



EDITORIAL

An angel investor is usually a wealthy professional or former entrepreneur who provides capital for small start-up firms or entrepreneurs. Often, angel investors provide valuable mentorship and business opportunities for the innovative firm. Angels do this in exchange for an equity share in the enterprise, hoping to sell in future for a substantial profit as the firm grows. Investing at this stage is a critical piece of the financing chain for entrepreneurs and in more advanced markets, angels frequently form networks to seek out opportunities. Shareholder agreements are drawn up and exit triggers are well understood. The angel and entrepreneur are incentivised to grow the business for mutual benefit.

In Kenya, investing in start-ups is often undertaken less formally within families, with more emphasis on social factors than commercial returns. This only rarely leads to successful outcomes. International donors and philanthropists have perceived a gap and tried to fill the space with interventions such as matching grants, challenge funds, business plan competitions, incubators and accelerators. All these may be necessary but might be missing the main point.

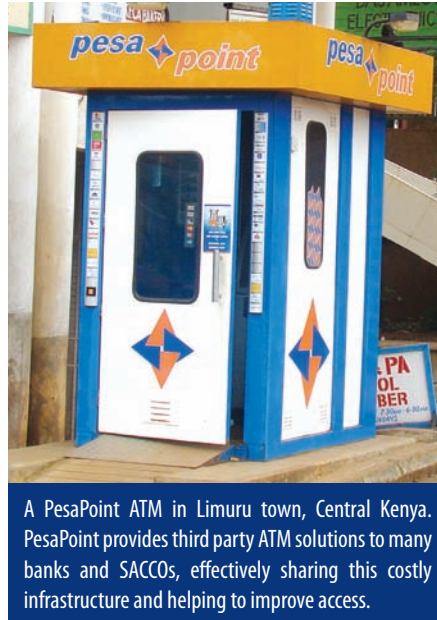
Many Kenyans are engaged in active wealth preservation through investment groups, and savings associations. The Kenya Association of Investment Groups (KAIG) has a membership of 6500 with an approximate holding of KSh 30 billion in various investments largely real estate, shares, treasury bonds/bills and other short term cash equivalents. Interestingly, pension funds are similarly conservatively invested.

The challenge is how to connect these large pools of funds with the demand for risk capital from innovative firms with high growth potential. There are certainly many pitfalls along the way. Angel investors in some of the most dynamic markets in the world acknowledge the difficulty in identifying real opportunities. For every success story there are many failures. Nevertheless experience from around the world shows how vital these firms are to future prosperity. FSD is looking for fresh ideas as to how we can close the financing gap for high growth businesses.

James Kashangaki

Head, Inclusive Growth, FSD Kenya

NEWS AND VIEWS



A PesaPoint ATM in Limuru town, Central Kenya. PesaPoint provides third party ATM solutions to many banks and SACCOs, effectively sharing this costly infrastructure and helping to improve access.

Developments in payments

Over the past decade, a number of innovations in retail payments have emerged. Traditionally, banks relied on ATMs and banking halls to serve their customers but in recent years more banks have embraced mobile banking, internet banking and agency banking to serve customers. These developments have necessitated changes in the regulatory framework. The Kenya National Payment System Act, passed into law in November 2011, provides the legal basis for regulation and supervision of payment systems and payment service providers. The Act enables Kenya's payment system to comply with the Bank for International Settlement (BIS) core principles and gives the Central Bank of Kenya (CBK) enhanced regulatory powers over the payment systems. CBK recently circulated final draft regulations relating to e-money and electronic payment services. These are due to come into force in the coming quarter.

There is an on-going debate on the pros and cons of sharing payments infrastructure among players in the financial system. While there are strong benefits from an efficiency and consumer perspective, individual commercial considerations have often prevented significant moves in this direction. Sharing is unlikely where players seek to use retail acquiring infrastructure as a source of competitive advantage.

With changes in the market and technology we are now however seeing interesting developments and a change in

approach. In the last year there has already been a steady increase in banks sharing their ATM networks. A notable achievement has been the move towards a standard fee under the PesaPoint network such that the customers of participating banks face the same costs whether using their own bank's machine or that of another. FSD believes that greater sharing could lead to significant efficiencies through more optimal use of infrastructure and increased competition. Ultimately this should impact positively on consumer pricing and financial inclusion. FSD has been collaborating with the Kenya Bankers' Association which has now launched an industry-wide initiative aiming to dramatically improve the interoperability of Kenya's payments system.

Scaling up the impact of savings groups

The savings groups (SG) scale up phase I project marked its second year in March 2013. The objective of the project is to develop savings group models to a stage at which a scale-up programme impacting significantly on financial exclusion at the national level becomes viable. So far, 186,044 members in 6,732 SGs have been reached against a target of 150,000 members set for June 2013. This is mainly driven by CARE International's community savings and loan (COSALO) II in Nyanza reaching 155,689 members in 5,756 SGs by March 2013. In Marsabit, COSALO II reached 10,365 members in 536 SGs. Catholic Relief Services (CRS) had reached 19,990 members in 976 SGs during the same period.

An interesting technology driven component of the project is the development of an online system to simplify record keeping and increase accuracy, transparency and data security for SGs. Six groups are currently piloting a prototype of the application with encouraging results. The application is hosted on low end 'Android' phones and used by the groups to record all their financial transactions. These include the register, cash and bank balances at the start of a meeting, contributions during the meeting, expenses, loan repayments and other group income. At the end of a meeting, the application gives a summary of all the SG transactions, confirms cash balances to be taken forward to the next meeting and amounts to be banked.

The SG project has also analysed progress out of poverty index (PPI) data from 63,400 SG members in Nyanza to understand the poverty outreach of SGs. The results show the probability of members being below the national poverty line at 33%. Data for 5,700 members in Marsabit shows the probability at 76% - reflecting the high levels of poverty in the region.

FINANCIAL LITERACY FOR FINANCIAL PROVIDERS: WHY WE NEED RESEARCH TO DELIVER FINANCIAL INCLUSION

Digital technology has the potential to deliver low-cost flexible financial solutions as well as leveraging on information to customise solutions and drive usage through tailored communications. How we harness the capacity of digital technology to receive, process and transmit information can be greatly enhanced through bringing research into the heart of cutting edge business solutions. For example, data mining enables providers to segment populations, predict behaviour and tailor solutions more effectively; cultural and social analysis can enable communication technology to transmit messages that resonate with people's life-worlds, and develop solutions that deliver real value, thereby encouraging uptake and usage. Recently, FSD has commissioned two studies (to be published shortly) that utilise innovative methodologies to look at informal financial practices, highlighting their significance for digital financial innovation.

Following on from her study of financial landscapes, *The Rift Revealed*, Susan Johnson takes a qualitative look at social networks to deepen our understanding of the 'give and take' relationships through which a large proportion of lending and borrowing takes place in Kenya. Contrary to the assumption that the immediate family unit (husbands and wives, mothers, fathers, children) is the primary sphere of socio-financial support, she finds that friends, siblings and neighbours are the focus for the majority of 'frequent' and 'significant' transactions. These lateral relationships combine distance with affinity. While there is a shared bond of neighbourliness, siblinghood and experience, the relationship cannot be taken as given, and must instead be reinforced.

In these contexts, giving and receiving, borrowing and lending helps to strengthen social and moral bonds between parties, such that these relationships become robust channels for future transactions. Relationships combining distance and affinity can be mimicked by financial providers. Currently, the report finds that formal financial services are generally seen as remote, lying on the fringes of people's support networks. But they are 'catapulted into the centre' when the reciprocal dimension of the relationship is fulfilled in the form of a loan. It is through 'indebtedness' that a strong social and moral foundation is established which can provide a channel for future transactions. For suppliers, this confirms the importance of tapping into a language of reciprocity within which financial intermediation can take place not just in the delivery of credit, but also as a driver of deposits: As consumers experience the 'trust' placed in them by providers through loans, so they will also invest in financial institutions through deposits.

The point is reinforced by a second study in a community near Kitui. Froukje Krijtenburg, a linguistic anthropologist



A staff member of Kirinyaga District Farmers SACCO Society (Kagumo town) provides loan application information to a SACCO member. Expanding markets through a stronger emphasis on relationship building and reciprocity requires both a sophisticated analysis of transaction data (e.g. through credit scoring) as well as tapping into social idioms and moral codes in the context of local financial practices.

identified a number of words and phrases that were commonly associated with activities such as giving, receiving, lending, borrowing, storing, collecting, contributing and so forth. She then observed the financial/exchange contexts in which these words were used. In local exchange practices, transactions revolve around borrowing not lending. The root verb, *kukava*, 'borrow' highlights 'need' as the starting point of the interaction, while *kukovethya*, 'lend' or literally 'cause to borrow', places the lender in a secondary position as 'facilitating' an act of borrowing. If financial providers can create a context for borrowing that addresses needs, they are more likely to attract consumers into relationships that involve multiple two-way transaction flows.

This basic construct cross-cuts a whole range of giving and receiving relationships some of which are pragmatic and neutral such as the everyday small-scale 'sharing' between neighbours or borrowing a plough etc. The terminology used in these instances contrasts with the terminology used in more significant exchanges that resonates with a stronger cultural, moral and emotional context through words like *kuvoya*- pray; *kutetheesya*- 'assist (in a time of

need)' *usyao*- 'increase/produce', *kukilya* - uplift. These terminologies create a social, emotional and moral bond between the recipient and the giver within which flows of value can take place. By contrast, financial service providers use more formal terminologies such as *kwasa mukovo* (take a loan) and *kunenga loani* (give a loan) which lack cultural resonance, and reinforce the divide between the supply and demand side of the transaction.

Expanding markets through a stronger emphasis on relationship-building and reciprocity requires a sophisticated analysis of transaction data (e.g. through credit scoring) as well as tapping into local social idioms and moral codes. Being able to integrate culturally and socially salient words, concepts and behaviours could drive usage and uptake more meaningfully. In short, researchers, including anthropologists, need to make our providers more 'literate' in local financial practices so that they can expand their markets and better serve the needs of their clients.

Amrik Heyer

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EVENTS CALENDAR

13 - 14 June

Africa Finance & Investment Forum 2013, Geneva - Switzerland.

For more information, Email: info@emrc.be Website: <http://www.emrc.be>

8 - 11 July

2013 Mobile Money for the Unbanked Global Event, Nairobi - Kenya.

For more information, Email: mmu@gsma.com Website: <http://www.gsma.com/mmu>

FSD Kenya is an independent Trust established to support the development of inclusive financial markets in Kenya

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