ISSUE 20 MAY 2012

FSD News

EDITORIAL

A major new global database on financial inclusion - Global Findex - was launched by the World Bank last month. This provides data from survey results across 148 economies on levels of access to services. A significant contribution to understanding the development of financial inclusion, it provides the most extensive single dataset on global financial access to date. Unsurprisingly to many observers the headline findings confirm that globally financial exclusion is associated with poverty, rural location, youth and lack of education. Earlier studies in Kenya commissioned by FSD found evidence for the same drivers of exclusion. The Findex data also pointed to relatively low levels of average utilisation among many of those nominally included.

Kenya was among the countries surveyed. Since Findex uses a somewhat different methodology from Kenya's own FinAccess survey (last conducted in 2009), with a different set of questions and a much smaller sample size, we cannot directly compare the results over time. Nevertheless with the study (conducted in 2011) reporting 42% of adults having an account at a formal financial institution, there is a strong suggestion from this data that Kenya is continuing to move rapidly to reach more people. This level puts Kenya well ahead of all other countries in the East Africa region and the average for sub-Saharan Africa as a whole. Preparations for the next round of the FinAccess survey are well advanced and this should allow us to confirm just how much progress has been made over the last three years.

Before we start to think the problem of financial inclusion has been cracked in Kenya, we need to look at a little more of the data. The vast majority (over 70%) of those with a formal account make two or fewer deposits a month and the same for withdrawals. Less than a quarter indicate having saved at a formal financial institution and fewer than one in ten have taken a loan over the last year. In short, utilisation levels still look relatively low. The figures confirm yet again that it is not only headline access indicators which matters but the depth of usage. Our emerging challenge is to make financial services much more relevant to the everyday needs of Kenyans.

David Ferrand
Director

NEWS AND VIEWS

Igancio Mas (on the left) and Amolo Ng'weno during the Q&A session following their joint presentation at FSD's 8th research colloquium held on 20th April, 2012.

Why doesn't every Kenyan business have a mobile money account?

FSD recently hosted its 8th research colloquium at the Fairview hotel, Nairobi. In what has become a fascinating mix of research and debate into the workings of Kenya's financial markets, the event drew participants from the banking, development, IT and telecommunication sectors to examine the question: *Why doesn't every Kenyan business have a mobile money account?* The presentation was conducted by Ignacio Mas, an independent consultant with Bankable Frontier Associates (BFA) and Amolo Ng'weno, MD, Digital Divide Data (DDD).

The colloquium was the culmination of FSD commissioned research by Ignacio Mas and Amolo Ng'weno to assess the extent of M-PESA use in formal and informal business environments. The research was entirely qualitative, based on interviews with a diverse range of about 70 businesses. Among the key barriers the study found was that businesses were faced with much longer time (4 days) for Safaricom to move money from their M-PESA corporate accounts to their bank accounts compared with cheque payments. The complete study findings can be downloaded at FSD's website, www.fsdkenya.org.

Savings groups scale up: phase I

Savings Groups (SGs) are a simple financial intermediation model where members of a group (usually between 10 and 30) contribute an agreed set amount of savings during regular meetings and lend these out again to the members based on demand. FSD previously partnered with CARE Kenya to refine the basic SG model and test cost-effective ways of delivering the training which is aimed at improving governance and management of operations to SGs. The current SG scale up: phase I project was approved in March 2011 with the aim of developing savings group models to impact significantly on financial exclusion at a national level. The project has four main components:

1. Developing a national scale-up framework;
2. Developing delivery channels;
3. Improving savings groups methodologies; and,
4. Poverty impact assessment.

A working group made up of the main SG implementing organizations in Kenya has been established to guide the formulation of the national scale up strategy. Under developing delivery channels, the project has engaged CARE International in Kenya to implement innovative delivery models for promoting savings groups (SGs). By March 2012, CARE had reached 1,895 SGs (1,700 in Nyanza and 195 in Marsabit) with 44,660 members (40,630 in Nyanza and 4,030 in Marsabit). A study on post project group replication was completed while research on institutionalisation processes and meso-level impact is being conducted. In addition, there are plans to conduct a comparative survey on delivery channels, financial diaries and a poverty impact assessment, including sustainability and consumer protection.

Using credit to grow savings

In November 2009 FSD and the Consultative Group to Assist the Poor (CGAP) provided a total of USD 540,000 to Mobile Ventures Kenya Limited (MVK) to enable MVK to pilot an innovative savings and loan product delivered through the mobile channel. The product was branded *Jipange KuSave* (meaning "plan or organise yourself to save") or JKS.

A detailed review was undertaken of the project over its 18 month life by an independent team of consultants. Perhaps the most important finding at this stage was the high level of interest among target customers in overcoming the challenge of saving which the product seeks to tackle. By providing a loan upfront - of which a portion is automatically saved - the product allows users to overcome an initial liquidity hurdle which often prevents people from embarking on their savings plans. Delivery over mobile allows flexibility and convenience for the customer while helping reduce costs to a point where profitability could be inferred if the product was delivered at scale. Although a commercial product has yet to emerge, the idea is attracting interest from industry players. The full report can be downloaded at www.fsdkenya.org/publications.

FSD Kenya
Financial Sector Deepening

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

A half-day workshop was held on the 28th March, 2012 at the Fairview hotel, Nairobi that drew on a recent research commissioned by FSD - the *Financial Landscapes* survey. The workshop conducted by Susan Johnson (Centre for Development Studies, Bath University) and Graham Wright (MicroSave), attracted around 40 participants from industry, regulators, research institutions and other interested individuals.

The study challenged the established view that a basic transactions/savings account is the best route to opening up the low-income market. Results of the research suggest that the success of mobile money transfer is because it enables Kenyans to leverage their extended social networks through relationships of 'give and take'. About 70% of all transactions (either sending or receiving) are with family/household member or other relatives.

Dr Susan Johnson, from the Centre for Development Studies (CDS) - Bath University, supervises a group exercise during a half-day *Financial Landscapes* workshop held on 28th March, 2012.

The study found that in regards to reliability, convenience, structure and flexibility, poor people consider banks as the less attractive option while informal services seem more appealing to them.

The study found that in regards to reliability, convenience, structure and flexibility, poor people consider banks as the less attractive option while informal services seem more appealing to them. However, there was some debate amongst the workshop participants during the interactive sessions regarding the probable reasons for this. One view suggested that services were more expensive and complicated while others shared the perception that banks haven't been successful in explaining and marketing their products sufficiently for this segment of the market.

The evidence from the study suggests that the cash flow management needs of poor people are best met by the greater flexibility of savings groups and inter-personal transactions. The study also found that the landscape of financial services access is most consistently influenced by gender and education. The majority of women use informal services while the more educated tend to use formal services. These insights have profound implications for the strategy of formal financial service providers seeking to go down market. Only 34% of those people registered with a money transfer service reported holding a balance on their phone and the median amount held was only KShs 300.

It can further be argued that the value proposition of financial products offered by banks for the low-income market should be reversed. Customers should not be expected to first save and accumulate assets to access services such as credit. Instead, they should have access to some degree of credit and at a later stage when they want to qualify for higher sums or more sophisticated products, they should then start saving. The task for formal financial service providers is to find ways to learn from the features of informal services that are highlighted in terms of 'give and take' and negotiations in order to provide services that will better respond to their needs.

Overall, the authors argue that to date the discourse on financial inclusion has been 'savings-led', meaning 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 the report suggests that even if accounts were very low cost and convenient, this would not produce the desired revolution in inclusion. 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.

This strategy is proposed as a means to stimulate thinking about what the relational dimension of financial services highlighted in the 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.

The last part of the workshop engaged participants, based on the findings presented, to actively think about concrete steps and opportunities for formal financial service providers planning to effectively serve the low-income market. In small groups, they developed their own ideas and concepts, which were then presented to the rest. The report of the findings entitled *The search for inclusion in Kenya's financial landscape: The rift revealed,* can be downloaded at www.fsdkenya.org.

EVENTS CALENDAR

14 - 17 May	**Mobile Money Connected Africa Forum,** Johannesburg - South Africa. For more information, visit: www.mobile-money-gateway.com
22 May	**4th Annual East Africa Trade & Commodity Finance Conference,** Nairobi - Kenya. For more information, email: info@exportagroup.com Website: www.exportagroup.com
10 - 12 July	**4th Retail Banking Africa 2012,** Johannesburg - South Africa. For more information, email: info@fleminggulf.com Website: www.fleminggulf.com

FSD Kenya is an independent Trust established to support the development of inclusive financial markets in Kenya
4th Floor Kenya Re Towers, Off Ragati Road, Upper Hill | P.O. Box 11353, 00100 Nairobi, Kenya
T +254 (20) 2718809, 2718814 | +254 (724) 319706, (735) 319706 **E** info@fsdkenya.org **W** www.fsdkenya.org