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

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

Ability to invest in the future:
- using savings or credit to invest in productive education or old age; is using/plans to use pension or investment income to make a project has been regularly putting aside more
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.
Median income continues to fall across most demographics

Median typical personal monthly income (all sources)

- All adults
- Age group
- Gender
- Household location
- livelihood (main income source)

- KSh 15,000
- KSh 10,000
- KSh 5,000

2015 2018 2021

Central Bank of Kenya
KNBS
FSD Kenya
#afiGlobal
www.afi-global.org
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.

### Financial needs

- **Meeting every day to day needs**
  - 2019: 62.1%
  - 2021: 62.5%

- **Experienced shocks**
  - 2019: 36.2%
  - 2021: 67.1%

- **Meeting future goals**
  - 2019: 59.2%
  - 2021: 59.9%

### Total shocks

- **Cost of living**
  - 2019: 36.2%
  - 2021: 82.8%

- **Major health problem**
  - 2019: 21.4%
  - 2021: 31.8%

- **Loss of income**
  - 2019: 59.2%
  - 2021: 4.1%

- **Death of a relative**
  - 2019: 2.0%
  - 2021: 20.2%

- **Climate (drought, pests etc)**
  - 2019: 6.9%
  - 2021: 4.1%

- **Theft/violence**
  - 2019: 2.0%
  - 2021: 4.1%

- **Death of main income earner**
  - 2019: 2.0%
  - 2021: 3.4%
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

<table>
<thead>
<tr>
<th>Category</th>
<th>2016</th>
<th>2019</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access a mobile phone (own or borrow)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to mobile money</td>
<td>68</td>
<td>72</td>
<td>76</td>
</tr>
<tr>
<td>Active digital account owners</td>
<td>54</td>
<td>66</td>
<td>68</td>
</tr>
<tr>
<td>Advanced DFS users</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Use of finance to deal with shocks

<table>
<thead>
<tr>
<th>Type</th>
<th>2016</th>
<th>2019</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal - non-digital</td>
<td>14</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Formal - digital</td>
<td>4</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Informal</td>
<td>57</td>
<td>44</td>
<td>44</td>
</tr>
<tr>
<td>Non-financial</td>
<td>21</td>
<td>21</td>
<td>21</td>
</tr>
</tbody>
</table>
The combination of COVID-19 and a longer-term decline in household economies has taken its toll on household wellbeing.

- **Gone without food**: 33.3% in 2019, 53.5% in 2021.
- **Gone without medicine when needed**: 35.7% in 2019, 54.2% in 2021.
- **Child sent home from school for lack of fees**: 37.7% in 2019, 48.3% in 2021.
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.
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.

Digital account use by sex (2021)

- **Has a mobile account**
  - Female: 79%
  - Male: 84%
  - Gender gap: 5%

- **Active (90 days)**
  - Female: 74%
  - Male: 79%
  - Gender gap: 5%

- **Advanced use**
  - Female: 65%
  - Male: 71%
  - Gender gap: 6%

- **Daily Use**
  - Female: 19%
  - Male: 28%
  - Gender gap: 9%

- **Smartphone owner**
  - Female: 33%
  - Male: 42%
  - Gender gap: 9%
...but this is in a context where women- and increasingly men- still rely mainly on informal finance to meet their needs and aspirations.

Use of formal and informal finance to meet financial goals

Are men also becoming more informalized?

- Male <30: 30% in 2019, 40% in 2021
- Male >30: 25% in 2019, 27% in 2021
- Female <30: 17% in 2019, 56% in 2021
- Female >30: 16% in 2019, 46% in 2021
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**
- Dependent: 64.9%
- Agric: 81.4%
- Casual: 84.2%
- Own business: 92.4%
- Employed: 96.2%

**Daily Use of mobile money**
- Dependent: 16.1%
- Agric: 14.7%
- Casual: 18.7%
- Own business: 39.6%
- Employed: 38.4%

**Active Users (90 days)**
- Dependent: 60.2%
- Agric: 75.6%
- Casual: 77.1%
-Own business: 88.3%
- Employed: 93.8%

**Smartphone ownership**
- Dependent: 35.1%
- Agric: 19.0%
- Casual: 30.1%
- Own business: 49.8%
- Employed: 69.8%
A window on MSEs.... What are the opportunities for digital finance to support growth?
% of population earning income from business has reduced since 2019

- **2019**
  - 5.15 million adults 16+ earned an income from self-employment (19%)
  - 81%

- **2021**
  - 4.71 million adults 16+ earned an income from self-employment (16%)
  - 84%

- **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.

Customer demand remains the biggest challenge...

And a rise in business closures in Q3 2021

Food insecurity remains high

Food insecurity quadrupled during COVID, and remains substantially higher than pre-COVID levels across MSE households.
Business formalization remains low, and has declined since 2019, mainly due to COVID-19

**BUSINESS FORMALISATION**

(4.71 million business owners)

**BUSINESS SERVICES USED**

- Payment devices
  - Till number: 7%
  - Card reader machine: 1%
- Bank account in business name: 4%
- Membership to a business association: 2%
- Pay NHIF for employees: 1%

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

**BUSINESS IS REGISTERED**

- 9% in 2018
- 18% in 2019

**BUSINESS HAS A PERMIT**

- 35% in 2019

**BUSINESS KEEPS ANY RECORDS**

- 3... YES

**BUSINESS KEEPS DIGITAL RECORDS**

- 2% YES
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

I own a mobile that only I use 91%

I don't own a mobile phone, but am able to use someone else's 4%

I don't own or use a mobile phone 3%

I own a mobile phone that me and others use 2%

MOBILE PHONE CAPABILITIES

Access to internet 48%

Touch screen 48%

Download and install applications on phone 49%

INTERNET USAGE

321 000 business owners do not personally own a mobile phone

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?”
27% of business owners use at least one digital marketing channel to reach their customers

**MARKETING CHANNELS USED**

(4,71 million business owners)

- SMS/phone calls: 23%
- Social media: 9%
- Online stores/market place/catalogues: 2%
- Own websites: 2%
- Radio/TV: 0%

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)

**All payment channels used***

- Cash: 83%
- Mobile money account: 36%
- Pay bill/Till number (Lipa na Mpesa, Pay Bill): 5%
- Mobile banking account: 1%
- Bank transfer: 1%

**Most frequent payment channel used**

- Cash: 72%
- Mobile money account: 17%
- Pay bill/Till number (Lipa na Mpesa, Pay Bill): 8%
- Mobile banking account: 2%

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*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.

Source: FinAccess 2021
MSE’s continue to rely on social networks for business finance; but digital savings also play an important role...

**Top sources of starting capital**

- Assistance from friends & family: 24%
- Savings on a mobile wallet: 11%
- Savings through mobile banking: 7%
- Loan from a group/chama: 7%

**Top reasons for choosing financial device/strategy**

- Convenient: 52%
- Suited to my needs: 13%
- Only option: 11%
- Affordable: 9%

**Top sources of operating capital**

- Business profits re-invested: 49%
- Savings on a mobile wallet: 10%
- Assistance from friends and family: 7%
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.

### Main Reason for Taking a Loan for Business

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expansion of business</td>
<td>43%</td>
</tr>
<tr>
<td>Operating/working capital</td>
<td>35%</td>
</tr>
<tr>
<td>Diversification of business activities</td>
<td>13%</td>
</tr>
<tr>
<td>Buying assets /machinery for existing business</td>
<td>7%</td>
</tr>
<tr>
<td>Pay off debt (e.g. another loan or creditors)</td>
<td>2%</td>
</tr>
</tbody>
</table>

(577,926 business owners took a loan)

46% of those taking a loan to expand their business were from the age group 26-35.

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?

**MAIN CHALLENGES FACED BY BUSINESS OWNER**

*4,71 million business owners*

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited access to market/Fewer customers</td>
<td>56%</td>
</tr>
<tr>
<td>High/increased cost of supplies</td>
<td>33%</td>
</tr>
<tr>
<td>Limited access to credit/capital</td>
<td>30%</td>
</tr>
<tr>
<td>Customers not paying on time</td>
<td>27%</td>
</tr>
<tr>
<td>Increased competition due to selling similar products</td>
<td>21%</td>
</tr>
<tr>
<td>Difficulty getting license/permit</td>
<td>7%</td>
</tr>
<tr>
<td>High costs of licensing</td>
<td>7%</td>
</tr>
<tr>
<td>Insecurity</td>
<td>7%</td>
</tr>
<tr>
<td>Difficulty paying business expenses</td>
<td>5%</td>
</tr>
<tr>
<td>Suppliers closed down/reduced operating hours/no stock</td>
<td>5%</td>
</tr>
<tr>
<td>Difficulty finding premises location/high cost</td>
<td>3%</td>
</tr>
<tr>
<td>Uncertainty regarding business premises</td>
<td>2%</td>
</tr>
<tr>
<td>Unreliable employees/staff issues</td>
<td>1%</td>
</tr>
<tr>
<td>Business closed/no challenges</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
</tbody>
</table>

14% of businesses reported experiencing challenges related to government licensing

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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