

# The search for inclusion in Kenya's financial landscape: The rift revealed



THE SEARCH FOR INCLUSION IN KENYA'S  
FINANCIAL LANDSCAPE : THE RIFT REVEALED

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The Kenya Financial Sector Deepening (FSD) programme was established in early 2005 to support the development of financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry, the programme's goal is to expand access to financial services among lower income households and smaller enterprises. It operates as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). In addition to the Government of Kenya, funders include the UK's Department for International Development (DFID), the World Bank, the Swedish International Development Agency (SIDA), Agence Française de Développement (AFD) and the Bill and Melinda Gates Foundation.



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The Great Rift Valley

# THE SEARCH FOR INCLUSION IN KENYA'S FINANCIAL LANDSCAPE : THE RIFT REVEALED

## INTRODUCTION

*Does the rapid adoption of mobile phone based money transfer services (MMT) suggest a tectonic shift in Kenya's financial landscape and the greater potential for formal sector inclusion - especially in savings or transactions accounts?*

*What are its implications for formal sector services?*

This report examines the use of MMT within the context of informal and formal financial service use. The study investigated both the supply and demand sides of the market and uses both quantitative surveys and qualitative interviews. It was designed to delve into financial service provision and use below the aggregate findings of the national level FinAccess surveys in order to illuminate the dynamics of financial inclusion for low-income groups and hence offer insights for policy and practice.

### IT FINDS THAT:

- MMT seamlessly facilitates a wide array of inter-personal transactions that Kenyans undertake within their social networks and relationships of family, kin, friends and colleagues.
- The logic of these transactions is one of give and take in ways that circulate resources through these social networks
- MMT has captured these 'informal' transactions and made them visible.
- This logic is also replicated in the popular use of informal groups such as merry-go-rounds and accumulating savings and credit associations where people circulate resources among themselves.
- 'Saving' in and through these offers benefits that saving in banks and other formal providers does not. 'Give' can respond to 'take' on a negotiable basis.
- To make dramatic strides towards formal inclusion the nature of these transactions needs to be understood.

## METHODOLOGY

The study was carried out in the environs of three small towns. These were chosen to represent districts in each tercile of the poverty ranking of districts in Kenya according to the report "Wellbeing in Kenya" (GOK, 2005). They were Karatina in Nyeri District, Central Province (top tercile); Nyamira in Nyanza Province (middle tercile) and Kitui in Eastern Province (bottom tercile). Located in the higher potential agro-ecological zones, Karatina and Nyamira offer insight into access and use where population densities and food security are not primary problems, while Kitui represents the semi-arid spatial frontier of delivery and a context of chronic food insecurity.

The supply-side study involved identifying and interviewing as many formal and semi-formal providers based in each town and its environs as possible. In all some 59 interviews were carried out with providers across the three sites with near complete coverage of the major banks, and MFIs.

The demand-side study consisted of two components. A survey of financial service use carried out through random sampling in three sub-areas of each research site. Within these sub-locations in turn villages were chosen to achieve representation across the sub-location where there were differences. Local administration officials provided household lists at the village level from which households were randomly selected. This resulted in 337 respondents in 194 households. From this sample, 148 more in-depth interviews were undertaken with purposefully chosen respondents, in particular where they had started using services, to explore the reasons behind these dynamics.

### THE NUMBERS: SAMPLE SIZES

# 59

Interviews carried out with formal and semi-formal providers on the supply side

# 337

Respondents were interviewed in 194 randomly selected households

# 148

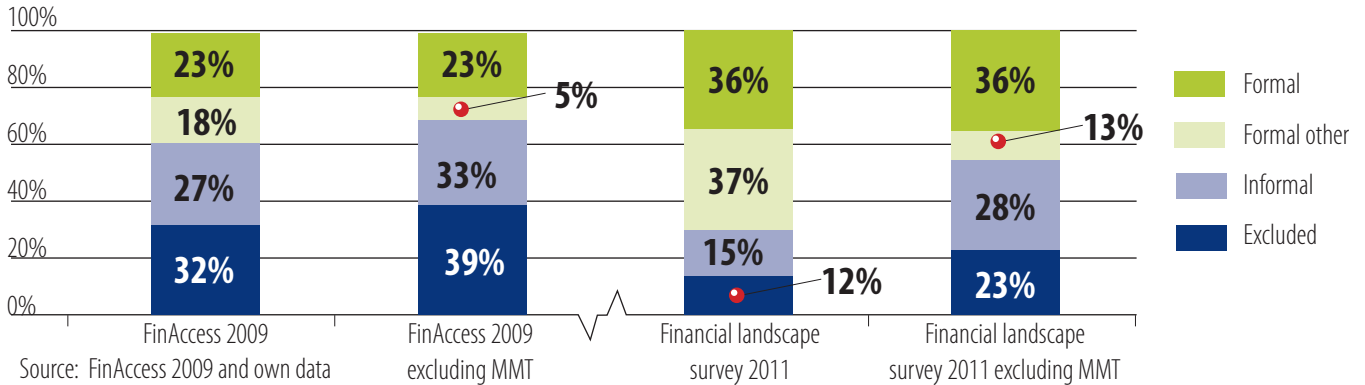
In-depth interviews were undertaken with purposefully chosen respondents

## OVERVIEW OF THE FINANCIAL LANDSCAPE

- Money transfer is the most used service following by informal financial groups and then banks
- Money transfer use is now almost double the level of the last FinAccess survey
- The higher levels of usage of all services in this research compared to FinAccess reflect the location of the study in two higher potential areas
- Access strands are shown below. The access strand approach treats MMT as a similar service to financial intermediation services. Since they offer transfer rather than intermediation we also show access strands excluding MMT. This raises rates of informal inclusion and exclusion.

	Financial landscape survey 2011	FinAccess 2009
MMT	60.8	27.9
ROSCAs	38.0	31.7
Banks	35.6	21.5
ASCAs	27.3	8.0
SACCOs	22.8	9.0
MFI	4.5	3.4

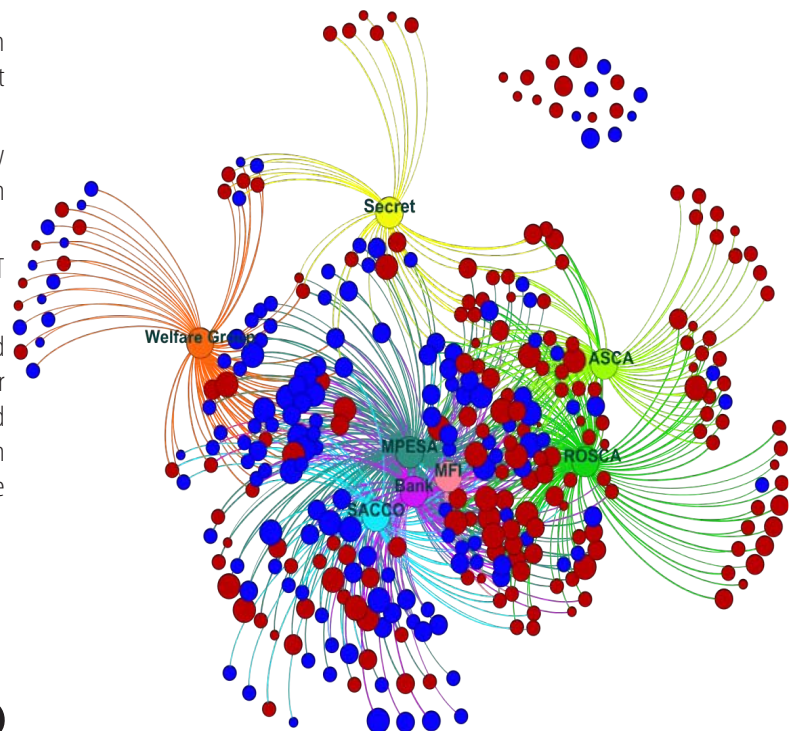
### Access strands



## PATTERNS OF ACCESS AND USE

- The findings reveal a landscape of financial service access that is most consistently influenced by gender and education.
- Men are more likely to have MMT than women (and especially young men compared to young women) and are more likely to have bank accounts but are much less likely to use informal financial groups.
- Having no education reduces the likelihood of having MMT compared to any level of primary education or above; whereas having a secondary education or above results in a higher likelihood of having a bank account.
- Income was more strongly associated with a higher likelihood of using MMT and less so for banks or financial groups.
- On the other hand, living further away from a bank reduced the likelihood of either having an account or using it frequently. By contrast people further away from an MMT agent were also more likely to have a registration and this underlines the importance of having the ability to receive transfers even for those living far away. But for MMT greater proximity did not appear to be associated with more frequent use.

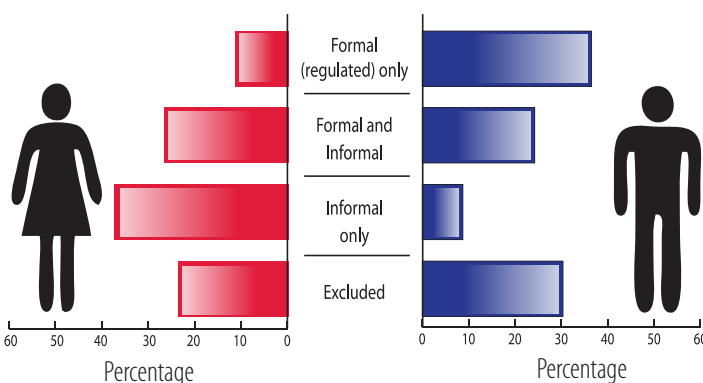
### Visual representation of multiple use of financial services Karatina / Kitui / Nyamira



Colour of Nodes: Men: Blue / Women: Red  
 Size of nodes: Education  
 Size of edges: Income  
 Colour of edges: Financial providers origin

**Note:** There is extensive multiple use of services spanning both formal and informal sectors

### Access formal/informal by gender



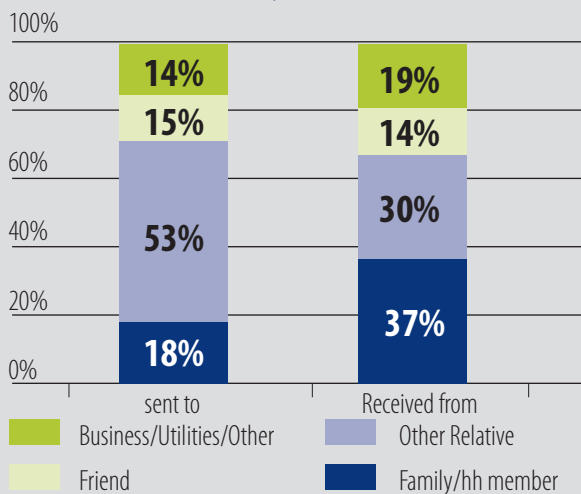
## MOBILE MONEY TRANSFER (MMT)

- MMT has been marketed as a remittance mechanism to “send money home” and many transactions involve transfers to household members and close family.
- We also find that a significant proportion of transactions are with a wider circle of other relatives and friends beyond family or household members.

### There is a vast diversity of purposes for transfers:

- |  |  |
|--|--|
| → Support to children at school or in the city | → Harambees  |
| → Funds for investments                        | → Medical expenses                                 |
| → Rosca group contributions                    | → School fees                                      |
| → Funerals                                     | → Business   |
| → Pre-weddings/weddings                        | → Paying for labour, Rent                          |
| → Births                                       | → Borrowing in cash to be returned at a later date |

Pattern of mobile money transfers (last transaction)

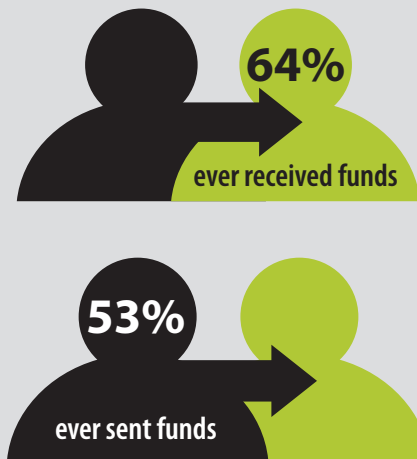


- MMT is not used for ‘saving’ as such, 34% of those registered for MMT who had their money on phone, explained this in terms of safe-keeping and mobility or having funds to use for oneself or others when needed, rather than the act of accumulating savings
- Terminology in local languages reveals that holding a reserve of funds to fall back on in emergencies is something people expect to have but which they do not think of as form of saving.

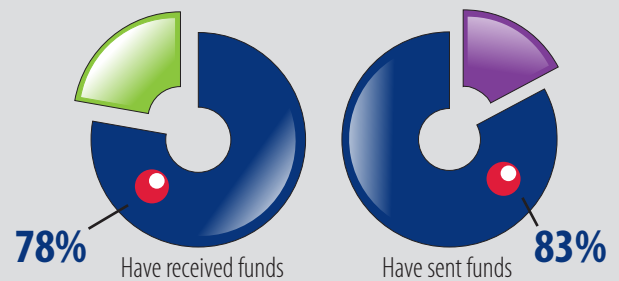
MMT’s extensive use reveals the vast array of inter-personal transactions that Kenyans undertake and which are endemic to their financial lives. These transactions can be understood as embedded in social networks and relationships. Within these social networks, systems of give and take operate in which favours or assistance of various forms are given and received – and of which cash is one. These transactions are usually very open ended. Assistance is given with no particular expectation of return and is not necessarily related to need. This can be understood as a form of saving with others through such transactions. However when needs arise, requests for assistance can also be made and resources borrowed or received as a gift. When funds are borrowed whether or not they are to be returned will be clear but there is rarely a set timetable or interest.

**Ksh300**  
Approximate (median) balance held on phone

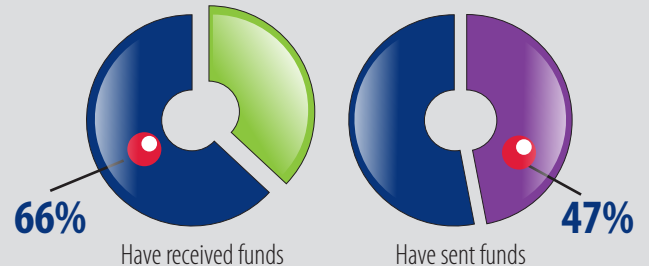
How many ever received/sent funds



Pattern of money transfers in towns (last transaction)



Pattern of money transfers in rural areas (last transaction)



### MMT allows flexibility for inter-personal transactions



- **Reliability:** MMT offers a high level of reliability and conformity to their service promise
- **Convenience:** is now extremely good with agents in even small market centres and the ability to undertake transactions from the “comfort of your sofa”
- **Structure:** The service is very simple and does not offer a structure in itself.
- **Flexibility:** The key point is that it gives access to the flexibility that transacting with others offers.

## THE NUMBERS



**34%** Of those registered with a money transfer service reported holding a balance on their phone



**19%** Gave safety as a reason for holding money on the phone



**18%** Said they hold money in their MMT account in order to have funds to send to family, relatives, friends when they need them

## BANKS

- While there is a stronger sense now that bank accounts are for the “common man”, the qualitative data revealed that these were often opened for processing payments - whether from contracts, or regular payments from employment or for other lump sums to be received.
- This pattern is a strong reason for levels of dormancy since once payments are not being received they fall into disuse.
- However, there was evidence of a gendered pattern here with women tending to use accounts more actively for saving than payments (also because they are less likely to be receiving lump sum payments), and - with a very high rate of group membership among them this also suggests that groups may have taught them a stronger savings and money management culture.
- Bank managers reported that when approaching banks, users are looking for the opportunity to borrow, but the rate of bank borrowing in our sample was very low at 9% of those with bank accounts. The disappointment in seeking loans and difficulties managing them when they were received, helps explain that banks are not seen as an easy or straightforward source from which to borrow.

**35.6%**  
have bank account

**Likelihood of having an account:** higher for men, better educated; those located closer to a bank

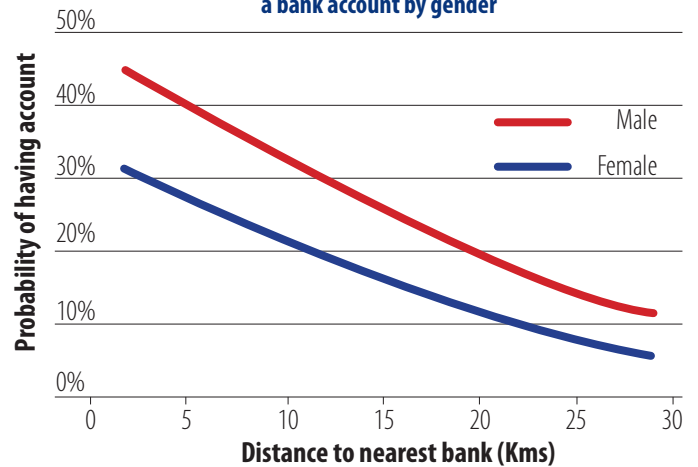
**Frequency of use** is higher with higher incomes and lower distances.

### Reasons given for opening an account

- Low charges
- No minimum deposit
- Low interest rates
- Minimal procedures
- Easy access to loans
- Easy to open
- No minimum balance
- Proximity
- Safety

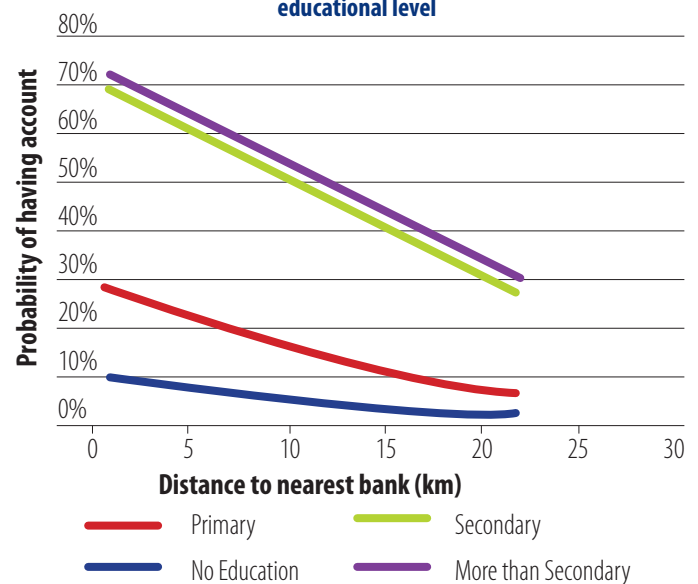


Effect of distance on probability of having a bank account by gender



**Note:** Gender has a large effect relative to distance on bank access. Being a woman is equivalent to living some 10kms further away from the bank

Effect of distance on probability of having a bank account by educational level



**Note:** Having secondary education or higher significantly raises the probability of having a bank account.

## Banks offer reliable and flexible savings services, but few loans, no savings discipline and are costly

- **Reliability:** In the case of banks, their reliability in terms of delivering the promised service at the promised price is high, although the price for many is significant. At the time of the research a withdrawal fee of Kshs30 from an ATM represented the price of a kilo of unmilled maize which would feed three people for one meal.
- **Convenience:** Convenience in terms of proximity is poor for those out of town, but speed of service and privacy can be good.
- **Flexibility and Structure:** Since deposit accounts are now highly flexible in terms of withdrawals, this element is strong but the flipside is that structure for helping people to save regularly is non-existent. Moreover, flexibility in relation to loans is not a feature.



**1 kg = Ksh30**

1 kg of maize

ATM Withdrawal charges



## INFORMAL FINANCIAL GROUPS

- Informal financial groups offer access to lump sums either through ROSCA payouts or ASCA loans, which – as some men particularly emphasised – were hard to gain from banks.
- They also offer social connections with friends as well as a means of gaining advice and guidance.
- They are more frequently used by women than men.
- Groups are valued as very structured mechanisms that assist in creating the discipline of saving due to their regularity and the difficulty of not paying in front of peers.
- Access is very local, 90% of memberships involved walking to the meeting with 90% of these within 30 minutes walking distance
- Groups can be considered as a form of give and take – although a more ‘balanced’ and structured form than that of the wide range of inter-personal transactions undertaken using MMT.

**51%**  
Informal financial groups are the second most used financial service



Odwolla Group Savings and Loans associations (GSL) clustered meetings in Rachuonyo, Nyanza Province.

### Three main answers on why belonging to informal group

- To have lump sum when it's your turn 61%
- To socialise with friends 57%
- To help when there is other emergency 54%

### Group membership

% of sample who are members of:	
Any financial or welfare group	73
Group with a financial function ( ROSCA, ASCA, savings or investment)	51
Group with a welfare function	53
Group with only a welfare function	22

## Informal financial groups offer structure but flexibility through social connections

- **Structure:** Informal financial groups are highly structured through weekly or monthly contributions.
- **Flexibility:** While much literature on groups emphasises the discipline that they offer, this overlooks their flexibility. This flexibility is provided through the social relationships that people have in their groups and can be referred to as “negotiability”. Through these groups users gain access to resources both directly and through the social relationships that they make in the groups themselves. It is this that provides the flexibility in response to need.
- **Reliability:** it takes time to find groups that are trustworthy and can deliver services and many people find this difficult to achieve. Financial costs are low with few fees or charges.
- **Convenience** is high for those who can find trustworthy groups.



Members of the Kirinyaga District Farmers SACCO Society Ltd, being served at the Kagumo branch.

## SACCOS AND MFIs

- SACCOs are more used by men and those with primary education but distance is not important in having an account.
- Patterns of use are biased towards monthly produce payment receipts with very low levels of more frequent deposits. Surprisingly, distance affects frequency of use positively.
- The ease of getting loans through SACCOs on the basis of both shares and cashflows is attractive, especially for those who have built up their shares over years.
- Although SACCOs are seen as more reasonable than banks, complaints about the transparency of charging practices were in evidence.
- MFIs are being used more by women than men, by the more educated and by business owners.
- The main advantage and reason for joining MFIs was access to loans including the fact that multiple loans could now be held
- However, the disadvantages cited included application fees, the vetting process when taking a loan, high interest rates, paying as a guarantor when others defaulted, an uncaring attitude from the MFI when payment was difficult and confiscation and auction of items.
- MFIs have the highest effective interest rates among all regulated service providers, while SACCOs have the lowest.



### THE NUMBERS: PERCENTAGES

**4.5%**

The proportion using MFI accounts is only 4.5%

**66%**

66% deposit at least monthly, but only 2% more frequently and 39% receive automatic payments

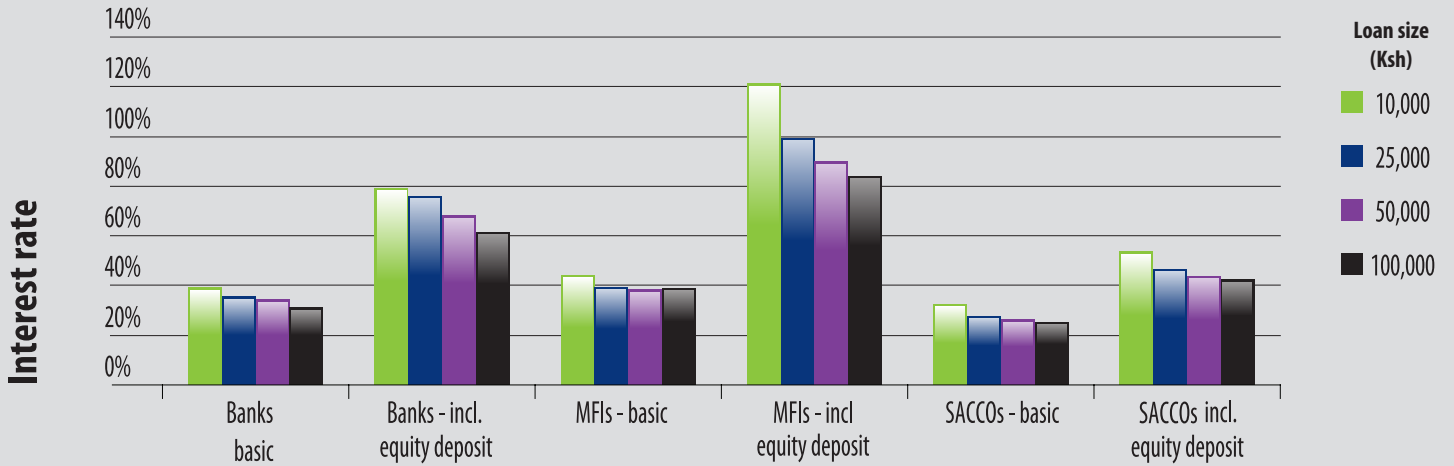
**31%**

SACCOs – Easy access to loans; 31% had outstanding loans (only 9% for bank account holders)

### SACCOs provide reliable services with good access to loans

- **Reliability:** SACCO are on the whole good at delivering the promised product. In terms of safety, we encountered one case where a SACCO had collapsed and respondents had lost their funds. However, cost is seen as more reasonable than the banks in relation to the amounts of funds that clients are managing, but complaints about charging suggest that there is some lack of understanding and weak transparency.
- **Flexibility:** Most SACCO FOSA accounts allow for flexible withdrawals but some retain a limit to the frequency of transactions though this was not cited as a problem by respondents. In terms of access to loans that enable cash flows to be managed, this is certainly stronger than for banks with the ability to take loans for school fees and other emergencies being strong.
- **Structure:** By being a channel for produce payments some respondents cited using this as a means to accumulate sums and leave them for a couple of months before withdrawal. In addition by making automatic deductions for share purchase from payments they can also assist building of shares against which loans are made – however, this is again seen as problematic for those receiving very small payments.
- **Convenience:** In terms of convenience, we have interestingly found that those who are further away use them more often, suggesting that these provide an important service in payment process despite the problem of proximity. Speed of service was not an issue, and privacy is again good.

Effective interest rates by sector with and without equity deposits



TRANSACTIONS SIZES

A comparison of the amounts users transacted in these services shows that the median amounts that are withdrawn from banks, MMT and groups are all under Kshs 4000. Comparing amounts deposited indicates that medians for banks and SACCOs are in the region of Kshs5000 while those for groups are Kshs100, and for MMT are Kshs1500. By comparison median loans from banks, SACCOs and MFIs are in the region of Kshs30,000–40,000 compared to ASCA loans of Kshs2000. While such large amounts may be needed from time to time, the more frequent need is to manage cash flow for these smaller lump sums which the data suggests are Kshs5000 or less. By contrast to the informal sector, the formal sector does not effectively cater to loans of this level.



THE NUMBERS: MEDIAN AMOUNTS

**Ksh 4,000**

Median amounts withdrawn from banks and SACCOs are under Kshs 4,000

**Ksh 2,000**

Median size of ASCA loans and ROSCA payouts

**Ksh 30,000 - 40,000**

Median loan size for banks, SACCOs and MFIs

**Median desposits, withdrawals and balances held, different types of services**

	Last Deposit	Last Withdrawal	Balance held
Bank	5000	4000	4000
SACCO	6000	3000	1750
ROSCA*	100	2000	n/a
ASCA*	100	2000	n/a
Secret	250	300	300
Money transfer	1500	1100	300

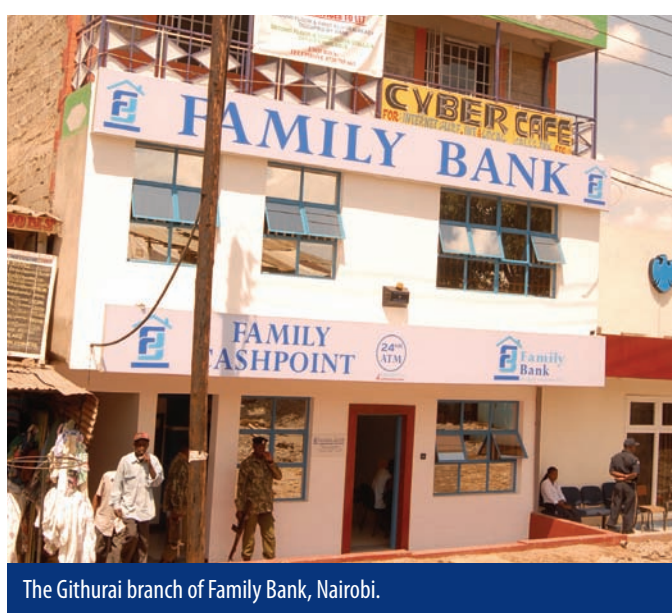
NB: \* - median across all memberships in a group with an ASCA or ROSCA function rather than by individual.

**Financial inclusion operates at an individual rather than a household level**

- Finally, investigation of the intra-household income, expenditure and financial management show that men and women tend to manage income streams independently to meet particular expenditure responsibilities.
- Income pooling and joint management most often occur when income is jointly earned.
- Financial service use tends to be similarly independent and consultation and co-operation is most likely to occur when household assets are used as collateral or repayments affect the ability of a partner to fulfil their expenditure responsibilities.
- Along with the evidence above on the gendered use of formal and informal financial groups, this suggests the importance of approaching financial inclusion through a gendered analysis, since transactions costs will need to be much lower for formal inclusion to be affordable for women.

**CONCLUSION – THE RIFT REVEALED**

- This evidence suggests that it is groups and inter-personal transactions that offer the greatest flexibility in response to the cash flow management needs of poor people.
- Money transfer now facilitates transactions which enable cash flow management more efficiently within existing social networks. So should someone have assisted with Kshs300 last week and they are in need of Kshs500 this week then it is likely that such assistance could be forthcoming. Hence by circulating funds through these informal networks “savings” are used to secure both financial support and social connections. Given the difficulty of getting loans from banks, especially of the relatively small amounts of a few thousand shillings that are needed to address the kinds of cash flow needs people have on a frequent basis, they are not an attractive place to put funds when they are available. Putting a few hundred shillings in the bank results at best in getting less back than was put there in the first place due to charges, and secures neither the potential for additional financial support nor social connections in the process.
- Hence the rift that MMT’s popularity has revealed is that between the way the formal and informal sectors operate. The extensive array of inter-personal transactions that it has brought to light operate in circuits of give and take which effectively allow for ‘saving’ and ‘borrowing’ in informal mechanisms – that is, with other people. Informal groups operate with some similar characteristics and underline the extent to which transactions are embedded in social networks and relationships.
- The task for formal financial service providers is to find ways to learn from the features of informal services that are highlighted here in terms of 'give and take' and negotiation in order to provide services that will better respond to their needs.



The Githurai branch of Family Bank, Nairobi.



Members of new Odowa group during a Group Savings and Loans associations (GSL) cluster meeting in Rachuonyo, Nyanza province. FSD has been partnering with CARE International (Kenya) since 2008 in a GSL development project in Kenya whose aims are to refine the basic GSL model and test the use of innovative channels for delivering training and support to groups to improve cost-effectiveness.

### Implications for financial inclusion - a credit-led savings strategy

To date the discourse on financial inclusion has been 'savings-led'. That is, it has proposed that flexible transactions accounts which are low cost and convenient will offer sufficient cash flow management benefits to drive inclusion. The evidence presented in this report suggests that even if accounts were very low cost and convenient this would not produce the revolution in inclusion desired. Rather it suggests that there is an underlying logic of give and take and social connections in people's transactions which this approach fails to recognise. Instead then, a strategy of "credit-led savings" is proposed: that is that depositors will be attracted to deposit funds in formal institutions if an acceptable reciprocating borrowing proposition is clearly in place.

The logic of this is two-fold. First, is the give and take nature of transactions. Bankers were very clear that people expect a 'facility' and that the lack of this deters depositors. For users, access to borrowing embodies a relationship with a financial institution without which there is no reciprocal element. The formal sector - especially the banks - still face a big hurdle of perceived appropriateness and trust for poorer clients. Overcoming this requires that banks reverse the paradigm and put their trust in clients rather than vice versa.

Second, is the evidence of amounts needed. These data suggest that useful lump sums for poorer people involve access to loans of a few thousand shillings whereas formal providers are rarely interested in such small loans below Kshs10,000 and yet it is these that really enable cash flow to be managed in relation to frequent demands for small lump sums. Access to such loans needs to be quick, easy and at low cost. It might operate in the form of a revolving credit facility, that once paid off gives access to a similar or incrementally larger amount to give incentives over time for good performance. While there are obviously significant issues in operationalizing such a strategy viably, the point being made here is that this evidence suggests that providers are currently operating far from where demand in the low income market really is.

Third, the gendered rift in use of the formal and informal sectors was pointed out above. This was in terms of men being more likely to need formal services to process payments or lump sums of income while women often handle smaller income streams and their income streams tend to be independently managed. In addition it was indicated that women may have stronger savings cultures supported by financial groups. Given these constraints, inclusion of women into formal sector services faces additional hurdles since transactions costs will need to be much much lower and access to services must be very convenient since they usually have lower mobility beyond the homestead compared to men.

In the current environment of concern about over indebtedness "credit-led savings" might be seen as a problematic strategy. However, the scale of debt being proposed here is in fact relatively small scale and lower than most MFIs have offered even for first loans. Second, there is evidence from other contexts eg. from SafeSave in Bangladesh, that loans given at account opening, can - over a period of years - turn into a net savings position with the customer rather than vice versa.

This strategy is proposed as a means to stimulate thinking about what the relational dimension of financial services highlighted in this report might mean for developing a different way of thinking about routes to inclusion. In terms of the specific approach to products suggested here, this has the potential benefit of initially providing a route to small-scale loan access for consumption smoothing, and lumpy expenditures such as school fees, agricultural inputs, stock purchases and so on. It may be possible to incorporate methods of incentivising saving into product design and to support the discipline of this. The point about this is that there must be reliability of access in the relationship and clarity over the understanding of the benefits offered at different stages of the relationship. Through this there is also the potential to build the information base on clients that will enable them to access larger amounts in the future if they have the need and capability to do so.

