



# FSD News

## EDITORIAL

The last quarter saw the resurgence of problems in international financial markets, which had started a year earlier in the US. By October this emerged as a global crisis requiring unprecedented interventions to avoid systemic failure with potentially catastrophic impacts. While the threat of a collapse in the global financial system has diminished, the real economy is now suffering. A global recession seems inevitable.

Although the problems started in over-indebted industrialised countries, they spread rapidly. Countries closely integrated into the global financial system were most affected. By contrast Kenya saw little immediate impact. The banking system, including multi-national bank subsidiaries, has limited exposure to global financial markets. Following the long turnaround from the financial crisis of the 1990s, Kenya's banks are also now relatively well capitalised. Nevertheless a global economic downturn seems bound to impact on Kenya's economy given the importance of exports and the role of remittances in investment.

What does this mean for financial inclusion? It is sobering to realise that the crisis started in the sub-prime mortgage market of the US – extending housing finance to low-income people beyond the 'financial frontier'. This reminds us that credit is always a potentially double-edged sword and low-income people are especially vulnerable to the destructive impact of over-indebtedness. But effective micro-finance has never meant ignoring the underlying principles of good lending. It demands greater attention to establishing a borrower's real ability to repay, without the support of collateral or a formal sector income (the fragility of which has been demonstrated in the crisis).

Extravagant claims are sometimes made for micro-finance in relation to its potential impact on poverty elimination or the strength of investment returns. This might be the time to scale back our ambition to more realistic proportions. Appropriate financial services can certainly make an important contribution to achieving sustainable poverty reducing growth in Kenya but we should not be blind to the potential risks that can accompany excessively rapid expansion. Our aim should be to build on industry for the long term.

**David Ferrand**  
Director



A smallholder farmer delivering maize to a warehouse. The warehouse receipts system enables farmers to get financing for farm inputs and other needs immediately after delivery of grain and sell when market prices improve.

## NEWS AND VIEWS

### Decentralised Financial Services (DFS) project

The DFS project was launched in 2003 with an aim of developing and testing simple, effective tools and delivery techniques to strengthen operations, management and governance in community/rural based financial organisations. This is a building block for developing sustainable and robust decentralised financial systems in Kenya.

Results thus far show that the project has achieved considerable success in strengthening self-management and governance of accumulating savings and credit associations (ASCAs). Work with Financial Services Associations (FSAs) though still in its early stages shows potential for strengthening the performance of the solidarity groups, hence improving the FSAs' efficiency through improved loan officer productivity. The current phase is drawing to a close. A further phase is under discussion which would disseminate the tools and delivery techniques, improving access through informal service provision.

### Warehouse receipts system (WRS) project

Since the official launch of the warehouse receipts system in April this year, there has continued to be a lot of interest from both financiers and farmers. The system has already been piloted with slightly over 10,000 bags of maize having been deposited into the certified warehouse and credit

advanced against the warehouse receipts as collateral in the last season. Equity Bank successfully provided financing during this pilot phase.

A bankers' workshop was held in August to create awareness about the system with an aim of having more banks embrace the warehouse receipts as collateral for lending. Following the workshops, discussions are underway with a number of banks and one of them has already developed a prototype based on the system. Awareness creation among farmers is on-going. The focus of this year's Eldoret Business Fair was warehouse receipts and about 5,000 farmers attended trainings on the system.

### SACCO regulation

In early November, the Kenyan parliament passed the SACCO Bill which sets out a new regulatory framework for SACCOs. It is expected to receive the president's assent by the end of the year. The Bill provides for licensing and regulation of only the largest SACCOs and those offering front office savings activities (FOSAs). A new SACCO society regulatory authority will be established to oversee an estimated 200 SACCOs meeting these criteria. Other SACCOs will not be prudentially supervised but remain under the purview of the Ministry of Co-operatives, Development and Marketing.

## FINANCIAL EDUCATION

### Background

Financial education teaches the knowledge, skills and attitudes that people can use to adopt good money management practices for earning, spending, savings, borrowing and investing. It offers the prospect of strengthening the development of financial markets and enhancing the impact of expanded services on the livelihoods of Kenyans, especially among poorer groups. If this potential is to be realised then the long term vision needs to be bold and the ambition from the outset should be the creation of a comprehensive, national programme of financial education. Much preliminary work is needed to understand practically what works and doesn't work in Kenya and to motivate the key stakeholders who can drive the longer-term programme.

### Financial Education Partnership

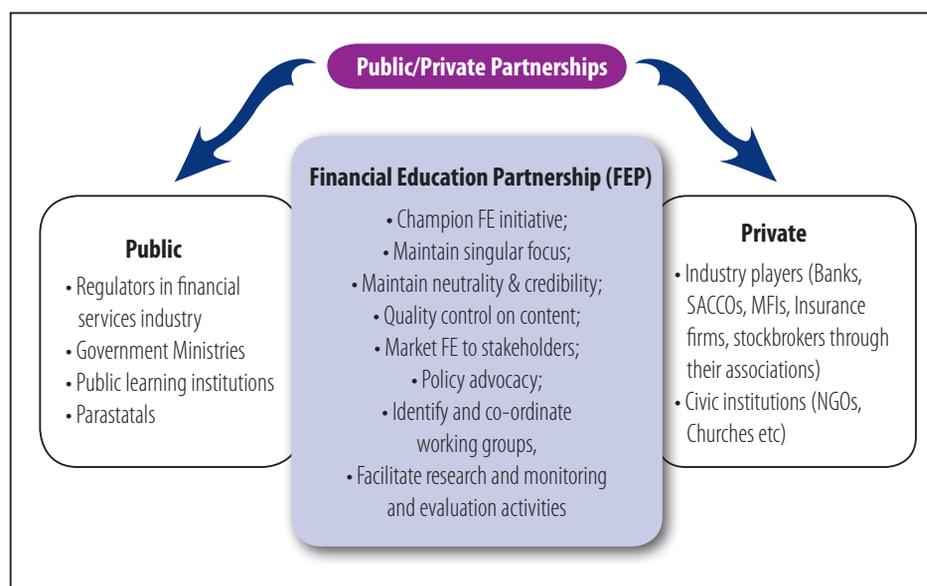
At the encouragement of stakeholders in the financial services sector, FSD Kenya commissioned a scoping report in May 2008. Drawing on strong consultation across a range of stakeholders, Microfinance Opportunities concluded in the scoping study that: "a national financial education programme must be the product of a public/private partnership between government, the corporate sector and civic organizations (NGOs, women's organizations, faith based organisations, schools, etc.) and that the two pillars (public and private) supporting this programme need to be linked by a coordinating body".

At the end of July the Financial Education Partnership (the Partnership or FEP) was formed by 28 organisations from the private sector and public sector. The objective of the Partnership is to establish the foundation for a comprehensive programme of financial education in Kenya.

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The Partnership considers that there are three main objectives for financial education:

- Foster informed use of financial services: Financial education should allow individuals to make better use of the options available to them both in terms of the range of financial services and financial institutions both formal and informal. This equally applies to the banked and unbanked.
- Improve financial management: Through the transfer of knowledge, skills and attitudes to people so that they can adopt good practices for earning, spending, saving borrowing and investing.



- Consumer protection: Encourage consumers to protect themselves through education. But there is also the need to link with the legal and regulatory agenda in financial education and to consider the education of service providers to eradicate poor practice and mis-selling.

### Financial Education Taskforce

In order to move practically towards implementation, it was recognised that work would need to be delegated by the larger FEP group to a smaller one able to meet more frequently, push activities forward and reach decisions on operational issues arising. There was agreement to establish the Financial Education Partnership Taskforce (the Taskforce or FEP-TF) for this purpose.

In forming this Taskforce it was agreed that it would need to (i) represent each key stakeholder group and (ii) be composed of those with the willingness and capacity to devote time to the work. An initial taskforce of 13 was agreed, composed of 7 private sector organisations and 6 public (or quasi-public).

The Partnership is thus the stakeholder group; while the Taskforce is an executive committee, representing the diverse interests in the Partnership and providing leadership and oversight of a set of activities to

achieve the Partnership's objective. The first monthly Taskforce meeting was held in August and two subsequent meetings have been held since August.

The work undertaken so far has covered establishing the governance structure and identification of priority areas of activity. Based on a review of international experience commissioned by the Taskforce, it is clear that there is a thin evidence base for financial education effectiveness. To establish the most appropriate interventions for Kenya a number of pilot projects with strong monitoring and evaluation components need to be carried out. The Taskforce has joined up with the DFID funded Pan-African Financial Education Fund (FEF) to seek funding proposals for innovative ways to deliver financial education in Kenya.

### Call for proposals

A joint call for proposals was made by FEP and FEF on 19th November. The closing date for receipt of initial concepts is 5th December. Funding for projects by either non-profit or private sector organizations is being made available. Finance is provided by both FSD Kenya on behalf of the FEP and the FEF. The grants will be awarded on a competitive basis. For more information please contact [caroline@fsdkenya.org](mailto:caroline@fsdkenya.org) or visit [www.fsdkenya.org](http://www.fsdkenya.org).

## EVENTS CALENDAR

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|-----------------------|---|
| <b>24 - 25 Nov</b>    | <b>Financial Co-operatives Regulatory Roundtable</b> , Pretoria ( <a href="http://www.woccu.org">www.woccu.org</a> ). |
| <b>26 Nov</b>         | <b>Stakeholder workshop on Investment in Financial Services</b> , KenInvest, KICC, Nairobi.                           |
| <b>17-19 Feb 2009</b> | <b>Banking Technology East Africa Conference</b> , AITEC Africa, Nairobi.   |