



EDITORIAL

Last quarter saw an acceleration in the convergence between mobile phone based payment systems and mainstream banking. In a high profile event Equity Bank and Safaricom announced their new M-KESHO account. This account, held with Equity, operates across the M-PESA payments system. Customers can make transfers between their M-PESA and M-KESHO accounts using their mobile phones and access their money at any of M-PESA's nearly 19,000 agents. It is also possible to make transfers electronically with a customer's other Equity accounts. Family Bank then launched its Pesa Pap product which allows its customers to deposit and withdraw from their Family accounts using M-PESA. Other banks and MFIs linking to one of the mobile payment platforms include KCB, Co-operative, Standard Chartered, NIC, KWFT and Faulu Kenya.

There can be little doubt that these developments are good news for the development of the financial system in Kenya. Increasing numbers of businesses, both small and large, are already using the mobile systems for a range of small value payments. Linking the M-PESA system to bank accounts will clearly be a major convenience; in the past many smaller businesses have had to 'cash-in' or 'cash-out' at agents to transfer value between the two systems.

But what does this mean for reducing financial exclusion? The ubiquity of M-PESA agents overcomes one of the major barriers to use of banks by the underserved rural population. Research data shows many people are within easy reach of an M-PESA agent. But pricing is still likely to play a significant role in how the system is used. For the nearly half of Kenyans living below the poverty line it seems unlikely that mobile banking solutions will be used for day-to-day transactions. Where transaction costs represent a significant percentage of daily income then cash will retain its pre-eminence. However the pricing on the M-KESHO product in particular appears much more amenable to use for long-term saving. Customers can deposit at no cost into their accounts and therefore the product should be useful in gradually building up a larger sum from small savings. But we will have to wait to see who actually adopts these new products and how they use them. The market can surprise us.

David Ferrand

Director

NEWS AND VIEWS



Mr Steve Omenge, the chairman of the Insurance Regulatory Agency (IRA) delivers the keynote speech during a micro-insurance stakeholders workshop held on the 20th of May 2010 in Nairobi. Facilitated by IRA and CENFRI, the workshop was supported by FSD Kenya, the International Labour Organization (ILO), United Nations Capital Development Fund (UNCDF) and the Association of Kenya Insurers (AKI). The event marked the beginning of a larger collaborative process to assist with the development of the Kenyan micro-insurance market.

Supply chain finance offers opportunities for growing Kenyan firms

Buyer centred supply chains offer opportunities to introduce financing solutions that benefit all the enterprises on the chain with a minimum of risk to the financier. The reliable supply of quality goods and services is critical to the success of all private and public sector institutions. Suppliers require sufficient working capital to meet their order books and for growing firms this represents both an opportunity and a threat. With the majority of their capital tied up in stock and unpaid invoices, smaller firms find it difficult to move on to new opportunities.

Developing instruments to free up much needed working capital for these firms can provide innovative financial institutions with new and profitable lines of business. Buyers in Kenya are beginning to realise that there is a business case for supporting their suppliers and are working with financial institutions to tailor these instruments to their circumstances.

In 2009, FSD established a facility to support the growth of supply chain finance. The facility provides technical assistance to partner financial institutions in the structuring of appropriate, affordable and scalable supply chain finance solutions. While not reinventing the wheel, the facility uses

experience with robust solutions that have released billions of dollars of working capital around the world, such as receivable and purchase order finance, and supports the development of workable Kenyan options.

SACCO regulation

The SACCO law enacted at the end of 2008 will regulate the estimated 215 SACCOS mobilising deposits from the public through their front office savings activities (FOSAs). The SACCO Societies Regulatory Authority (SASRA) has been established and the senior management team now in place. Following the gazetting of the related regulations at the end of June 2010, the SACCOS now have one year to apply for licences from the Authority and a subsequent four-year window to comply with all the prudential requirements.

The promulgation of the regulations marks the beginning of a tough journey to compliance for many of the SACCOS. Given the general state of the sub-sector, the transition will be characterised by radical transformation in terms of both management and governance and will require intense support. FSD was delighted to support the establishment of SASRA and will continue to work with other stakeholders in helping the SACCOS meet the challenge of regulation.

PROGRESS IN FINANCIAL EDUCATION



The Central Bank Governor Prof Njuguna Ndung'u delivers his speech at the Masters Trainers workshop for public sector officials.

Masters trainers programme

Under FSD's support to the Financial Education and Consumer Protection Partnership (FEPP), a training was undertaken of master trainers within targeted institutions that serve the general public. The trainees included officers from various departments of the City Council of Nairobi namely: City Education, Pumwani Maternity Hospital, City Inspectorate, Human Resources, Social services and Housing and Finance. Other participants were drawn from the Retirement Benefits Authority, Kenyatta National Hospital, National Social Security Fund, Central Bank of Kenya, Sacco Societies Regulatory Authority, Kenya Polytechnic University College, Directorate of Industrial Training, Financial Sector Deepening Kenya, Kenya Institute of Mass Communication, Kenya Bankers Association Kenya Institute of Administration, Kenya Institute of Education, Kenya Institute of Public Policy, Research & Analysis and the Nation Media Group.

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These officers committed to educate not only the public but their own colleagues on good money management practices so that they can cope with day to day expenses as well as undertake better personal financial planning to reduce overreliance on debt.

While opening the training session, Prof. Njuguna Ndung'u who is the National Champion for Financial Education

noted the importance of educating the public so that they can take advantage of the innovations in the financial sector. "The best way to protect consumers is to empower them with financial knowledge which they can use to demand for quality services at fair prices," he stated.

The participants were certified as Master Trainers for the Global Financial Education Program developed and led by Microfinance Opportunities USA. The curriculum is used by over 200 organisations in 45 countries to reach consumers.

Consumers gain from financial education in Kitale

With support under the FEPP in July, Faulu Kenya organised two financial education training seminars at the Salvation Army Church and Tuigoini location in Kitale. Dubbed *Elewa Pesa* (Swahili for 'Understanding your money'), the trainings mostly targeted people aged 20-40 years.

Reuben Kibet, a farmer and shopkeeper within the region says: "I first heard about this training opportunity last week through my group known as the Benon poultry group. I'm glad I took the decision to participate because I've learnt a lot on how to budget properly, especially to avoid frequent deficits that I experience at my small shop."

The trainees explored the various expenses that one incurs on a day to day basis including church offertory, food and household items, support to relatives and use of mobile phone airtime. Budgeting helps one to plan for the expected expenses and save toward future needs. It enables consumers to control their income and spending. The participants were provided with budgeting templates to use and keep track of their earning and spending patterns.

The trainees also examined the subject of retirement and how to plan for it. They learnt how to start developing specific, measurable, attainable, realistic and time bound (SMART) goals to help them plan for their old age. Most confessed that they found it almost impossible to start and maintain a regular savings habit for their retirement.

The reasons given ranged from having low incomes: "I don't earn enough money for me to save" to living beyond one's



Brian Andanje (Faulu Advisory trainer), uses an illustration to explain a point during the Elewa Pesa training at Tuigoini location in rural Kitale.

means: "my monthly requirements and expenditures are too high".

The trainees were taught the concept of paying themselves first before spending their incomes on other needs. This means itemizing in their monthly budget plans a reasonable portion from their incomes that will be set aside into a savings account. The funds can be accumulated either on a monthly or weekly basis depending on one's income cycle.

This concept challenged trainees long held beliefs that one could only save part of their income after meeting all their expenses.

Rogers Madoi, a 26 year old electrician states: "The budget topic was the most important for me because I was already saving but was not doing my budgets very well. I also have an account at Equity Bank because there are no ledger fees to eat into my savings. As a young man I can say that the youth really need this kind of knowledge so that they can start handling money in the right way."

EVENTS CALENDAR

- 16 - 27 August** **The Applied Microfinance Institute (AMI) Training**, Nairobi - Kenya
For information, email: AMIAfrica@microsave.org, Website: www.microsave.org
- 2 - 4 September** **African Green Revolution Forum**, Accra - Ghana
For information, email: suzanne@agrforum.com Website: www.agrforum.com