ISSUE 28 MAY 2014

FSD News

EDITORIAL

Most banks in Kenya now recognise that the small and medium enterprise market is going to be a major source of future profits. Many are redefining themselves as SME banks with some implementing large change management projects to realign their structures, staff and systems to this new reality. This is good news for us at FSD who have dedicated ourselves to supporting the financial sector overcome the constraints to delivery of appropriate financial products and services to growing SMEs.

Often, banks that traditionally served the corporate sector end up with a model more suited to corporate service delivery. Similarly, institutions that were in the microfinance or retail space tend to recreate processes that resemble their previous or current offer. Although it is understandable why this would be the case, there is no denying that these models are not optimal for the growth of a thriving SME finance department as they often compete with the more established business lines for resources and attention of senior management. Uncertainty in realignment of purpose to be more SME facing shows itself up in confusing chains of command within these well intentioned institutions. Where there is a dedicated head of SME, he or she might be reporting to the head of retail or the head of corporate resulting in confused career paths for practitioners. Success in banking for these staff members may appear to entail graduation from SME finance or lateral movement out of the department.

Delivery of world class SME finance is challenging and doing it well requires strategic thinking and the highest quality of change management. Strategy design and implementation, SME brand promise, market segmentation and research, development and use of credit scores, relationship management, process automation, product structuring and development etc., are only some of the inputs required to make an outstanding SME-centric organisation. Passionate individuals who have put effort to develop skills in this area should be recognised within their institutions with a career path that rewards long term dedication to this line of business. Putting the SME department on a par with others and giving it the resources to implement a winning strategy will over time pay handsome dividends.

James Kashangaki
Head, Inclusive Growth theme, FSD Kenya

NEWS AND VIEWS

11th April, 2014: Rebecca Mann of the Gates Foundation responds during the colloquium's Q&A session. Looking on is Suleiman Asman of Innovations for Poverty Action.

A/B testing approaches shared at FSD's research colloquium

The Bill and Melinda Gates Foundation together with FSD Kenya last month hosted a colloquium on A/B testing and experimental approaches to learning. Presentations were made by Rebecca Mann, Programme Officer at the Gates Foundation and Suleiman Asman, Research Manager from Innovations for Poverty Action (IPA), a leader in the design and implementation of randomized trials.

A/B testing is a simple experimental process to compare the response of customers to two variants (A and B). "Organisations that often conduct A/B testing have better conversations with their customers who they understand quite well. Facebook for instance runs nearly 500 A/B type tests per day," Rebecca explained. In his presentation, IPA's Suleiman outlined an experiment for which they are seeking partners to test and scale up text messaging for improved financial behaviour. "Experiments done in Bolivia, Peru and the Philippines revealed that reminders sent to bank customers increased savings by up to 6%," he said. Participants were drawn from financial institutions, mobile apps innovators, telcos and development actors keen on improving their messaging. The presentations can be downloaded from our website www.fsdkenya.org.

Research on financing opportunities in the mango value chain in Kenya

Financing of smallholder agriculture remains a difficult goal in Kenya in spite of remarkable progress in microfinance. The population of agriculture dependent households is 60% and about 3 million (25.4%) are financially excluded as many financiers consider the sector too risky. Information gaps have made it difficult to design appropriate products that target selected value chain players. Value chain analysis can be used to close the information gap and highlight opportunities to existing and potential financiers.

FSD recently completed a study on the mango sub-sector. The study findings show that mango production in Kenya has more than tripled from 254,113 MT to 754,102 MT between 2005 and 2012. 62,150 households in Lower Eastern rely on mangoes for income. A majority (92%) of farmers are small and medium scale (<300 trees) and they sustain low yields (<80 fruits/tree) compared with the large scale (>500 trees) whose yields stand at 189 fruits/tree. Access to formal finance by the small and medium scale farmers was found to be low. 85% finance their operations from limited savings, while 10.6 % get financing from informal sources. Credit from formal sources (banks, microfinance institutions and SACCOs) was found to be 4.4% with most beneficiaries being large scale farmers. Despite the low credit access, all actors in the mango value chain operate profitably and therein lies an array of opportunities for financial institutions to extend credit to the sector increasing production and income levels of smallholder farmers.

GrowthCap project updates

GrowthCap is an action research project designed to develop and disseminate best practice in SME finance by working with a select number of partner financial institutions. Besides these partners, GrowthCap also aims to embed the knowledge and practice of world class SME finance delivery in the market to ensure that long after the project has met its immediate goals, the know-how to implement profitable SME finance strategies will continue and improve.

Earlier this year, the project finalised the constitution of a group of expert advisors in SME finance and enterprise growth who will join the FSD team on the design and implementation of quality interventions both with our action research partners (ARPs) and other project stakeholders. Activities completed or in progress include, strategy formulation and implementation action plans, assessment centres for SME relationship managers, SME banking segmentation, value proposition for SME banking, competency frameworks for SME relationship managers and skills gap diagnostics. This has supported the development of a four module course to certify SME finance relationship managers. The project has held three get-togethers for local service providers who are interested in developing best-in-class advisory skills to develop the area of SME finance service provision in Kenya.

THE FINACCESS SPATIAL MAPPING PROJECT

A new tool based on spatial mapping of financial services access points in Kenya was launched on 13th March, 2014 by the Central Bank of Kenya (CBK) Governor Prof Njuguna Ndung'u. Available through www.fspmaps.com, the tool presents interactive maps that capture geographic coordinates of financial access points in Kenya, Tanzania, Uganda, Nigeria and Bangladesh. The data for Kenya is the result of a collaborative effort between the Financial Access Partnership (FAP), a public-private sector partnership, and the Bill and Melinda Gates Foundation as part of their wider global project on spatial mapping.

The map for Kenya captures the exact location of 1,313 bank branches, 8,083 bank agents, 503 stand-alone ATMs, 49,417 mobile money agents among other financial access points and plots these points onto population density (estimates of the number that live in every square kilometre of Kenya). There are many important and interesting analyses that can be done with this rich data.

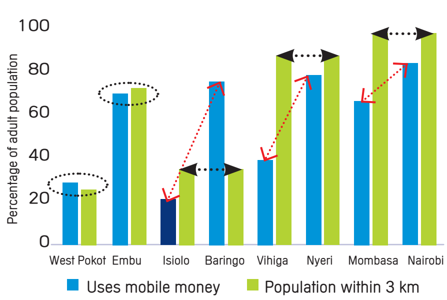
Some of the top-line findings for the survey include:

- Kenya has greater access to financial points than its regional neighbours with 77% of its population living within 5 km of a financial access point compared with only 35% in Tanzania and 43% in Uganda.
- Mobile money agents represent 75% of total financial access points mapped in Kenya and are a major driver in bringing financial access points closer. If we consider the more aggressive measure of 3 km, 59% of the population is within 3 km of a mobile money agent.
- Bank agents have significantly increased access to banking services: only 22% of the population are within 3 km of a bank branch whilst 52% are within 3 km of a bank agent.
- Financial access points are more likely to be located in wealthier and densely populated areas. When mapped against the likelihood of poverty, 69% of financial access points are located in areas with the least likelihood of poverty even though only 30% of the population lives in these areas. On the flipside, only 1% of access points are located in the poorest areas where 13% of the population live.

However, the story becomes a bit more complicated when we look at the correlation between physical proximity to financial access points and usage. While there is a strong correlation between access to financial points and usage of financial services, financial inclusion is not uniform across the country. Although the data does not provide authoritative answers to the 'why' behind the relationship between usage and physical access, we can consider how other factors could be at play such as livelihoods, economic activity, population density, poverty, financial capability, quality and liquidity of financial access points, and mobile coverage.

The graph below compares four pairs of counties with very different patterns of access and use.[1]

Comparing access and use of mobile money across counties



Even though Embu is about three times as financially included as West Pokot, both counties show a clear correlation between access to financial points and usage. This is consistent with the overall trend of correlation between access and use but there are some outliers. Despite Isiolo and Baringo both having about a third of the population within 3 km of a financial access point, Baringo's mobile money usage is more than double the percentage of the population living within 3 km and more than three times as high as Isiolo. One factor that could be influencing this differential is the lack of GSM coverage in Isiolo. Another factor could be that mobile money agents are not liquid and regularly run out of float or cash.

Vihiga and Nyeri both have 88% of their populations within 3 km of a financial access point but usage of mobile money in Nyeri is double that of Vihiga. One factor that could be driving this difference is that Nyeri has seven times as many access points with 327 per 100,000 people compared to only 45 in Vihiga. Mombasa and Nairobi both have 100% of their populations within 3 km of a financial access point though usage falls short. Perhaps this is a reflection of pockets of urban poverty or other barriers beyond physical access. Two factors that could be driving the 15% gap in usage between Mombasa and Nairobi could be that 10% fewer people in Mombasa have mobile phones and that there are more than 4 times as many access points per 100,000 people in Nairobi. But these observations are merely scratching the surface of how this data can be used by financial service providers, policymakers and anyone seeking to link to financial services.

13th March, 2014: The CBK Governor Prof Njuguna Ndung'u peruses the spatial portal's 'how to' guide with FSD Director David Ferrand at the launch event.

The tools at www.fspmaps.com can be used to analyse the data by financial service provider, by location and even adding in other data sources. For example, if a microfinance institution was thinking of accepting payments through mobile money, they could upload the locations of their groups and calculate how far away the nearest financial access points were. Or if a bank was considering opening a new branch, they could calculate the population living within a certain radius of that point to help size the potential market. Finally, the value of this analysis can be multiplied when we bring together the geospatial analysis with demand side data and qualitative research. At FSD, we are supporting market development by leveraging this kind of research directly with policymakers and industry players to increase financial inclusion in Kenya. Please contact us if you would like to learn more.

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[1] Please note that the data on usage comes from FinAccess Retail 2013. However, that data was sampled at regional level so the data at county level may have more margin for error though we expect it is directionally correct.

EVENTS CALENDAR

10 - 12 June, 2014 **New Frontiers in African Finance,** Dakar- Senegal.
For more information, visit: *http://www.mfw4a.org/2014forum*

8 - 20 June, 2014 **Making Markets Work,** Bangkok - Thailand.
For more information, visit: *http://www.springfieldcentre.com/training/current-programmes/*

27 - 28 August, 2014 **Bancassurance Africa Conference,** Nairobi - Kenya.
For more information, visit: *http://www.trueventus.com/event.php?intid=251*