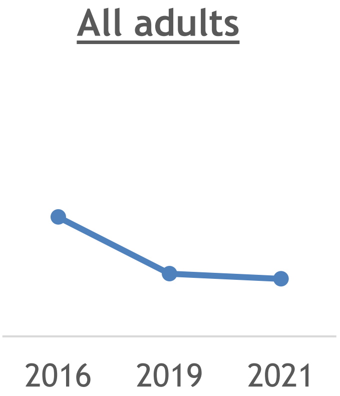
- never went without medicine in the last year
- regularly kept money aside for emergencies
- can get hold of a lump sum within 3 d

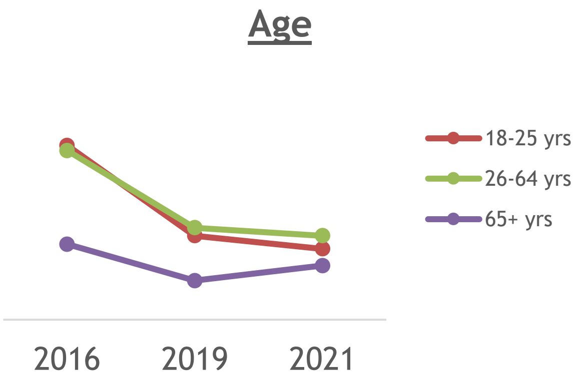
Ability to invest in the future:

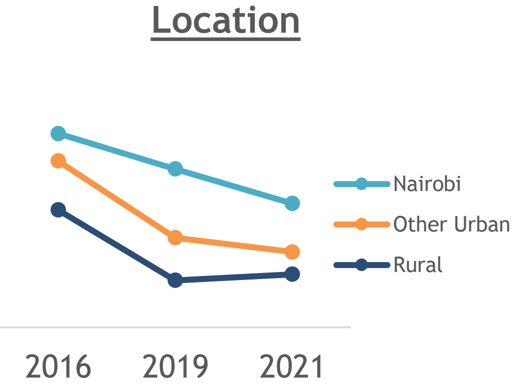
- using savings or credit to invest in pr
- education or old age; is using/plans t
- pension or investment income to ma
  has been regularly putting aside mor

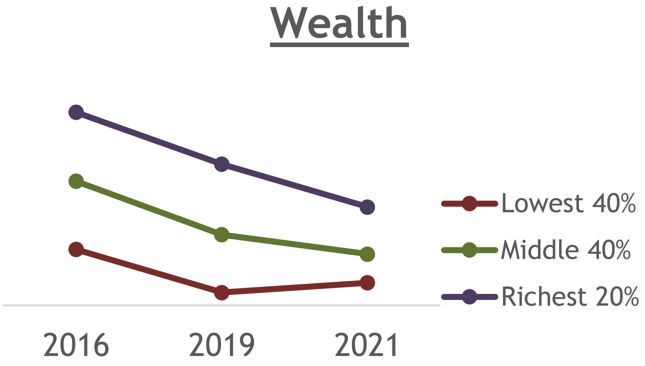


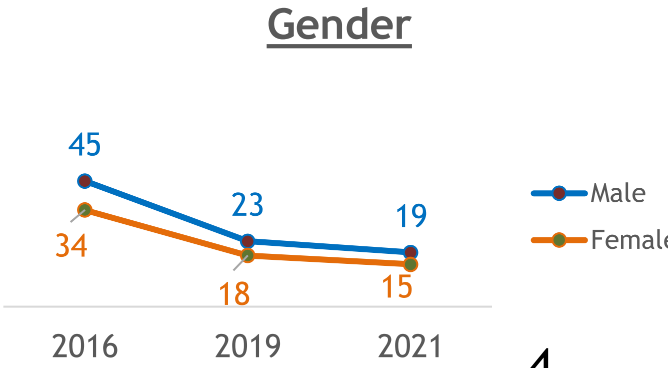
The financial health of Kenya's adult population has been falling since mid-2015 when it was first measured



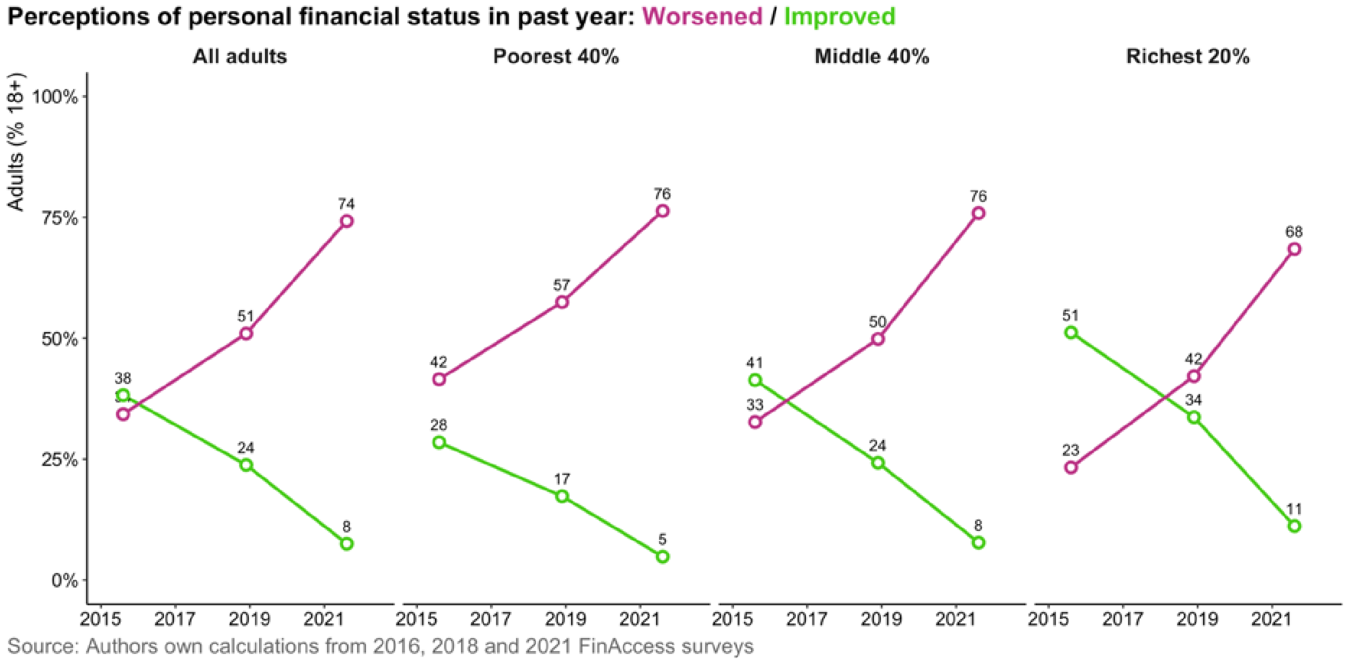








A dominant majority of adult Kenyans say that their personal financial situation worsened year on year since 2015



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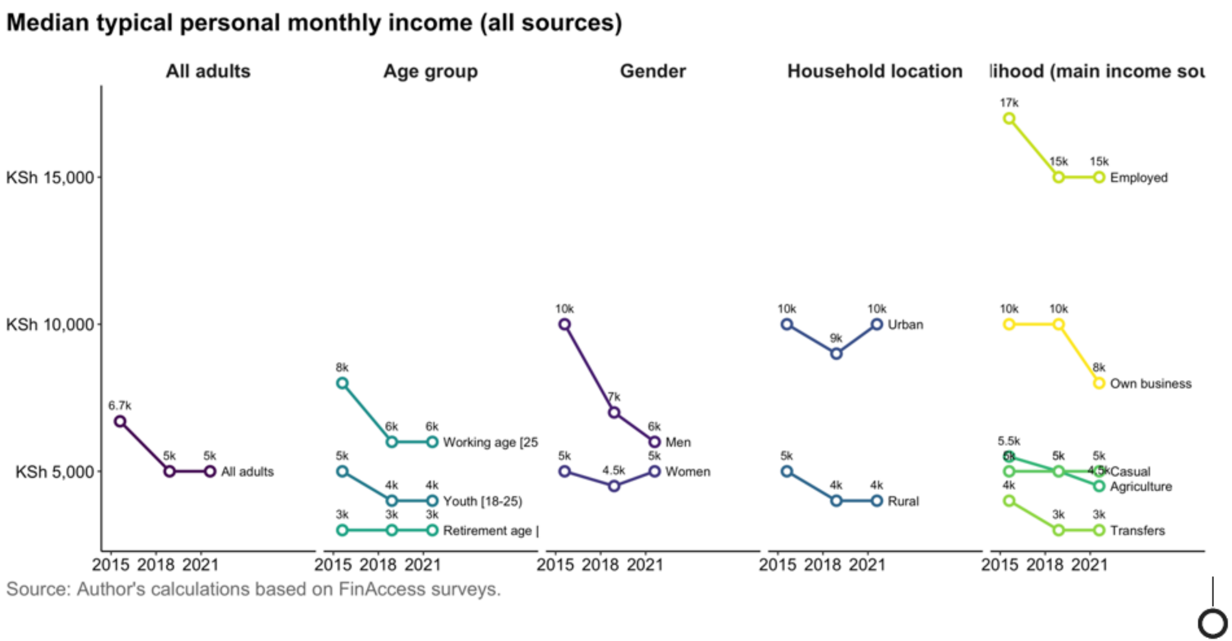
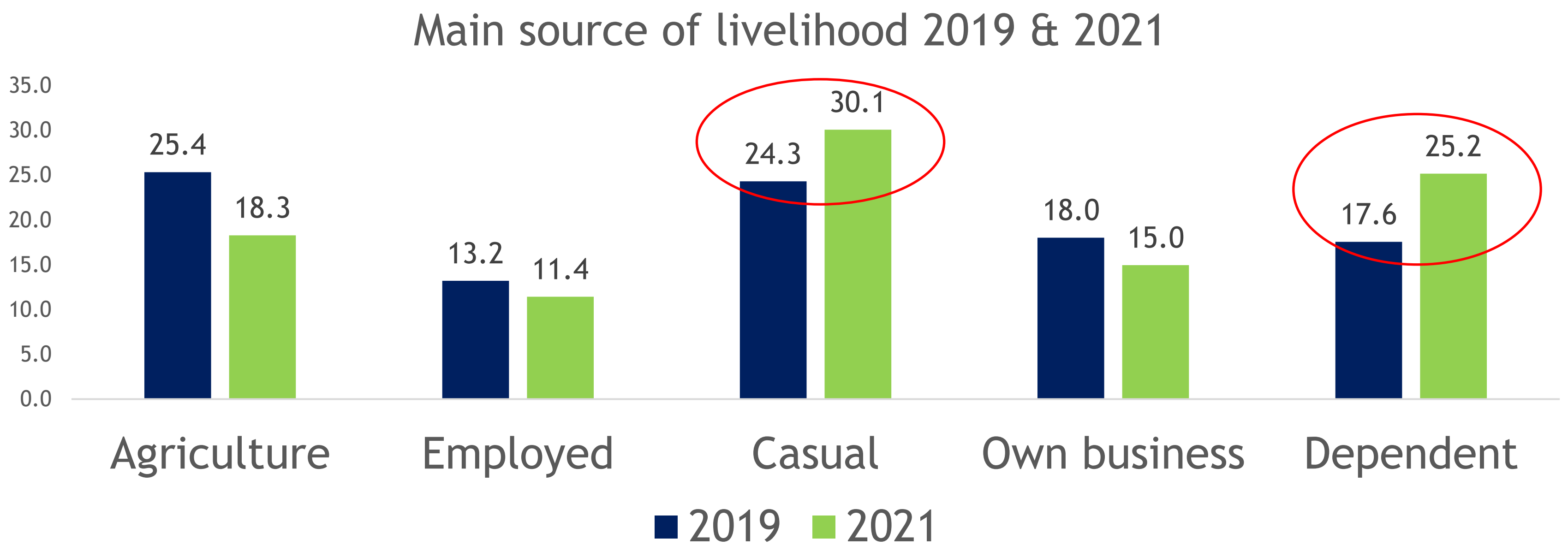
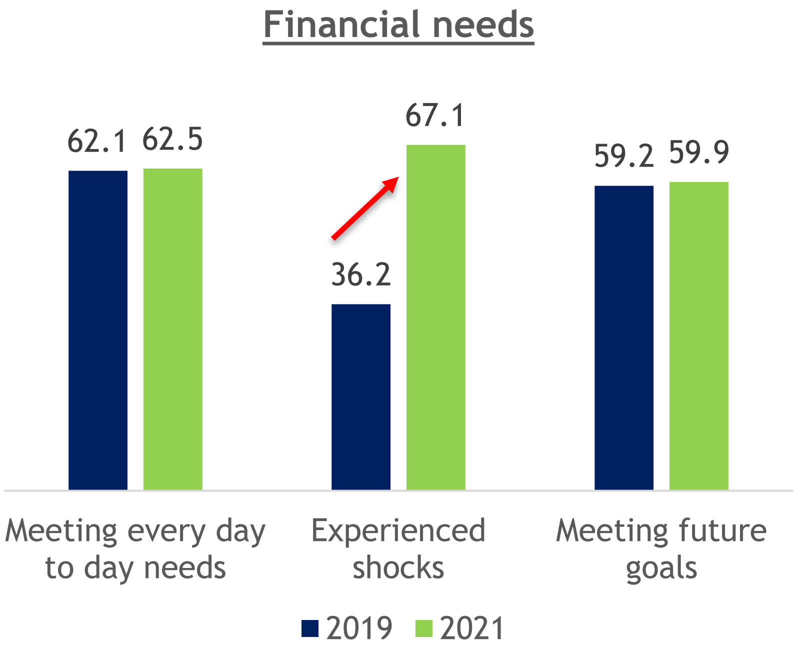
Median income continues to fall across most demographics

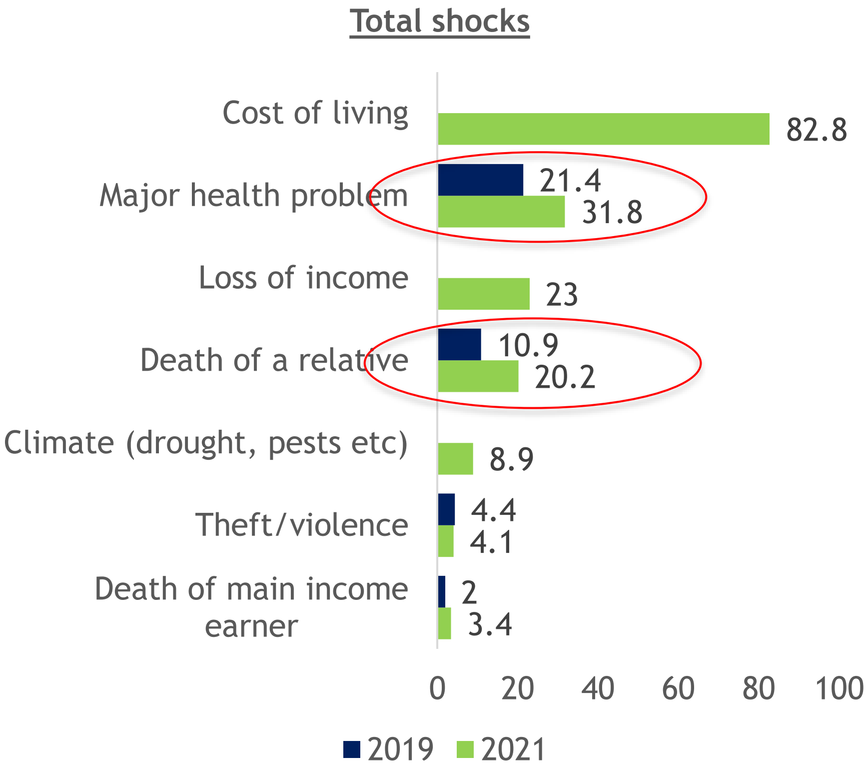


In the COVID-19 era (2019-2021) livelihood opportunities shrank resulting in increased dependence on others and on insecure casual jobs



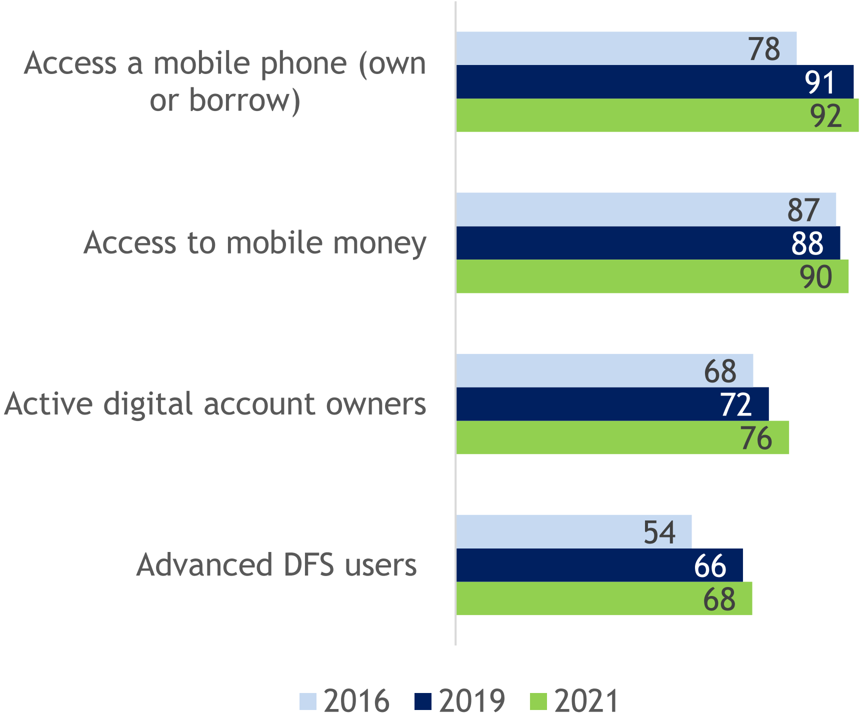
Financial shocks increased during COVID-19: especially the rising cost of living, and a large increase in health shocks and death of family members



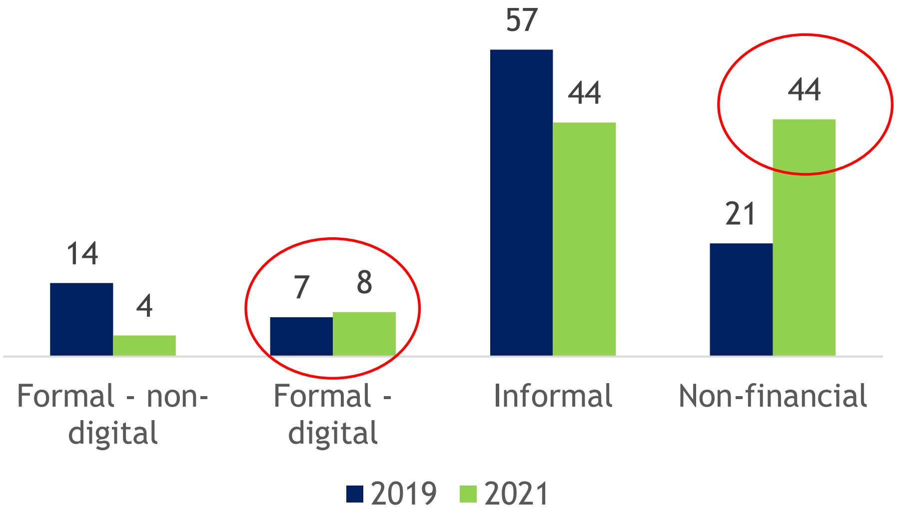


Despite growing levels of access, there was minimal use of digital finance in dealing with shocks; instead people relied on non-financial routes such as seeking more work, selling assets and cutting back on expenses

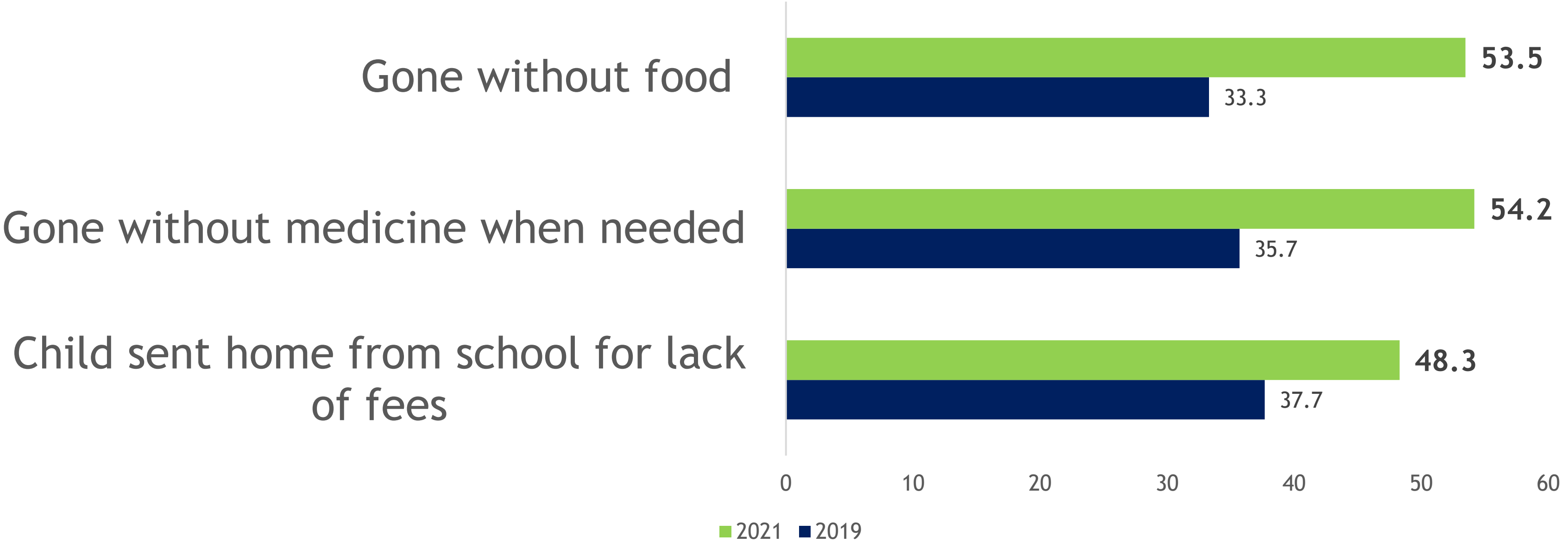
Use of digital finance



Use of finance to deal with shocks



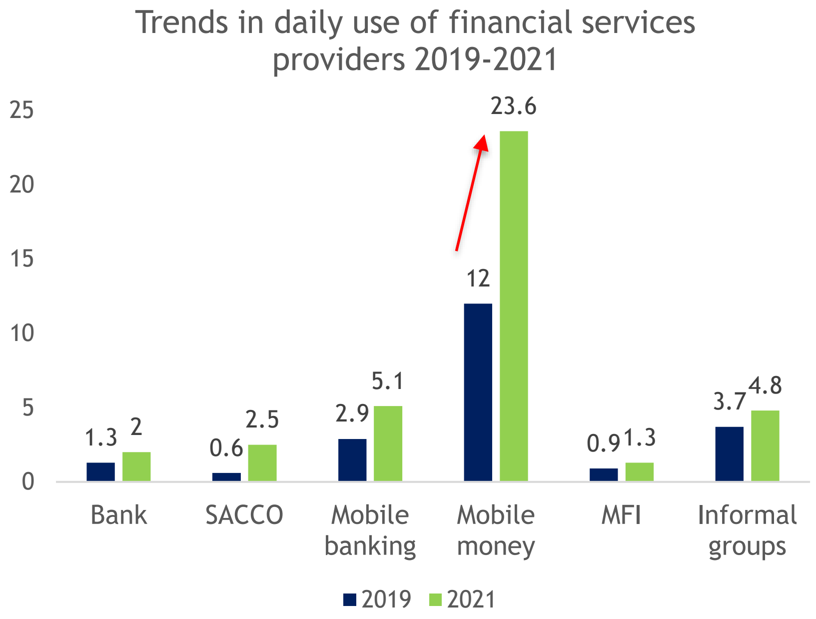
The combination of COVID-19 and a longer-term decline in household economies has taken its toll on household wellbeing

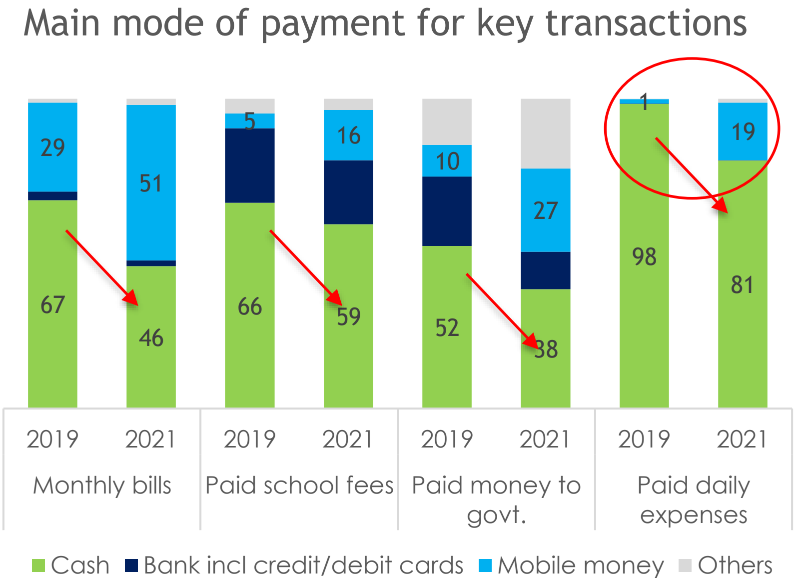


How can finance help to lift financial health and improve livelihoods and productivity?

The promise of digital finance?

Despite lack of growth in uptake of formal accounts, the daily relevance of formal finance has increased, driven by digital technology





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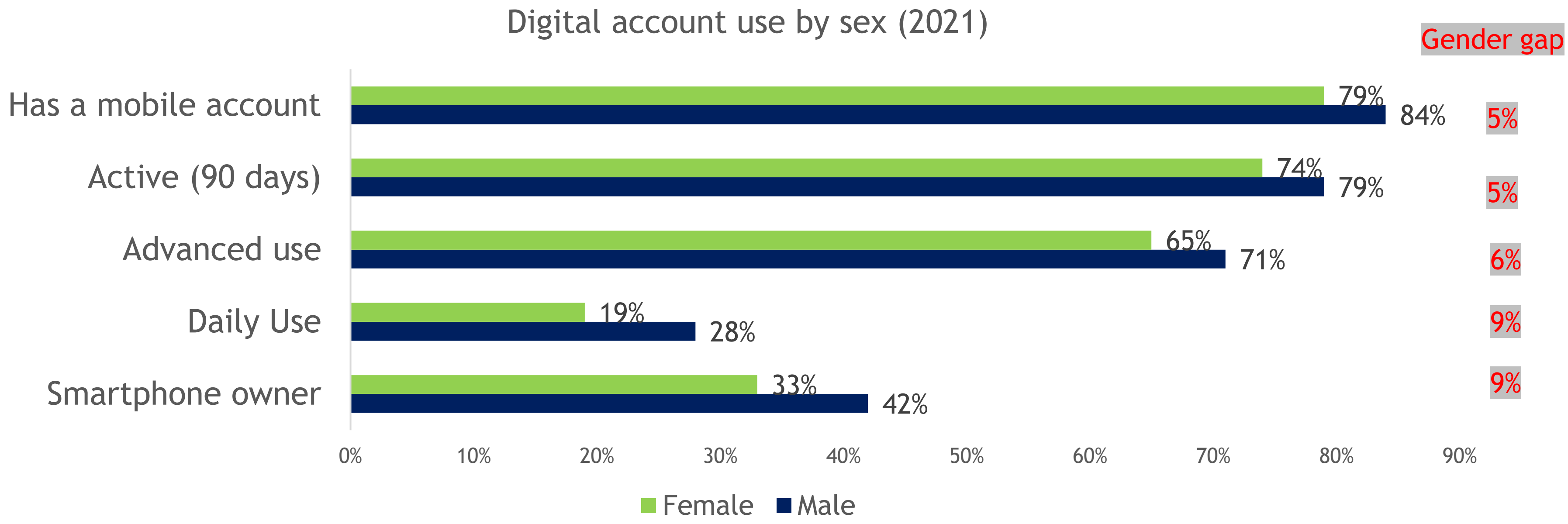
Digital finance has helped to bridge the gender divide in Kenya; although a gap still remains, especially in access to smartphones and in daily use of digital transactions……..



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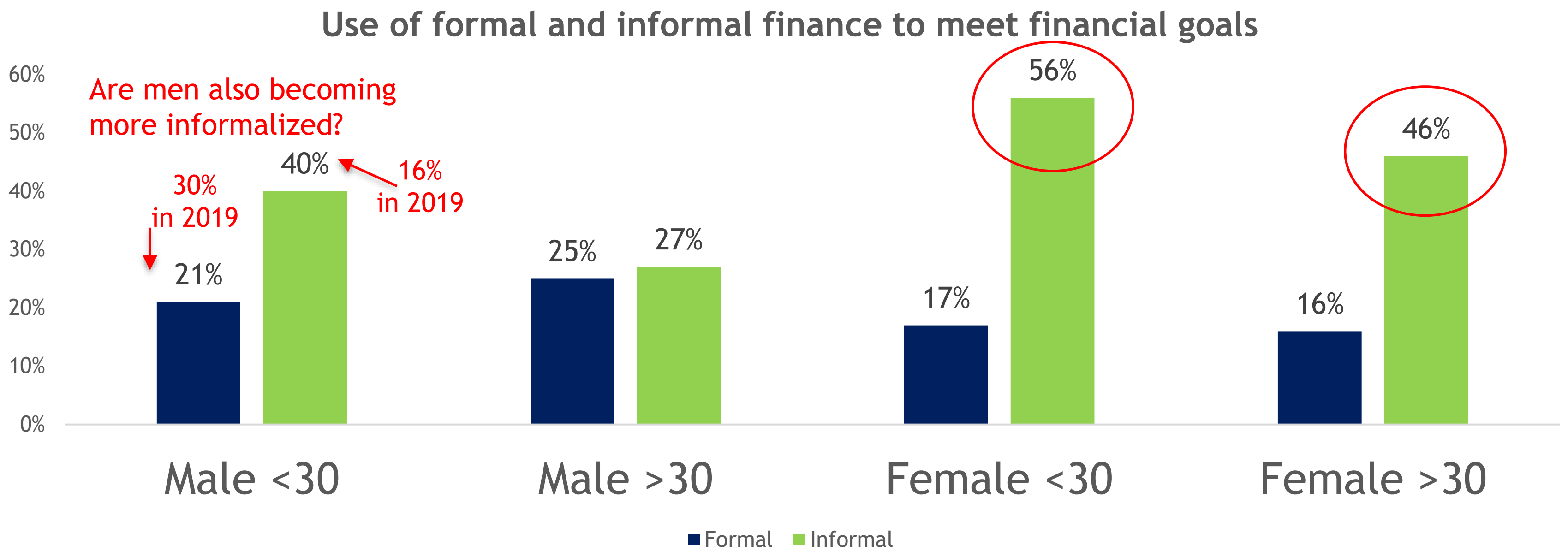
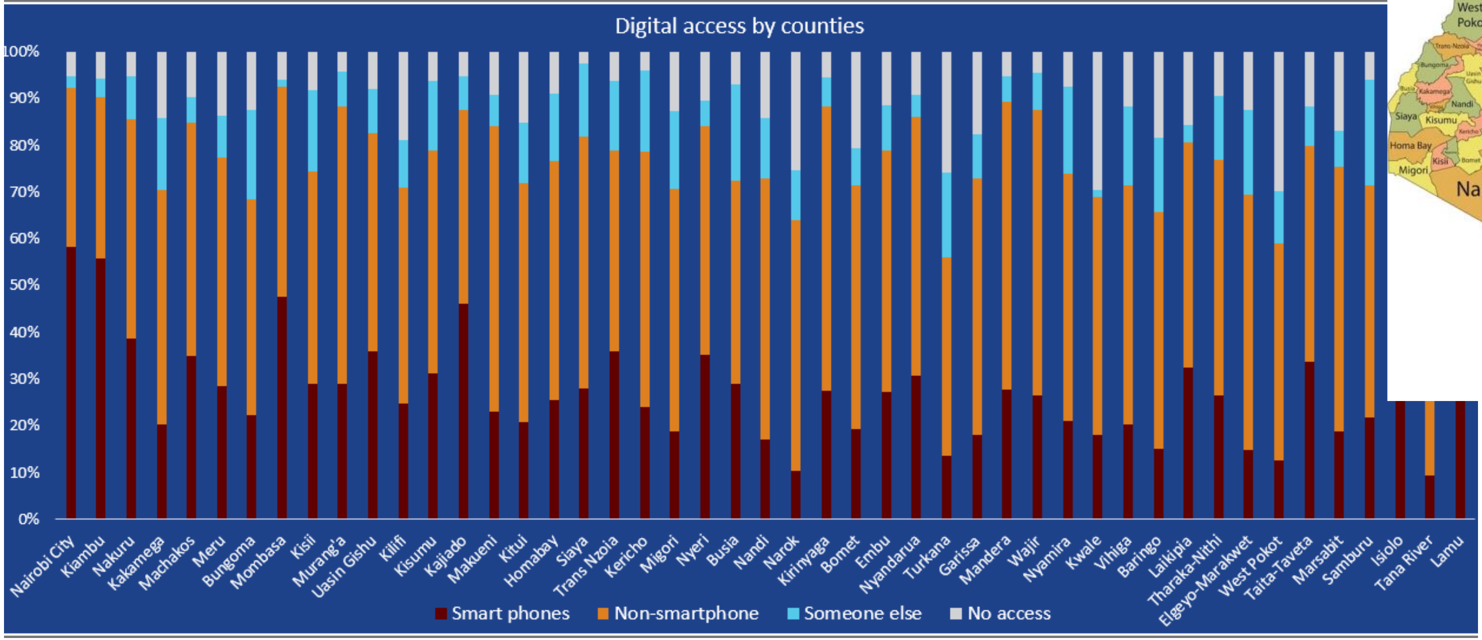
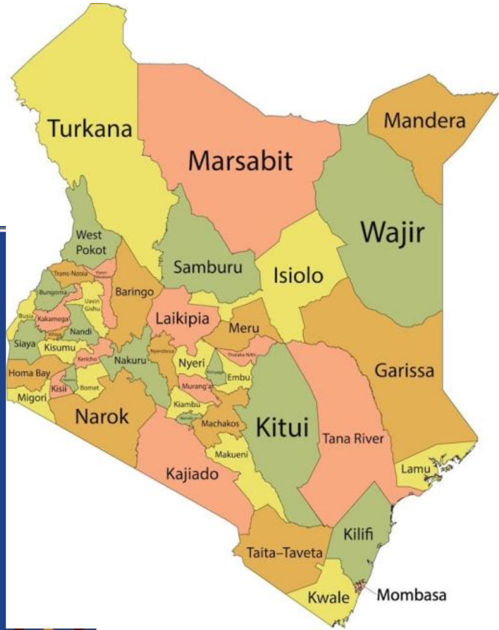
…but this is in a context where women- and increasingly men- still rely mainly on informal finance to meet their needs and aspirations



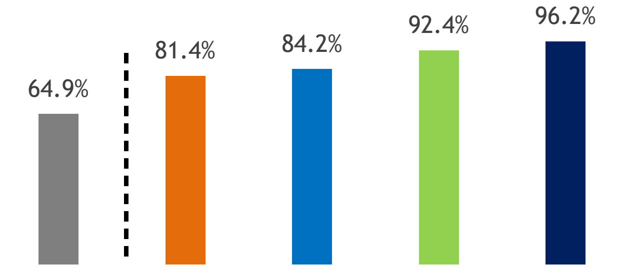
But access to digital infrastructure (phones) is uneven, with implications for local economic development and inclusive growth



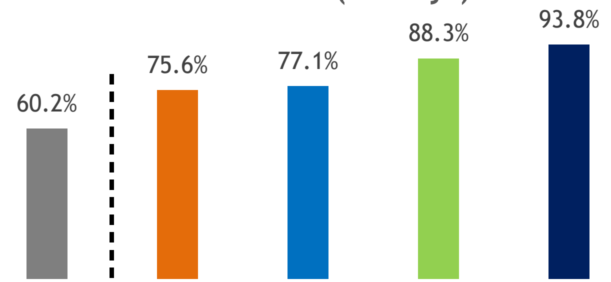


As the economy becomes more digitized, it becomes increasingly important to bridge the digital divide to boost livelihoods and income.

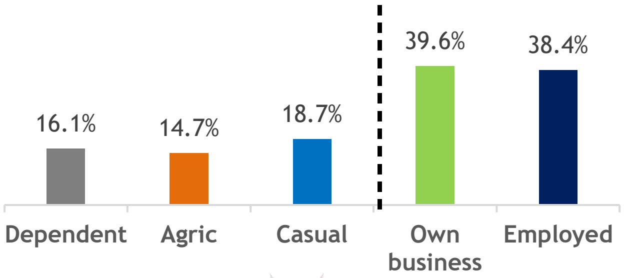
Mobile Money Users



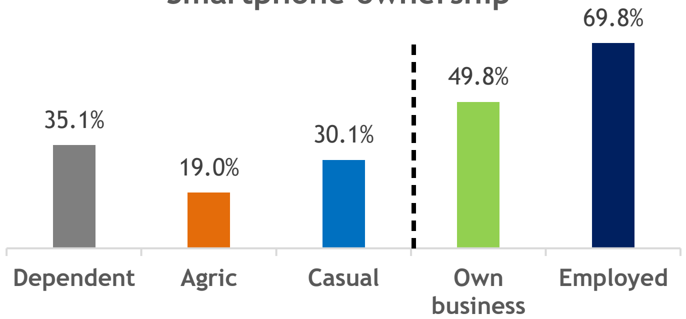
Active Users (90 days)



Daily Use of mobile money



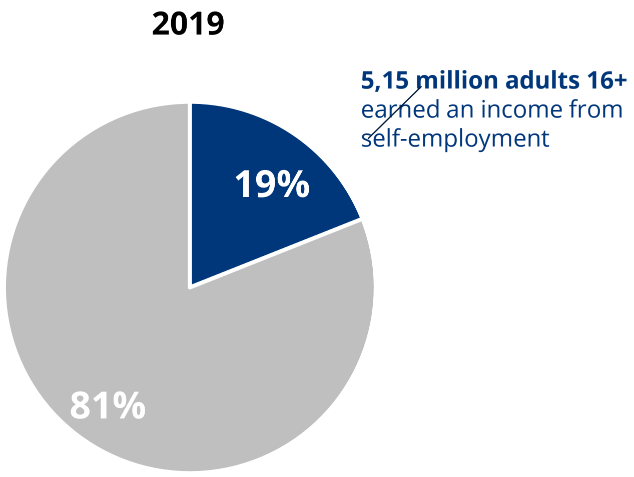
Smartphone ownership

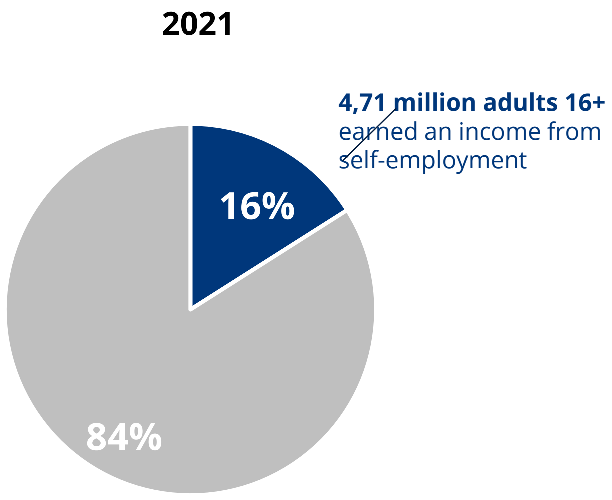


A window on MSEs.... What are the opportunities for digital finance to support growth?

Who are MSEs; and what has happened to this population under COVID-19?

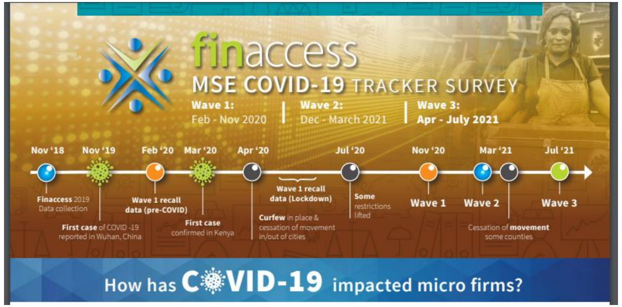
% of population earning income from business has reduced since 2019

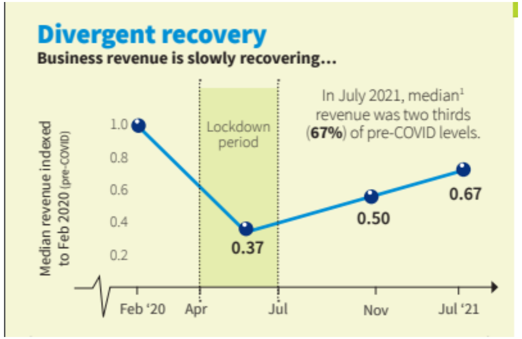


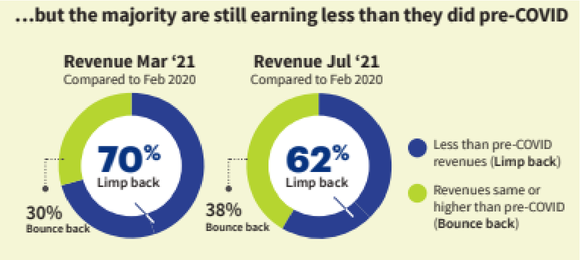


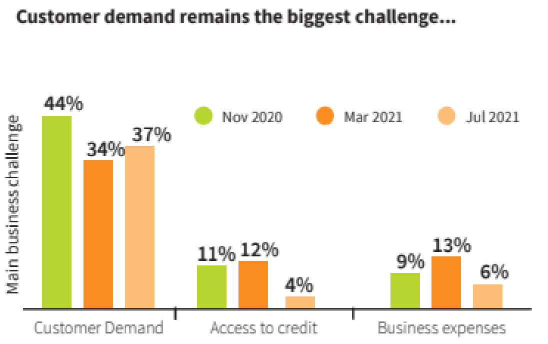
- ***99% micro or small;*** *(below 10 employees)*
- ***57% women,*** *(up from 52% in 2019); mostly aged 26-35yrs*
- ***61% wholesale/retail;*** *mostly selling agricultural produce*

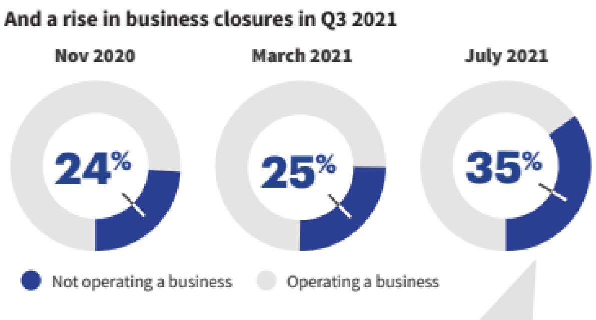
In 2020, the CBK, KNBS and FSD Kenya developed a tracker survey to track impacts of COVID-19 on MSEs

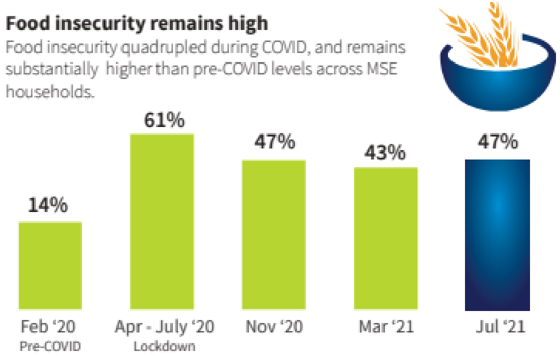










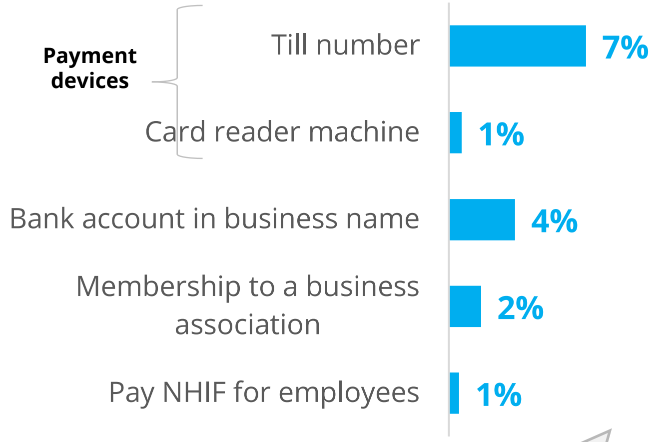


Business formalization remains low, and has declined since 2019, mainly due to COVID-19

BUSINESS FORMALISATION

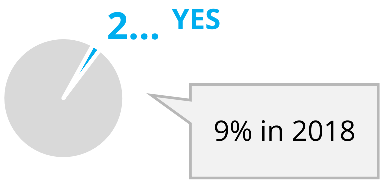
(4,71 million business owners)

BUSINESS SERVICES USED

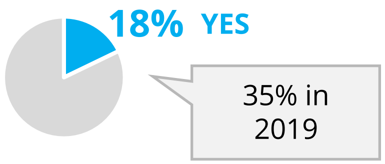


There has been little change in the usage of various business services, such as payment devices, since 2019

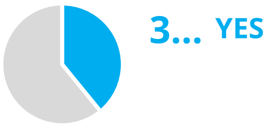
BUSINESS IS REGISTERED



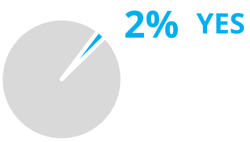
BUSINESS HAS A PERMIT



BUSINESS KEEPS ANY RECORDS



BUSINESS KEEPS DIGITAL RECORDS

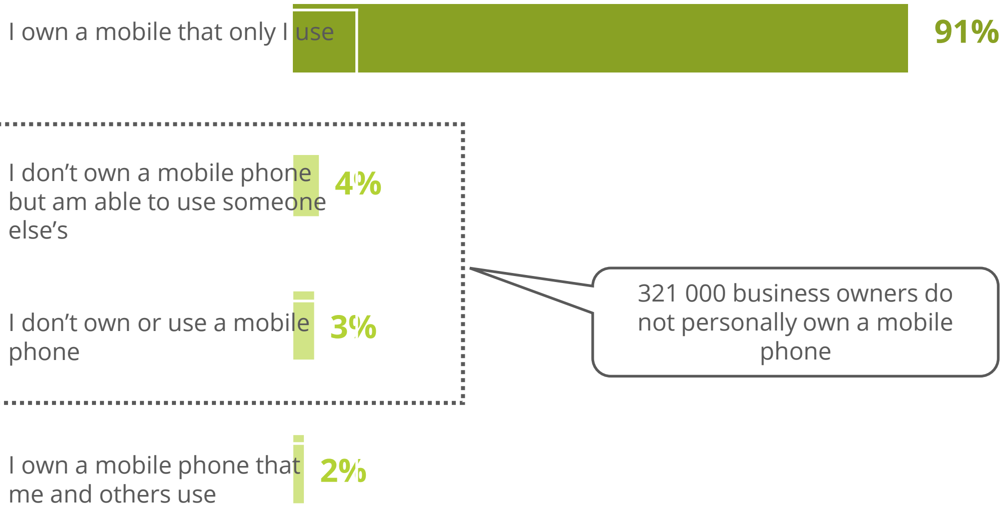


But…. business owners are highly digitized: 93% own a mobile phone nearly half of which are smartphones

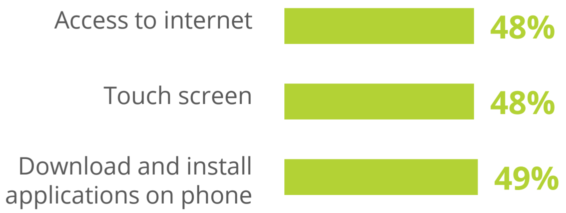
ACCESS TO TECHNOLOGY

(4,71 million business owners)

MOBILE PHONE ACCESS



MOBILE PHONE CAPABILITIES



INTERNET USAGE

45% **of business owners access the internet at least monthly, up from 39% in 2019***

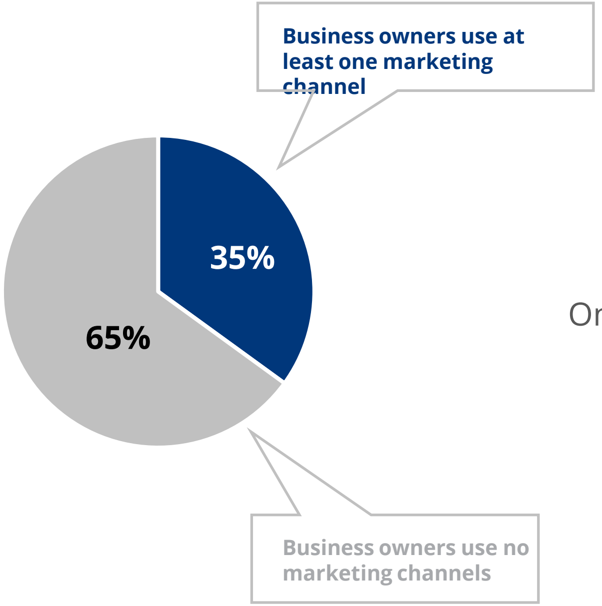
43% **of business owners report using the internet for business activities (e.g. online marketing, sourcing inputs)**

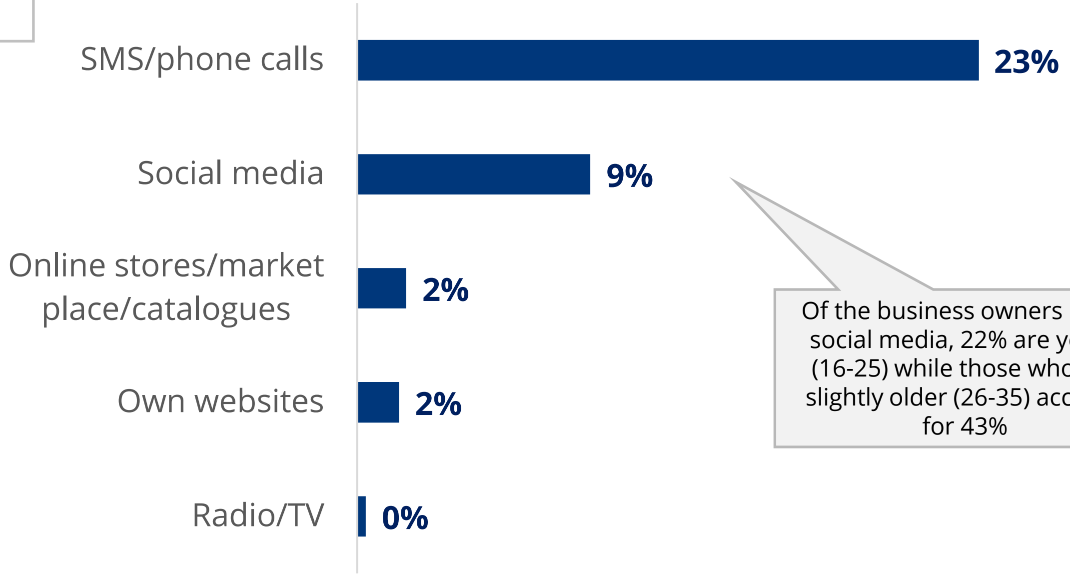
Note: *Question was asked slightly differently in FinAccess 2019. - "Did you access the internet during the past 4 weeks", whereas in FinAccess 2021 the question asked "How frequently do you access the internet?"

35% of business owners use at least one digital marketing channel to reach their customers

MARKETING CHANNELS USED

(4,71 million business owners)



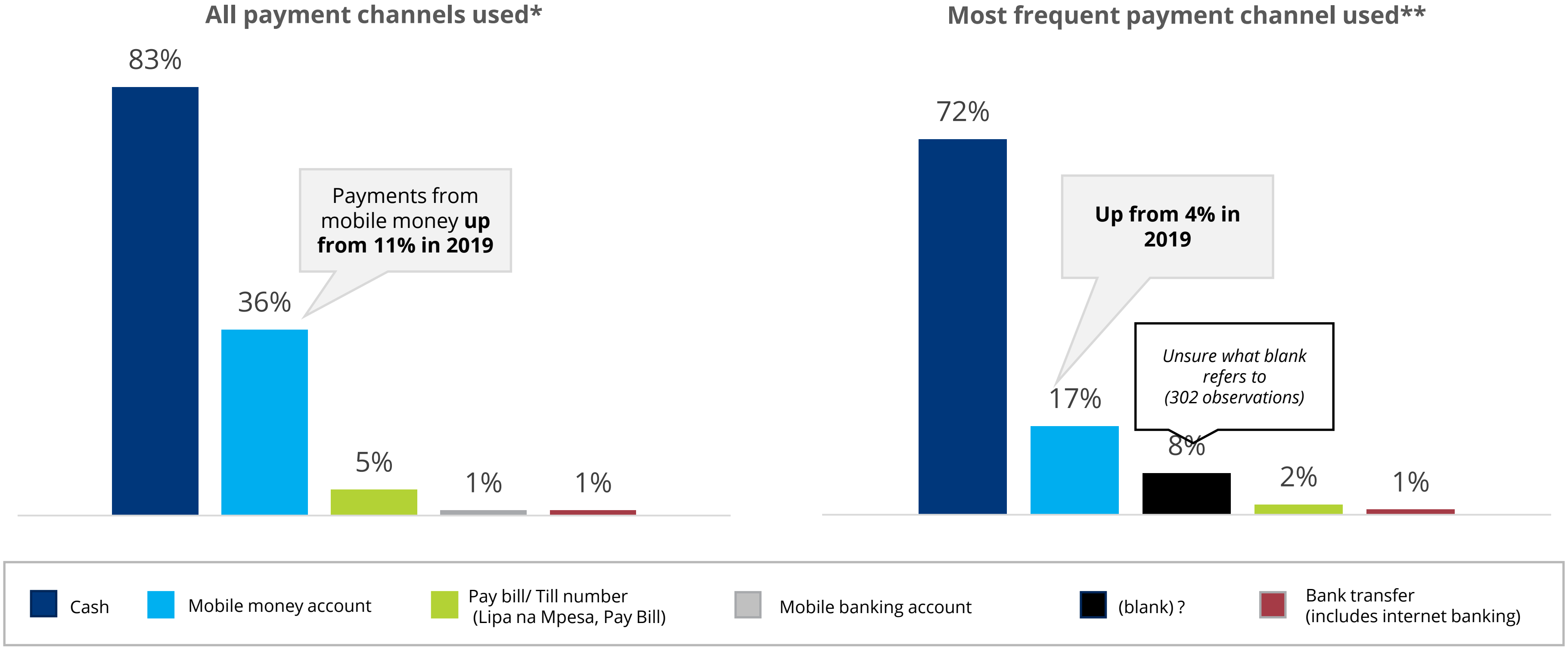


Of the business owners using social media, 22% are youth (16-25) while those who are slightly older (26-35) account for 43%

And usage of mobile money for business payments has increased significantly from 11% in 2019 to 36% in 2021

BUSINESS PAYMENTS

(4,71 million business owners)



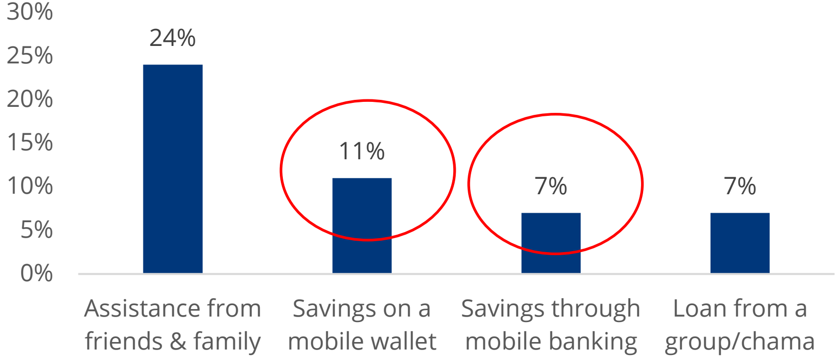
Source: FinAccess 2021

* Excluded Post Office, cheque, money transfer service, international mobile transfer, courier, bus/Matatu, in kind/noncash and other due to low observation count

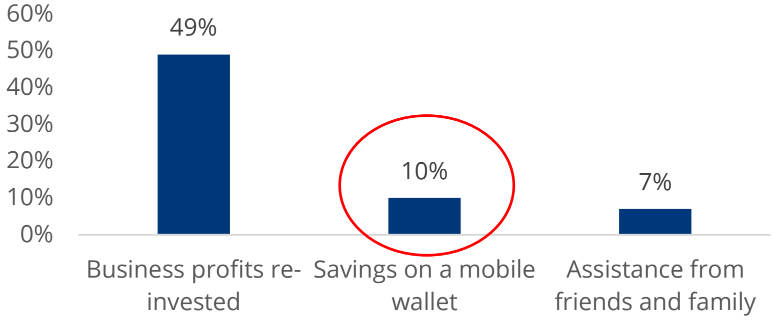
**Excluded mobile banking account, money transfer service, cheque, in kind/noncash, international mobile transfer, Post Office, bus/Matatu and other due to low observation count

MSE's continue to rely on social networks for business finance; but digital savings also play an important role…

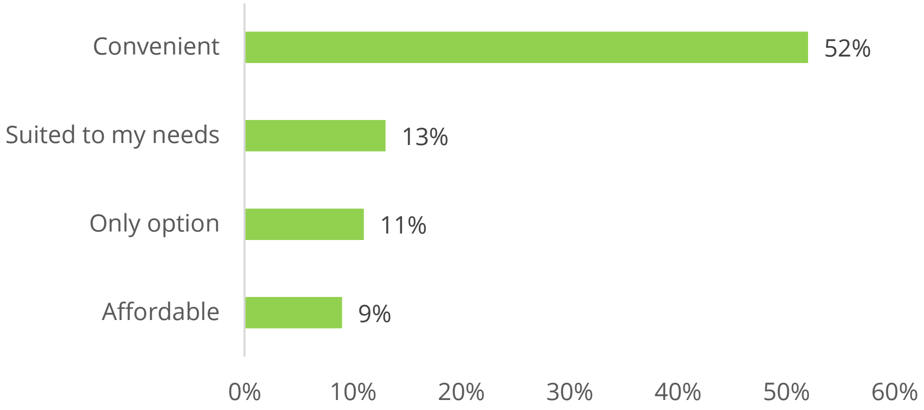
Top sources of starting capital



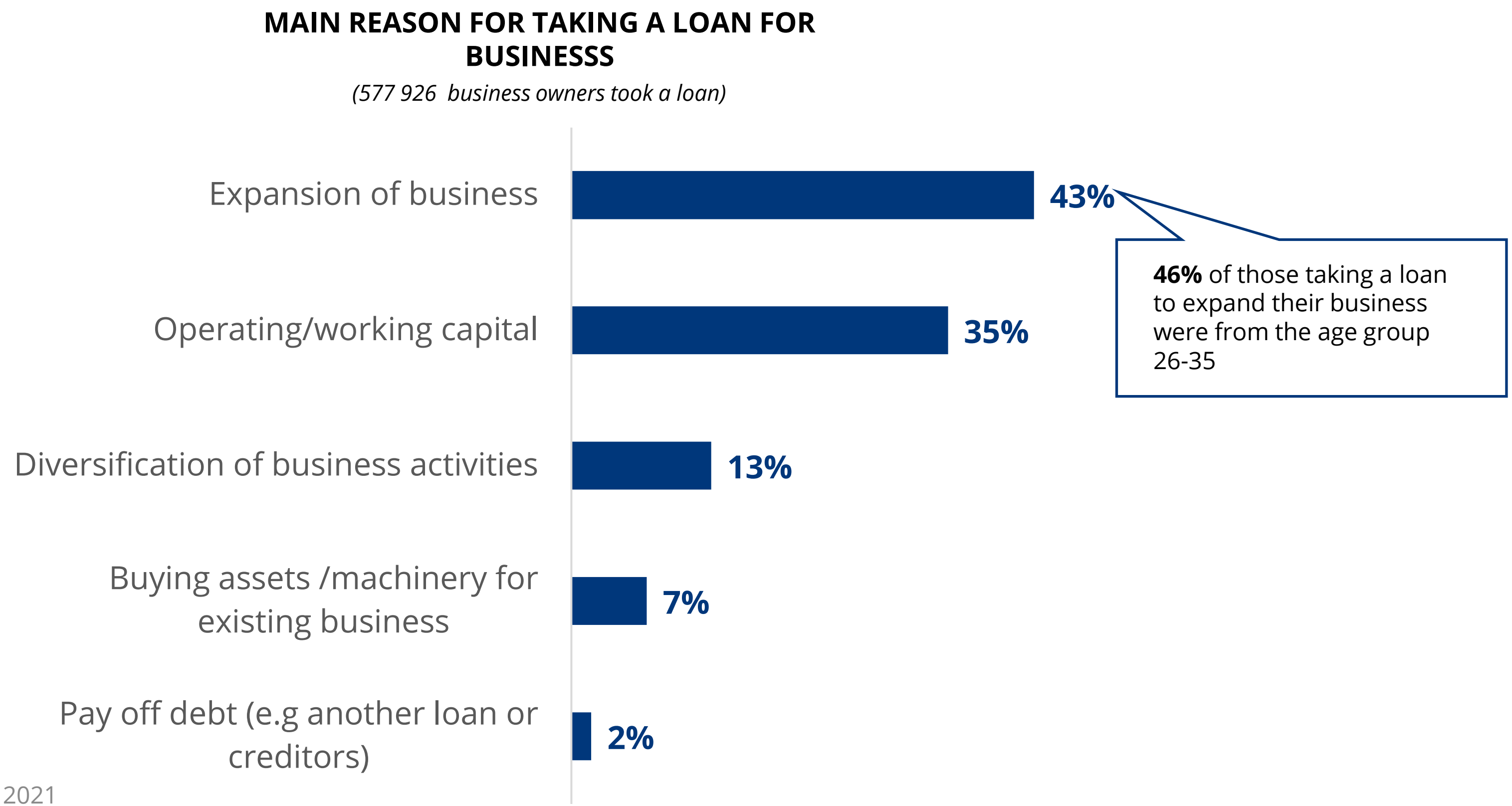
Top sources of operating capital



Top reasons for choosing financial device/strategy

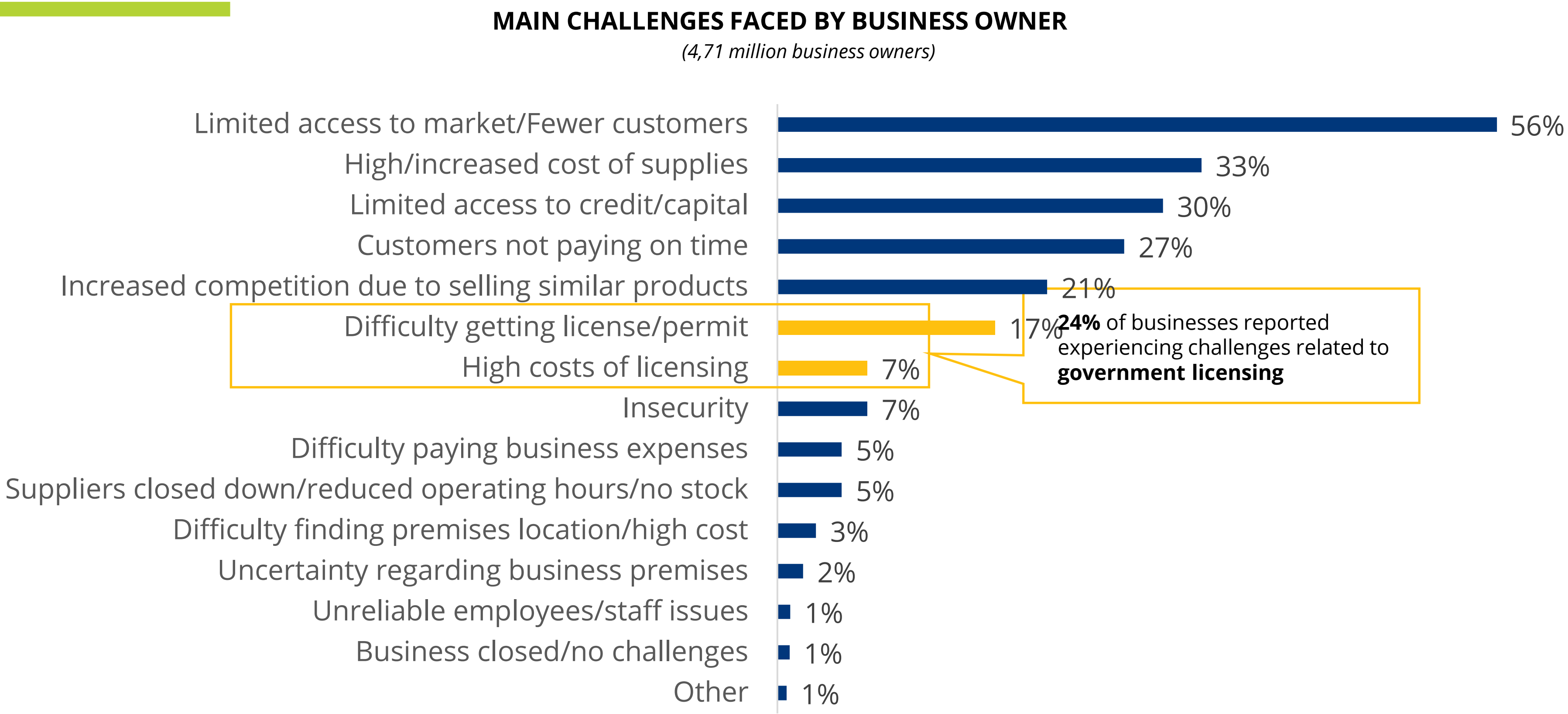


Out of 11% of MSEs who stated that they took a loan for business in 2021, 43% did this in order to expand their business



Source: FinAccess 2021

Can finance overcome the range of challenges faced by businesses and play a more significant role in supporting their resilience and growth?



Source: FinAccess 2021
Note: Excluded climate related challenges due to low observations

Discussion: What are the implications of reduced resilience and squeezed liquidity for the role of finance in supporting households and MSEs?

- Households' financial strategies geared to risk mitigation rather than growth;
- Lack of liquidity to 'buy' formal products: -spurring a retreat into the informal sector??
- BUT opportunities to build on access to digital infrastructure to reduce costs, improve trust and develop tailored solutions for households and MSEs
- Robust demand-side data collected on a frequent basis can provide a valuable tool for policy makers to enhance the enabling environment for the household and MSE layers of the economy; and identify opportunities and barriers for a more inclusive financial sector

THANK YOU

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