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FSD News

EDITORIAL

In Kenya, a youth is an individual who has attained the age of 18 years but has not yet attained the age of 35 years (Government of Kenya 2010). According to the 2009 Kenya Population and Housing Census, a significant proportion (+58%, 12 million) of the adult population (18 years plus) is comprised of youth. While employment levels in Kenya are dismal (FinAccess 2009: 5.5% formal employment and 28.1% in business), the situation is worse for the youth who are more disadvantaged by having little or no experience in both employment and business management. The youth comprise a potentially highly productive segment but most of this potential remains untapped. Indisputably, access to appropriate financial services is a key factor to unlocking this economic potential.

As per FinAccess 2009 findings, 41.4% of the Kenyan adult population had access to formal and semi-formal financial services. While the youth access levels are relatively high (especially for the 25-35 years at 48%), the observation is that they have less access to credit, investment and real savings products which would promote economic development. Despite their unique characteristics, only a handful of financial service providers have distinctive products for youth. The youth are viewed as risky to finance due to high physical mobility, lack of traditional forms of collateral and insufficient experience particularly in business. The small transaction sizes related to their level of income generation are also a deterrent. Given the instantaneous focus of most institutions, youth are viewed as a future market and are not of immediate interest to the service providers.

However, youth naturally are technologically inclined and the advent of digital financial services such as mobile banking provides a huge opportunity for engaging them. FSD Kenya will be undertaking an exploratory survey to understand the youth in relation to financial inclusion. This will entail: profiling youth, appreciating their financial service needs and the offers currently available to them, the constraints to serving them and how to address these among other things. The survey will help determine if there are any opportunities for FSD intervention in youth inclusion.

Felistus Mbole
Head, Poverty Impact, FSD Kenya

NEWS AND VIEWS

New dawn for credit information sharing

Credit information sharing (CIS) for banks was unveilled three years ago in July 2010. As we mark the third anniversary, a number of interesting reforms have taken place: introduction of positive data sharing, inclusion of Deposit Taking MFIs (DTMs), and the registration of the Association of Kenya Credit Providers (AKCP).

In April 2012, the Central Bank of Kenya Act, Banking Act and Microfinance Act were amended to introduce positive information sharing and participation of DTMs. The gazette notice containing a new set of regulations will soon be published to announce four major changes. First is a requirement that banks share information on all borrowers, not just the defaulters. This will enable Credit Bureaus to use scoring algorithms to help classify all borrowers according to their loan repayment history in all banks and DTMs. Lenders will more easily assess risk, access intangible collateral in the form of credit histories and cut down on search costs. The pressure to reward good borrowers with better repayment terms will be unstoppable.

Second, the participation of DTMs will mark the first step towards inclusion of non-bank credit providers in order to make the database more comprehensive. The third reform is that CRBs will be allowed to open agencies around the country, and thereby extend access to credit reports and complaints resolution opportunities. Finally, customer protection rules will be strengthened, particularly with respect to ensuring accuracy of information. In anticipation of these regulations, banks and DTMs have, over the last 3 months, been testing and enhancing their systems.

AKCP has been registered, and will be launched on 24th September 2013. It will promote self-regulation among licensed and non-licensed credit providers. These measures will benefit lower risk customers and enhance access to credit by SMEs. The efficiencies that will accrue to Kenya's credit market will contribute significantly to Vision 2030.

SACCO reforms

Following the gazettement of the SACCO regulations in June 2010, all SACCO Societies that were operating or intended to start operating Front Office Services Activity (FOSA) had to apply for licenses from the SACCO Societies Regulatory Authority (SASRA). Since 2010, FSD has partnered with SASRA in the implementation of a SACCO reforms project with the objective of developing the capacities of the sub-sector to meet the requirements in the regulatory framework.

By June 2013, a total of 130 deposit taking SACCOs out of a target 216 had been licensed. Remaining SACCOs are yet to meet licensing requirements, with capital adequacy being a key hindrance. A recently conducted skills gap survey revealed that core capacity gaps exist in: risk, credit, delinquency, human resources and information systems management and related technologies there are likely to hamper the transition to regulatory compliance. An effort to sustainably address the gaps is underway.

Sound governance has also been a deterrent to reforms in the sector. A governance toolkit has been developed and a pool of consultants trained to support its deployment at SACCO level. Board and management appreciation trainings have been carried out. The aim of this governance initiative is to enable the broad transition from a management committee to an oversight board providing strategic direction, policy formulation and performance benchmarks, to hold the management accountable for the SACCO business. Later this year, FSD plans to conduct a comprehensive assessment of the sector to determine if there has been value add through these interventions.

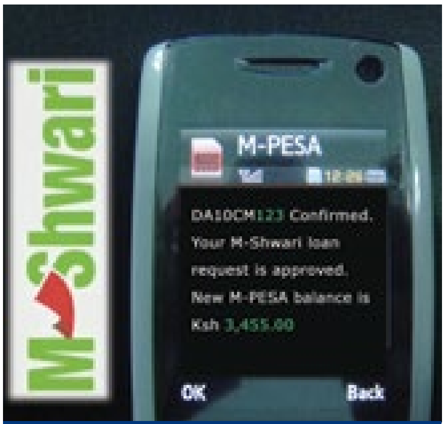
IBWI end of project highlights

The end of project review of the Index-based Weather Insurance (IBWI) pilot project conducted between May and September 2012 by Bankable Frontier Associates (BFA) was aimed at assessing the project impact on market development and evaluating the potential for creating a well-functioning and sustainable market for index-insurance.

Despite efforts by stakeholders to execute several pilots backed by strong demand and potential impact, the study confirmed that large gaps remain in the ability to create viable index insurance for small farmers on a retail basis at scale. The key constrains for scale include basis risk, products' complexity, high distribution cost, stakeholders' low internal capacity and lack of innovation.

The review recommended scaling down retail pilots and taking a longer term view on more foundational activities for index insurance through meso and macro level covers. Examples of such activities includes portfolio cover for agricultural lending or area drought coverage for institutions responsible for drought response and focus on insurers with the greatest interest and capacity. In addition, experimental approaches aimed at testing the viability of satellite use for product design and pay-out triggering, together with innovative and cost effective client communication strategies.

DIGITAL FINANCIAL INCLUSION (DFI)



The new M-SHWARI product launched in 2012 is an example of the innovations that can lead to a "cash-lite" scenario in Kenya's economy.

Goal and strategic approach

FSD's support for digital financial markets in Kenya has become increasingly central to its programme from 2011. Through its current strategic plan (2011-2015) and the launch of a Centre for Branchless Banking (CBB) in October 2011, FSD brought together a number of disparate initiatives to support the basis for achieving a long-term vision of a cash-lite Kenyan economy. CBB was a resource to harness the transformational potential of new technology on financial inclusion. In the one and a half years since its inception, the CBB has helped to support some important developments. At the meso-level, CBB has undertaken considerable background work and analysis on interoperability which has started to gain real traction now with the launch of an initiative to drive interoperability through the Kenya Bankers Association (KBA). Research commissioned under the CBB has underpinned work with banks and telecommunications companies (telcos) and other technology-driven institutions seeking to develop innovative retail solutions for low-income segments. At the same time, FSD has continued to develop its on-going projects which have a strong digital dimension notably, credit information sharing and government payments, but also digitisation of decentralised financial services.

In 2013, FSD's vision for a 'cash-lite' financial sector was given a major boost through a new strategic partnership with the Bill and Melinda Gates Foundation (BMGF) when the two defined a joint Digital Financial Inclusion (DFI) strategy. Drawing on the lessons from implementation of the CBB and the demands identified under the DFI strategy, FSD's future activities will be re-structured as a small number of strategically focused projects. Beyond the existing projects supported under CBB there are a number of other opportunities emerging which if successfully nurtured could help in accelerating the development of financial inclusion in Kenya. The DFI strategy will be implemented through a numbe of initiatives including two complementary projects: The Retail Innovations Initiative (RII) and the Consumer Insights for Financial Inclusion (CIFI).

Retail Innovations Initiative (RII)

RII will continue to expand work currently undertaken within the CBB. There is a strong rationale for sustaining support to the major players in the system, with the aim of leveraging their very substantial existing customer reach, channel infrastructure and institutional resources. In addition to on-going partnerships, FSD and Gates Foundation are already seeking to bring more players on board both for larger scale initiatives aimed at producing large-scale impacts on service provision, as well as smaller scale experimentation to test and develop more radical solutions. The emphasis is on trying to find ways to use new technologies to meet the needs of consumers based on their existing circumstances, aspirations and reference frame. It was clear many years ago that the technology was relevant – the challenge was then to find out how. The original DFID support project for Vodafone/Safaricom was essentially an exploratory exercise which ultimately helped to create M-PESA. Therefore, RII will help plug the gap here by creating and applying knowledge practically, sharing the risks to support prospective innovators whether within existing large firms or resource-constrained new entrants and mobilising investment effectively to tackle market opportunities.

Consumer Insights for Financial Inclusion (CIFI)

The central premise of the CIFI Centre's contribution to digital financial inclusion and ultimately the cash-lite vision revolves around increasing the capacity of digital finance to improve financial capabilities. This means the power, or 'capability', of individuals and households to use financial instruments (formal and informal) to enhance and strengthen their livelihoods and welfare. The CIFI Centre will support research that will help identify where supply and demand side dynamics can be leveraged more effectively to improve people's financial capabilities through digital finance. Work will be directed towards improving understanding of the needs and behaviours of (primarily) low-income consumers and to ensuring that these insights impact strongly on market development whether in the form of retail innovations, infrastructural improvements or policy. The anticipated result will be improved financial capabilities for target segments. To measure this, CIFI will also track how and to what extent financial solutions have been used to create positive and sustainable changes in incomes, vulnerability, empowerment, health, education and well-being for target segments, including women, youth, geographically or socially marginalised populations, and the very poor.

Members of the Sunflower savings group in Kisumu County keenly observe their financial records using an application hosted on a low end 'Android' based smart phone. FSD's work scaling up the impact of Savings Groups (SGs) has recently introduced this interesting digital component to the project to simplify record keeping and increase accuracy, transparency and data security for SGs.

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EVENTS CALENDAR

18 - 21 September **19th International Conference on Small and Medium Enterprises (ICSME),** Durban - South Africa. For more information, visit: *www.wasmeicsme2013.org*

24 - 25 September **2nd EAC Regional Credit Information Sharing Conference,** Nairobi - Kenya. For more information, Email Patricia - *pmusau@kba.co.ke* Website: *http://www.ciskenya.co.ke*