STUDY BRIEF

Understanding the unmet financial needs and opportunities of key segments in Kenya: An overview

EXECUTIVE SUMMARY

Kenya is a leader in financial access in Africa. According to the latest FinAccess survey, 80% of Kenyan adults have a transactional account and 83% own at least one formal financial device.[1] But as Kenya advances to middle-income status, it is not account ownership that is critical for its inclusive economic development, but rather the effective usage of financial services for improved welfare. Understanding how well existing financial services meet the current needs of consumers is necessary to promote both greater usage of financial services and deepen economic inclusion.

An inclusive financial sector is a key enabler to reach the long-term development objectives. Kenya Vision 2030 was launched in 2008 as Kenya's development blueprint for 2008 to 2030. It aims to make Kenya a newly industrialising, "middle-income country providing high quality of life for all its citizens by the year 2030". The latest plan that guides this vision – the MTP III 2018-2022 – is centred on four primary objectives that act as guideposts for economic development and progress in Kenya today.

These four objectives, the "Big 4" initiatives, include:

1. Industrialisation, manufacturing and agro-processing to increase the manufacturing share of GDP from 9% to 15% and agro-processing to at least 50% of total agricultural output

2. Affordable housing to build 500,000 affordable homes across the country in five years

3. Food and nutrition security through the construction of multi-purpose dams and food storage facilities, among other interventions

4. Universal health coverage to be achieved by providing 100% healthcare coverage

The financial sector can play a role in catalysing these changes by providing access to meaningful financial solutions that empower individuals, meet their needs, and contribute to broader economic development in Kenya.

To identify market opportunities to meet the needs of the financially underserved, this study uses FinAccess 2019 data to segment and profile adults in Kenya. Seven priority segments were identified as crucial to the realisation of Kenya's long-term development strategy and policy objectives, including the "Big Four" agenda. In policy terms, these segments are important because they have the potential to create employment, develop industries, enhance skills, and increase government revenue.

The study draws on the FinNeeds framework which measures inclusion in terms of the extent to which consumers' financial needs are being met.[2] Needs that are unmet, or not fully met, present opportunities for regulators, policy makers and financial service providers to intervene and better serve these customers. There are four universal financial needs – transfer of value, liquidity, resilience, and meeting goals – as outlined in Figure 1.[3]

The seven segments prioritized in this study represent the 'financially reachable'; their financial needs could be met by the existing financial services sector. Even the relatively high-earning segments struggle to withstand shocks and meet land and housing-related capital to fund business expansion. In some cases, unmet financial needs reflect poorly functioning supply chains. In the case of housing finance, for instance, there are well-documented constraints that impede the delivery of affordable housing products. It is therefore critical that needs-based approaches are contextualised to address the underlying (non-financial) blockages.

Each of the priority segments are profiled in this overview. Figure 2 summarises some of the key metrics on financial needs for these segments.

Seven Priority Segments of the Financially Underserved in Kenya

- REGIONAL MARKET FARMERS
- LOCAL MARKET FARMERS
- SOPHISTICATED BUSINESSES
- URBAN SMALL BUSINESSES
- PUBLIC SECTOR WORKERS
- URBAN WAGE EARNERS
- URBAN ASPIRATIONAL YOUTH

Figure 1: Four universal financial needs

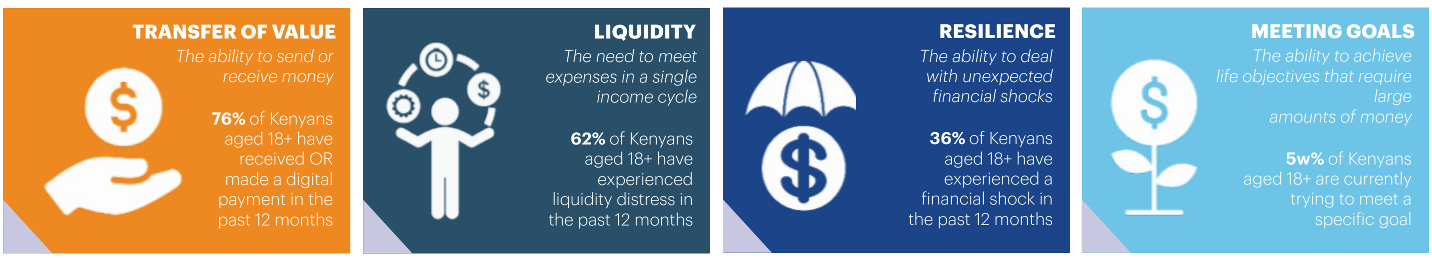


Figure 2: Summary of financial needs metrics for the seven priority segments

		REGIONAL MARKET FARMERS	LOCAL MARKET FARMERS	SOPHISTICATED BUSINESSES	URBAN SMALL BUSINESSES	PUBLIC SECTOR WORKERS	URBAN WAGE EARNERS	URBAN ASPIRATIONAL YOUTH
	Segment size (adults 18+)	1.1 M	4.2 M	490,000	2.2 M	900,000	2.2 M	1.2 M
TRANSFER OF VALUE	% who receive their Income/payment from **main income source directly into an account**	58%	5%	70%	19%	93%	88%	46%
TRANSFER OF VALUE	% who have made **any digital payment** (including remittance payments) in the past 12 months	80%	62%	95%	91%	96%	99%	91%
LIQUIDITY	% of have **experienced liquidity distress** in the past 12 months	57%	57%	36%	56%	48%	46%	50%
RESILIENCE	% who **experienced a financial shock** in the past 12 months	46%	40%	37%	35%	38%	34%	24%
GOALS	% who are **currently trying to meet a specific goal**	58%	48%	79%	76%	65%	84%	75%

Source: FinAccess Survey 2019

SEVEN PRIORITY SEGMENTS OF THE FINANCIALLY UNDERSERVED IN KENYA

Photo: FSD Kenya

fsd Kenya

CGAP

01 Regional Market Farmers

SEGMENT DESCRIPTION Regional Market Farmers grow cash crops like tea, coffee, and cotton, and often food crops and livestock as well. They sell their produce through organized value chains to cooperatives, companies, or processing factories. The more than 1 million Regional Market Farmers represent 18% of farmers in Kenya.

REASON FOR PRIORITISATION Regional Market Farmers are an important driver of economic activity in Kenya. Ensuring the ongoing resilience and growth of farmers in this segment is therefore critical to meet key policy objectives and facilitate economic development.

OVERVIEW OF FINANCIAL NEEDS Regional Market Farmers show progress in the digitisation of payments along their value chains; 58% have received a farm-related payment directly into an account and 44% have paid their suppliers and/or workers digitally.[4] Among the seven priority segments, they are the most likely to have experienced liquidity distress, and the most likely to have experienced a financial shock in the past 12 months. The shocks they face are often related to their health and farm (e.g., crop loss due to natural disaster). Nearly 60% are currently working toward a specific goal (e.g., children's education, farm expansion).

OPPORTUNITIES TO SUPPORT FINANCIAL NEEDS Engaged in global agricultural value chains, Regional Market Farmers face substantial volatility from export markets and climate. There are opportunities to leverage their economies of scale and build stronger digital ecosystems connecting inputs, markets, and consumption. Where Regional Market Farmers can diversify markets, improve value addition, introduce risk reducing climate smart technologies and strengthen their value chains (e.g., through training, extension, finance), this could improve their resilience and income and contribute to sectoral growth.

Finance has a role to play in strengthening value chains and supporting the livelihoods of Regional Market Farmers. For example, climate finance could draw in investment to support more resilient production and processing technologies, mitigating the impact of climate-related shocks. 47% of Regional Market Farmers belong to SACCOs, which are deeply embedded in value chains. Policies that improve the capacity, capitalisation, and underwriting of SACCOs could enable them to play a stronger role in intermediating risk and investment, supporting both the production and consumption ends of farmer livelihoods.

A relatively high number of Regional Market Farmers (66%) have either made or received digital payments directly linked to their farming activities. This points to an opportunity to build on digital ecosystems to improve farmer resilience and investment opportunities. Warehouse discounting, credit scoring, and solutions that convert lumpy payment cycles into monthly salaries could help smooth consumption. Digitisation could also help to channel income directly towards agricultural and household needs through automating payments for health insurance and education, as well as utilities, inputs, and asset acquisition.

Diversification of livelihoods and assets is also important for resilience. While men are more likely to own assets and direct livelihoods, women play a crucial role in these agricultural enterprises and can make important contributions to livelihood diversification beyond agriculture. Solutions such as joint accounts could support diversification through streamlining income and investment across household economies and decision making.

REGIONAL MARKET FARMERS

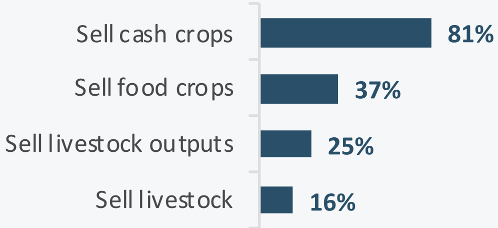
1.1 Million adults 18 +

This segment accounts for 18% of farmers in Kenya (based on main income source) and 4% of Kenyans aged 18+.

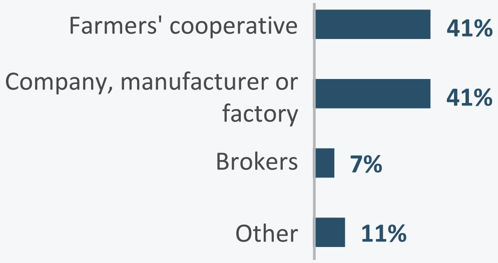
LIVELIHOOD

Regional Market Farmers mostly sell cash crops such coffee and tea, although some sell food crops (e.g., cereals and tubers) or livestock. They operate within relatively organized value chains, selling produce through farmers' cooperatives or to a company, manufacturer or factory.

AGRICULTURAL ACTIVITIES



MAIN SALES PLACE FOR PRODUCE

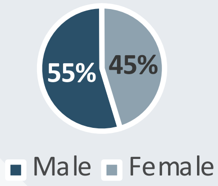


36% Have additional income sources, mostly casual work and support from family or friends

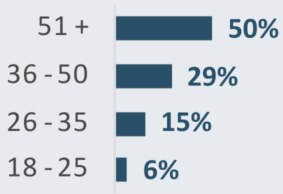
DEMOGRAPHICS

While Regional Market Farmers tend to be poor and have low levels of education, they are noticeably better off than Local Market Farmers. Just over half of the segment are male and the segment tends to be older; more than half are 50 years or older. The segment is most concentrated in the Central Province.

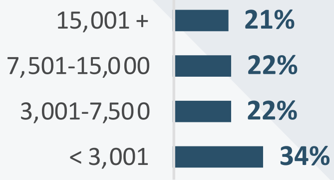
GENDER



AGE GROUP



MONTHLY INCOME (KSH)



59% Have only a **PRIMARY SCHOOL EDUCATION** or less

FINANCIAL HEALTH INDEX

72% Have the ability to cope day-to-day

47% Have the ability to cope with risk

20% Have the ability to invest in their livelihoods and the future

27% are considered financially healthy

This is slightly higher than the national average; for all Kenyan adults 21% are considered financially healthy

FINANCIAL PRODUCT PORTFOLIO

Transactional account

88% of the segment has a transactional account

This is mostly driven by mobile money uptake; 84% of the segment has a mobile-money account and 44% have a bank account.

Savings

88% of the segment is currently saving

82% of the segment saves with a formal financial device – in a mobile-money account or a SACCO

35% of the segment has an informal savings device, including a savings group, and 33% keep their savings with a friend or family member or in a secret place

Just 6% of the segment has a pension, most intend to live off their farms in their old age

Credit

56% of the segment is currently borrowing

38% of the segment has an informal credit device, mostly taking goods and services on credit from a shop keeper

30% of the segment has a formal credit device, mostly from SACCOS. And 10% are currently borrowing from their family and friends

Insurance

44% of the segment has insurance

This is driven by the NHIF: 37% of the segment is a member of the NHIF. A further 13% have other insurance.

SEVEN PRIORITY SEGMENTS OF THE FINANCIALLY UNDERSERVED IN KENYA

02 Local Market Farmers

Photo: FSD Kenya

SEGMENT DESCRIPTION Local Market Farmers grow food crops such as maize, cabbages and potatoes and sell them at local markets and to local traders and brokers. Over 4 million adults aged 18 and over are Local Market Farmers, representing 17% of adults and two-thirds of farmers in Kenya.

REASON FOR PRIORITISATION Local Market Farmers are one of the largest segments in Kenya. Meeting their financial needs can boost the economic welfare of individual farmers and their households and contribute to food.

OVERVIEW OF FINANCIAL NEEDS Local Market Farmers operate within loose, unstructured value chains. They are the most vulnerable of the seven segments and face high liquidity distress; 35% have 'often' or 'sometimes' gone without enough food to eat. They are also susceptible to financial shocks which have a significant impact on household welfare and prevent focus on longer-term goals.

OPPORTUNITIES TO SUPPORT FINANCIAL NEEDS FSPs can find Local Market Farmers a challenge to profitably serve, though the segment is very large with relatively straightforward financial needs. It may be possible for FSPs to create simple, low-cost solutions at scale.

Local Market Farmers are highly vulnerable to shocks. They have very limited liquidity and rely heavily on non-financial mechanisms to cope, largely their own social networks. When major shocks affect whole communities, this strategy is unfeasible. Traditional insurance is costly, given the large and systemic nature of shocks like natural disasters. Formal safety nets to reduce vulnerability would improve the resilience of this segment and reduce the burden on their social networks.

Although Local Market Farmers operate in loose value chains without major aggregators, there may be opportunities to leverage their high levels of social capital, especially among women, to create scale and improve coordination. Chamas (groups) could provide the coordination to lower the costs of delivering extension services and build the capacity and networks necessary for maximising the value of small agricultural enterprises. They could also provide a structure for Local Market Farmers to aggregate and create more efficient market linkages, for example through platform-based solutions, generating the economies of scale to support small-scale agriculture.

Technology-driven green infrastructure development and sustainable micro-production could provide a driving force to support small-scale agriculture. For instance, solar powered micro-grids for rural communities are being leveraged to drive drip irrigation and kickstart income generating activities such as chicken farming and electric boda bodas.

Local Market Farmers could also diversify livelihoods and improve resilience through microenterprise. Savings groups (ASCAs) can support livelihood diversification through basic saving and borrowing solutions which yield small amounts of capital for business investment.

Mutualising investment and risk by leveraging social capital would be more powerful in conjunction with large investments in infrastructure and extension services. Self-organised farmer groups can only go so far without larger-scale investment to (re)build and improve infrastructure. Government has a crucial role to play, and the potential for reigniting a coordinated sectoral development policy in the context of new innovations in technology and business models is substantial.

LOCAL MARKET FARMERS

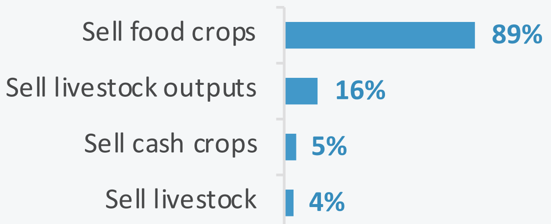
4.2 Million adults 18+

This segment accounts for 66% of farmers in Kenya (based on main income source) and 17% of adults (18+)

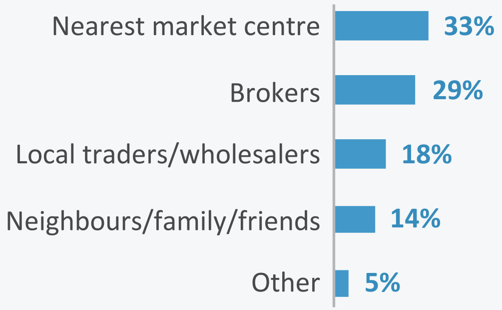
LIVELIHOOD

Local Market Farmers grow food crops such as maize, cabbages and potatoes. They sell their produce at local markets to brokers, local traders and to their neighbours.

AGRICULTURAL ACTIVITIES



MAIN SALES PLACE FOR PRODUCE

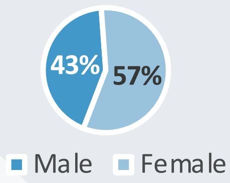


20% Have additional income sources, mostly casual work and support from family or friends.

DEMOGRAPHICS

This segment is poor relative to the other priority segments and has low levels of education. They are more likely to be female and have a younger age profile relative to Regional Market Farmers. Local Market Farmers are concentrated in the Rift Valley, Nyanza, and the Eastern and Western Provinces.

GENDER



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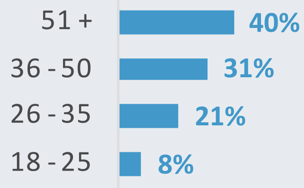
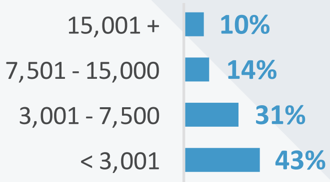


MONTHLY INCOME (KSH)



69% Have only a **PRIMARY SCHOOL EDUCATION** or less

FINANCIAL HEALTH INDEX

53% Have the ability to cope day-to-day

31% Have the ability to cope with risk

11% Have the ability to invest in their livelihoods and the future

14% are considered financially healthy

This is lower than the national average for all Kenyan adults where 21% are considered financially healthy.

FINANCIAL PRODUCT PORTFOLIO

Transactional account

73% of the segment has a transactional account

This is driven by mobile money uptake; 72% of the segment has a mobile-money account. Just 17% have a bank account.

Savings

66% of the segment is currently saving

Less than half (48%) of the segment saves with a formal financial device – mostly in their mobile-money account or with a SACCO

30% of the segment has savings with an informal device, including a savings group, and 24% keep their savings with a friend/family member or in a secret place

Just 4% of the segment has a pension, most intend to live off their farms in their old age

Credit

42% of the segment is currently borrowing

Informal credit devices are used most often (34% of the segment has an informal credit device); mostly taking goods and service on credit from a shop keeper

12% of the segment has a formal credit device and 8% are currently borrowing from their family and friends

Insurance

18% of the segment currently has insurance

This is driven by the NHIF, 18% are a member of the NHIF. A further 2% have other insurance.

03 Sophisticated Businesses

Photo: FSD Kenya

fsd Kenya

CGAP

SEGMENT DESCRIPTION Sophisticated Business Owners are registered, almost half operate in wholesale and retail trade, and their businesses tend to have multiple employees. They have access to business-specific financial devices such as business bank accounts (45%) and till numbers (58%). This segment includes 490,000 adults over 18 years old and accounts for 11% of business owners in Kenya (based on their main income source).

REASON FOR PRIORITISATION Sophisticated Business Owners include major employers and could be a key driver of digital payment adoption. Ensuring that the financial sector can successfully meet the financial needs of Sophisticated Business Owners will enhance their contribution to broad trade, economic activity and employment.

OVERVIEW OF FINANCIAL NEEDS Sophisticated Business Owners are the least likely of the seven segments to have experienced liquidity distress. However, over one-third were unable to meet their regular expenditures and nearly 40% experienced a shock in the past 12 months. Sophisticated Business Owners are the second most likely segment to work toward a specific goal; 79% are focused on a goal, largely related to business expansion and housing or land.

OPPORTUNITIES TO SUPPORT FINANCIAL NEEDS There is clearly an opportunity to extend digital payments among Sophisticated Business Owners: 30% only accept cash payments from customers and almost 50% pay suppliers and employees in cash only. Digitising payments along the value chain has the potential to build stronger relationships between businesses and suppliers, as well as provide greater transparency and encourage value chain financing.

A quarter of Sophisticated Business Owners are currently trying to expand their business. FSPs need to understand the specific challenges they face and create tailored solutions to help manage liquidity and improve business resilience. Solutions will differ across and within value chains and involve closer synergies between financial and non-financial tools. For instance, even when a business case looks strong, Sophisticated Business Owners may not have the business planning tools to effectively convey this to financiers, resulting in missed opportunities for both parties. This also points to the need for better ecosystem support for successful businesses, including tools and training to help with business strategy planning, business cycle planning, business finance planning, and strong human resources to improve the efficiency of business operations.

Sophisticated Business Owners are the second most likely of the priority segments to be working towards housing or land-related goals. They are the most likely segment to be specifically trying to develop investment properties for resale or to rent. However, despite being relatively wealthy, Sophisticated Business Owners may find it difficult to access longer-term finance. Many may not have salary slips, a common requirement for lenders, and their incomes might vary from month to month. This represents an opportunity to innovate around alternative underwriting approaches that specifically include projected rental income or informal lending scoring models for mortgages.

SOPHISTICATED BUSINESSES

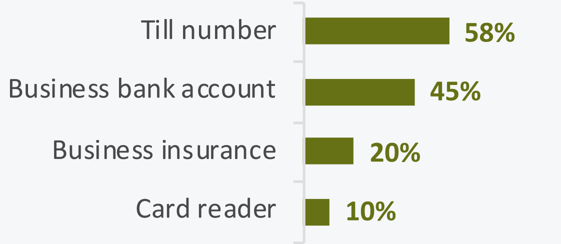
490,000 adults 18+

This segment accounts for 11% of business owners in Kenya (based on main income source) and 2% of all Kenyans 18+.

LIVELIHOOD

Sophisticated businesses are registered and most have multiple employees. The businesses have access to business-specific financial devices such as business bank accounts and till numbers. Most are in the wholesale and retail trade.

FINANCIAL SERVICES FOR BUSINESSES

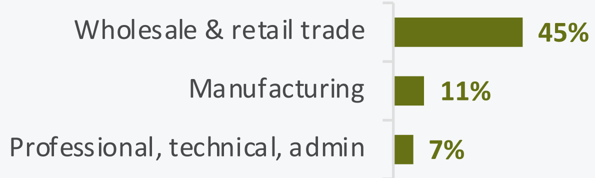


31% are one-person businesses

23% had five or more paid workers on average over the past 12 months

98% are registered businesses

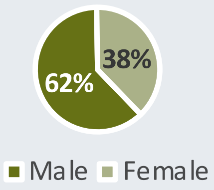
TOP 3 ACTIVITIES



DEMOGRAPHICS

Sophisticated Business owners tend to be male and are relatively young. They have a very high level of education, almost half have some tertiary education. They are located mostly in urban areas, only 19% are in rural areas. They are most concentrated in Nairobi and the Central Province.

GENDER



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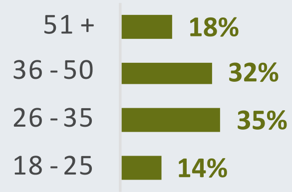
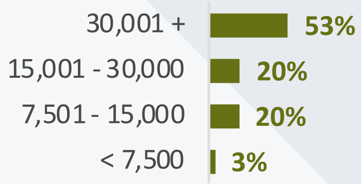


MONTHLY INCOME (KSH)



47% Have at least some **TERTIARY EDUCATION**

FINANCIAL HEALTH INDEX

87% Have the ability to cope day-to-day

82% Have the ability to cope with risk

67% Have the ability to invest in their livelihoods and the future

71% are considered financially healthy

This is higher than the national average for all Kenyan adults where 21% are considered financially healthy

FINANCIAL NEEDS

Transactional account

97% of the segment has a transactional account

Most of the segment has a mobile-money account (94%) and a bank account (83%). Almost 60% of the segment uses mobile banking.

Savings

96% of the segment is currently saving

Most of the segment (96%) saves with a formal device – in a mobile money or bank account

42% of the segment has savings with an informal device and 36% keep their savings with a friend or family member or in a secret place

A third of the segment has a pension, with 32% having a mandated pension with the NSSF

Credit

64% of the segment is currently borrowing

Formal credit devices are used most often; 51% of the segment has a formal credit device, mostly via mobile banking or loan from a bank

30% of the segment has an informal credit device. And 16% are currently borrowing from their family and friends

Insurance

71% of the segment currently has insurance

This is driven by the NHIF, 67% of the segment are members of the NHIF. A further 31% have other insurance (mostly car insurance – 25%)

04 Urban Small Businesses

Photo: FSD Kenya

fsd Kenya

CGAP

SEGMENT DESCRIPTION Most Urban Small Business Owners are in the retail trade. They tend to be unregistered, consist of a single person, and do not have access to business-specific financial services. Urban Small Business Owners tend not to keep business records and many do not separate the financial affairs of their businesses from those of their households. This segment accounts for over half of business owners in Kenya (based on their main income source) and 9% of all Kenyans over 18 years old.

REASON FOR PRIORITISATION Urban Small Business Owners play an important role in urban economic development and could drive the digitisation of payments. If effectively served, some have the potential to graduate into more sophisticated businesses that can support economic growth in Kenya.

OVERVIEW OF FINANCIAL NEEDS Less than 20% of Urban Small Business Owners has accepted a digital payment from a customer in the past 12 months, and only 9% have paid suppliers and/or employees digitally. They are vulnerable to liquidity distress; more than half were unable to pay their regular expenditures in the past 12 months and more than a third experienced a financial shock. Almost 80% of Urban Small Business Owners are working toward a goal, mostly to expand their business.

OPPORTUNITIES TO SUPPORT FINANCIAL NEEDS Urban Small Business Owners are younger and more likely to be female. Though they operate in dynamic urban economies, the high cost of having young families puts pressure on liquidity, constraining business growth. For Urban Small Business Owners, social transfers such as a child benefit could ease pressures on household liquidity, while education finance solutions could help to mitigate some of the additional costs associated with raising families. This could create a stronger foundation for Urban Small Business Owners to grow and thrive.

Currently, Urban Small Businesses are almost entirely cash based, partly due high upfront set-up costs and lack of documentation. Cash also maximises the flexibility to negotiate a marginal economy with substantial pressures on both income and expenditure flows. At the same time, digitisation could offer significant benefits to business owners. There may be opportunities to ease constraints on business liquidity through value-chain specific trade finance (e.g., FMCGs). In this context digitisation has the potential to build stronger relationships between businesses and suppliers by providing greater transparency and efficiency to support value chain financing. From the perspective of the financial sector, the visibility created through digital trails offers of a sufficiently well-described entity with which FSPs can engage on a contractual or formal basis, which could unlock access to capital for informal businesses.

Whether or not digitised payments solutions can add value for Urban Small Business Owners, improving access to, and their capacity to leverage smart phones could yield substantial gains. While almost all Urban Small Business Owners have access to a mobile phone, just over half (55%) say they can download and install applications on their phones. Smart phones can improve know-how and capacity for business development through online training and business management tools such as apps with simple accounting features. Smart phones can also improve connectivity across business and social networks through social media marketing. Some banks also offer business training and financial literacy for their business customers, especially women. Linking banks to Urban Small Business Owners could help scale these initiatives.

URBAN SMALL BUSINESSES

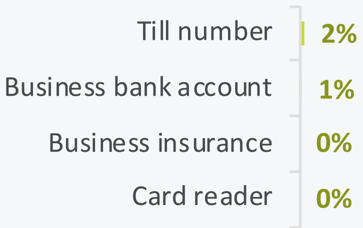
2.2 Million adults 18+

This segment accounts for 50% of business owners in Kenya (based on main income source) and 9% of all Kenyans 18+.

LIVELIHOOD

Most Urban Small Businesses are in the retail trade, they tend to be unregistered and consist of a single person. They do not have access to business financial services. Most owners do not keep business records and they likely mix household and business finances so that revenue and profits are uncertain.

FINANCIAL SERVICES FOR BUSINESSES



84% are one-person businesses

13% had **two paid workers** on average over the past 12 months

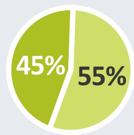
29% are registered businesses (5% have a permit)

TOP 3 ACTIVITIES

DEMOGRAPHICS

Urban Small Business owners are more likely to be female and are relatively young. One-third of the segment comprises women under 35 years old. Their education levels vary, while 40% have only a primary education or less, 21% have at least some tertiary education. They are most concentrated in Nairobi and Mombasa.

GENDER



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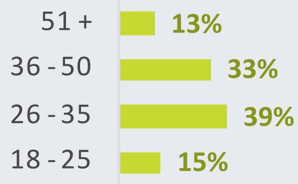
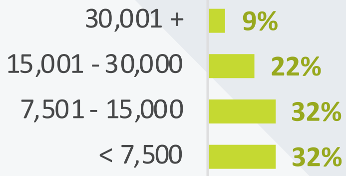


MONTHLY INCOME (KSH)



40% Have only a **PRIMARY SCHOOL EDUCATION** or less

FINANCIAL HEALTH INDEX

71% Have the ability to cope day-to-day

55% Have the ability to cope with risk

32% Have the ability to invest in their livelihoods and the future

33% are considered financially healthy

This is higher than the national average for all Kenyan adults where 21% are considered financially healthy

FINANCIAL NEEDS

Transactional account

93% of the segment has a transactional account

This is mostly driven by mobile money uptake; 93% have a mobile-money account and 46% of the segment has a bank account

Savings

89% of the segment is currently saving

Most of the segment (82%) saves with a formal financial device, in a mobile-money account or a SACCO

43% of the segment is saving with an informal device, including a savings group, and 29% keep their savings with a friend or family member or in a secret place

Just 10% of the segment has a pension, with 9% having a mandated pension with the NSSF

Credit

55% of the segment is currently borrowing

Informal credit devices are used most often; 36% of the segment has an informal credit device; mostly taking goods and services on credit from a shop keeper

32% of the segment has a formal credit device; mostly via mobile banking. And 11% are currently borrowing from their family and friends

Insurance

34% of the segment currently has insurance

30% of the segment is a member of the NHIF. A further 9% have other insurance

SEVEN PRIORITY SEGMENTS OF THE FINANCIALLY UNDERSERVED IN KENYA

05 Public Sector Workers


Photo: FSD Kenya

SEGMENT DESCRIPTION Public Sector Workers operate in education and other government positions. This segment accounts for 27% of employees in Kenya (based on their main income source) and 4% of Kenyans over 18 years old.

REASON FOR PRIORITISATION Public Sector Workers are key enablers of business activity and sustainable economic growth. They are major contributors to pensions and long-term savings and often support dependants. With relatively high and stable monthly salaries, Public Sector Workers stand out in terms of their high usage of credit. They are targeted by credit providers because of their relatively high, stable income; in addition, loan instalments can be deducted directly from their salaries. Two-thirds of Public Sector Workers are currently using a formal credit product.

OVERVIEW OF FINANCIAL NEEDS Almost half of Public Sector Workers has experienced liquidity distress in the past 12 months, despite their stable incomes. This may reflect high levels of indebtedness. Almost 40% of Public Sector Workers experienced a financial shock in the past 12 months, largely related to health. Two-thirds are currently trying to meet a specific goal, mostly for education and housing or land-related goals.

OPPORTUNITIES TO SUPPORT FINANCIAL NEEDS There is a visible housing need. Though one of the wealthier segments, 32% of Public Sector Workers live in inadequate dwellings.[5] Given their stable incomes, Public Sector Workers are prime candidates for mortgage finance, and an attractive market for innovative solutions in housing finance (e.g., I-Build, climate/green investment). However, given supply-side constraints in the housing market, such as lack of title, serviced land and poor municipal capacity to grant planning approval,[6] more finance directed into a constrained supply chain is likely to result in higher prices. In the absence of a systemic overhaul of the housing value chain, the development of housing finance is likely to be counter-productive, no matter how well aligned with market needs.

Almost a quarter of Public Sector Workers experienced a health-related shock in the past 12 months. While nearly 90% of those who experienced this shock have NHIF, just 16% used insurance as the main coping device. More research is required on the limited usage of NHIF and opportunities to restructure the NHIF and/or for the private sector to offer supplementary cover.

A third of Public Sector Workers spend more than half of their monthly income on debt repayments, which appears to limit their ability to manage liquidity. These loans, mostly from SACCOS and banks, are used largely for education, housing, and land. At the same time, Public Sector Workers are among the segments most vulnerable to demands from social networks and dependants who lack access to formal safety nets, which puts pressure on their liquidity. To understand the impact of debt on their resilience and growth prospects, more research is required on actual (rather than stated) use of the loans, alternative sources of income, and supply-side pressures (e.g., marketing practices of credit providers).

Improved access to investment products and pension schemes could help Public Sector Workers lock away available liquidity and be less vulnerable to pressures from social networks and the impacts of debt. There may also be opportunities to improve the effectiveness of social network investments. Innovative solutions could help them better plan their social network related expenditures, for instance, through regular payments for relatives' health or education expenses.

PUBLIC SECTOR WORKERS

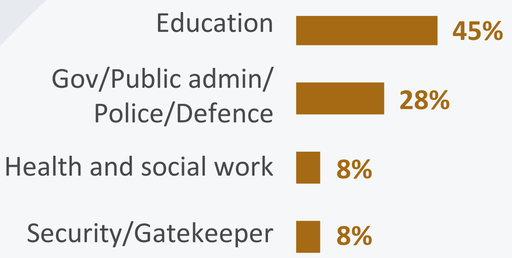
900,000 adults 18+

This segment accounts for 27% of employees in Kenya (based on main income source) and 4% of Kenyans 18+.

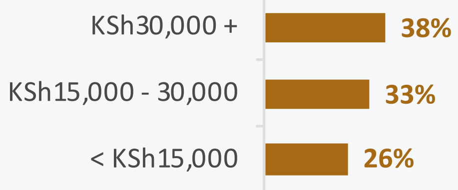
LIVELIHOOD

This segment works in the education sector and in other government positions. They have relatively high and stable monthly salaries.

TOP 5 OCCUPATIONS



MONTHLY INCOME (KSH)

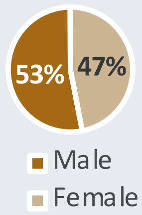


Public sector workers stand out in terms of their high usage of credit. Two-thirds of the segment are currently using a formal credit product. They are likely targeted by credit providers because they have a relatively high, stable income and since loan payments can be deducted directly from their salary, which reduces late repayment risk.

DEMOGRAPHICS

Just under half of public sector workers are female (47%). Public sector workers have the highest level of education of all priority segments with the majority having a tertiary education. Half of public sector workers live in rural areas and half in urban areas.

GENDER



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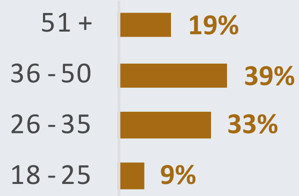
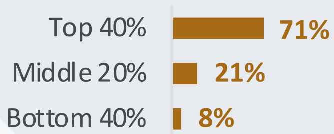


70% have at least some **TERTIARY EDUCATION**

WEALTH QUINTILE



FINANCIAL HEALTH INDEX

79%	Have the ability to cope day-to-day
78%	Have the ability to cope with risk
50%	Have the ability to invest in their livelihoods and the future

60% are considered financially healthy

This is higher than the national average for all Kenyan adults where 21% are considered financially healthy

FINANCIAL NEEDS

Transactional account

99% of the segment has a transactional account

Most of the segment has a mobile-money account and a bank account. Over 40% use mobile banking.

Savings

100% of the segment is currently saving

99% of the segment saves with a formal financial device – mostly in their bank accounts or with a SACCO.

41% of the segment has savings with an informal device, including a savings group, and 24% keep their savings with a friend/family member or in a secret place

70% of the segment has a pension, 61% have a mandated pension with the NSSF and 14% having other pensions

Credit

74% of the segment is currently borrowing

Formal credit devices are used most often; 66% of the segment has a formal credit device, mostly taking loans from a SACCO, bank and via mobile banking

26% of the segment has an informal credit device. And 8% are currently borrowing from their family/ friends

Insurance

98% of the segment currently has insurance

This is driven by the NHIF, 96% of the segment is a member of the NHIF. 34% have other insurance

SEVEN PRIORITY SEGMENTS OF THE FINANCIALLY UNDERSERVED IN KENYA

06 Urban Wage Earners

fsd Kenya

CGAP

SEGMENT DESCRIPTION Urban Wage Earners are employed in the private sector in manufacturing, private households, and retail trade. Their jobs are more formal and most receive their salaries or wages directly into their bank accounts. Most Urban Wage Earners have NHIF and almost 80% have a pension through the NSSF. This segment of 1.15 million adults over 18 years old accounts for 35% of employees in Kenya (based on their main income source).

REASON FOR PRIORITISATION Urban Wage Earners are likely the primary market for the affordable housing developed as part of the Big 4 initiative. While one of the higher income segments on average, most Urban Wage Earners still lack access to financial services and a noticeable minority are relatively low-income earners.

OVERVIEW OF FINANCIAL NEEDS All Urban Wage Earners made a digital payment in the past 12 months though 46% also experienced liquidity distress, despite their relatively high, stable incomes. More research is needed to understand the drivers of their liquidity distress. Just over one-third of Urban Wage Earners experienced a financial shock in the past year, particularly related to health. Eighty four percent of Urban Wage Earners are trying to reach a goal, often related to housing or land, which is the highest proportion of all seven segments.

OPPORTUNITIES TO SUPPORT FINANCIAL NEEDS Almost half of Urban Wage Earners (47%) are trying to achieve a housing or land-related goal, thus it follows that a significant proportion (26%) also have a clear housing need. Many live in dwellings characterised as "semi-permanent" or "temporary" or in over-crowded conditions. A significant proportion of Urban Wage Earners use non-financial mechanisms to achieve these goals (e.g., changing their behaviour by reducing consumption or working additional hours of jobs to accumulate funds). There is a clear opportunity for FSPs to innovate in housing finance, both in relation to mortgages as well as other solutions such as rent-to-buy and modular building loans. Given that Urban Wage Earners receive steady incomes, they are an attractive segment for housing finance.

Almost 20% of Urban Wage Earners experienced a health-related shock in the past 12 months. While 87% of those who experienced this shock have NHIF, just 10% used insurance as their main coping device. More research is required to explore the limitations of NHIF and the potential for private sector solutions that offer supplementary cover.

URBAN WAGE EARNERS

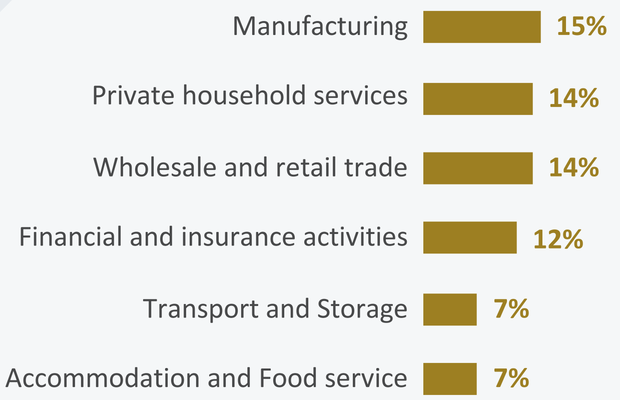
1.15 M adults 18+

This segment accounts for 35% of employees in Kenya (based on main income source) and 5% of Kenyans 18+.

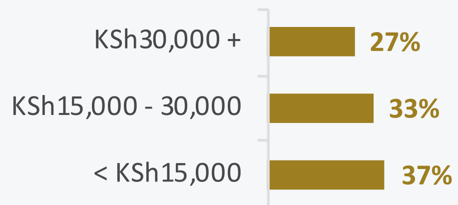
LIVELIHOOD

Urban wage earners are employed in the private sector in manufacturing, private households and the retail trade. Their jobs appear formalised with most receiving their salary or wage directly into a bank account. Most of the segment has NHIF and almost 80% have a pension through the NSSF.

TOP 6 OCCUPATIONS



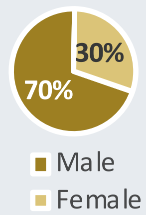
MONTHLY INCOME (KSH)



DEMOGRAPHICS

A large proportion of Urban Wage Earners are male and most are under 36 years old. Most have a secondary education, 20% have technical training and a further 20% have at least some university education. This segment is mainly located in Nairobi.

GENDER



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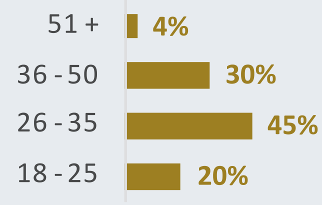
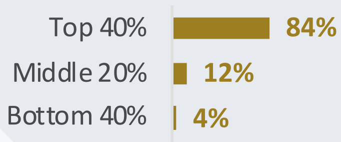


20% have some technical training. A further 24% have at least some university

WEALTH QUINTILE



FINANCIAL HEALTH INDEX

89%	Have the ability to cope day-to-day
75%	Have the ability to cope with risk
57%	Have the ability to invest in their livelihoods and the future

63% are considered financially healthy

This is higher than the national average for all Kenyan adults where 21% are considered financially healthy

FINANCIAL NEEDS

Transactional account

100% of the segment has a transactional account

This is mostly driven by mobile money uptake; 99% of the segment has a mobile-money account and 92% have a bank account

Savings

100% of the segment is currently saving

100% of the segment saves with a formal financial device – in their mobile-money accounts or with a SACCO

34% of the segment saves with an informal device, including a savings group, and 33% keep their savings with a friend or family member or in a secret place

77% of the segment has a pension, with 77% having a mandated pension with the NSSF

Credit

70% of the segment is currently borrowing

Formal credit devices are used most often; 47% of the segment has a formal credit device, mostly mobile banking loans and digital loans via phone apps

32% of the segment has an informal credit device and 20% are currently borrowing from their family/friends

Insurance

94% of the segment currently has insurance

This is driven by the NHIF, 92% of the segment is a member. A further 16% have other insurance

SEVEN PRIORITY SEGMENTS OF THE FINANCIALLY UNDERSERVED IN KENYA

07 Urban Aspirational Youth

Photo: FSD Kenya

SEGMENT DESCRIPTION Between the ages of 18 and 25, Urban Aspirational Youth have completed secondary school and are looking to either study further or start a business. Almost half are dependent on their families. Some have recently been employed while others work part-time as casual workers or have recently started a business. This segment of 1.2 million adults aged 18 to 25 years old accounts for 24% of Kenyan youth.

REASON FOR PRIORITISATION Urban Aspirational Youth are the future engine of the Kenyan economy. Facilitating their growth and development is therefore critical.

OVERVIEW OF FINANCIAL NEEDS Half of Urban Aspirational Youth were unable to meet their regular expenditures in the past 12 months. They are the least likely of the priority segments to have experienced a shock, possibly reflecting their dependent status and that they are less prone to health-related shocks. Most Urban Aspirational Youth are currently trying to meet a goal to further their education (30%) and start a business (32%).

OPPORTUNITIES TO SUPPORT FINANCIAL NEEDS Urban Aspirational Youth are future-focused and less risk averse, given their lack of exposure to shocks. They have a strong appetite to start businesses and find side hustles, often to support the cost of continued education or skills acquisition. Most use non-financial mechanisms to achieve these goals (e.g., working more, relying on assistance from family members). While their liquidity is constrained in the short-term, however, it is likely to improve significantly as they find employment or start their own business. There may be an opportunity therefore, to develop products that rely on these future income streams, in partnership with accredited educational institutions who might be well placed to carry risk associated with post-study employment outcomes, with the caution that existing education loans have not been successful.

In the same vein, youth businesses could be supported through products that rely on future income streams, possibly in partnership with the state. For example, initiatives designed to support youth secure a foothold in business through enterprise grants could help alleviate capital constraints for aspiring entrepreneurs, especially if coupled with skills building. In addition, supporting youth to develop groups that offer sustainable sources of capital, business and technical skills, and mentoring could be very effective, including resources for on-line self-help group facilitation.[7] A challenge is how such groups can access support over time, particularly during internal conflict.

For Urban Aspirational Youth, their limited capacity to track business and other expenses and their income streams can undermine their ability to understand if they actually make a profit on a daily, weekly, or monthly basis. Digital wallets offer prime opportunities to add solutions that enable users to budget and compartmentalise money. Online tools can also help youth to be more intentional around developing good credit records that enable them to build stronger credit profiles for the future.

Key gaps for Urban Aspirational Youth include the skills and experience to start businesses, maintain their viability, and ultimately grow them. Urban Aspirational Youth are relatively well-educated and digitally literate and could enhance their capacity through access to smart phones and the internet, where a wealth of resources are available, including app-based tools to enable youth to enhance business skills and financial literacy. Facilitating access to phones and data could be transformational for Urban Aspirational Youth, if the costs of accessing data could be addressed.

URBAN ASPIRATIONAL YOUTH

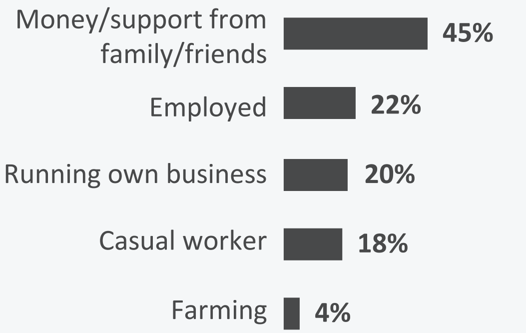
1.2 M adults 18 - 25

This segment accounts for 24% of youth aged 18-25 and 5% of all Kenyans 18+

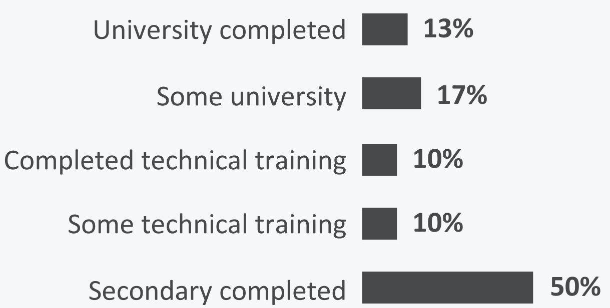
LIVELIHOOD

Urban Aspirational Youth have completed secondary school. Almost half are still dependent on their families, some have been recently employed or have started a business.

TOP 5 INCOME SOURCES



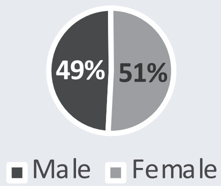
HIGHEST LEVEL OF EDUCATION ACHIEVED



DEMOGRAPHICS

Urban Aspirational Youth are 25 years old or younger and half are female. By definition, they have all completed secondary school and looking to either study further, start a business or move into employment.

GENDER



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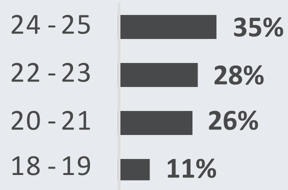
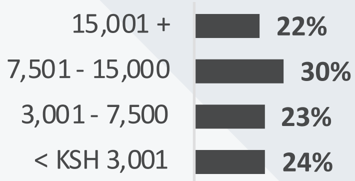


MONTHLY INCOME (KSH)



100% have completed secondary school

FINANCIAL HEALTH INDEX

70% Have the ability to cope day-to-day

61% Have the ability to cope with risk

34% Have the ability to invest in their livelihoods and the future

40% are considered financially healthy

This is higher than the national average for all Kenyan adults where 21% are considered financially healthy

FINANCIAL NEEDS

Transactional account

92% of the segment has a transactional account

This is mostly driven by mobile money uptake; 90% of the segment has a mobile-money account and 47% have a bank account

Savings

87% of the segment is currently saving

83% of the segment saves with a formal financial device – in their mobile-money account or a SACCO

17% of the segment saves with an informal device, including a savings group, and 33% keep their savings with a friend or family member or in a secret place

Just 15% of the segment has a pension, with 15% having a mandated pension with the NSSF

Credit

53% of the segment is currently borrowing

Formal credit devices are used most often; 36% of the segment has a formal credit device, mostly taking digital loans via phone apps or mobile banking

22% of the segment has an informal credit device, 16% are currently borrowing from their family and friends and 11% have a loan from government.

Insurance

35% of the segment currently has insurance

This is driven by the NHIF, 31% of the segment has NHIF. A further 8% have other insurance

CONCLUSIONS

Kenya has seen a significant improvement in several metrics used to assess levels of financial inclusion over the past 10 to 15 years. However, as demonstrated by an analysis of FinAccess 2019 data, there are a number of areas that require further engagement. By unpacking the financial needs of Kenyans, the segmentation approach helps articulate constraints in the real economy and financial services that must be overcome for Kenya to realise its economic and social aspirations.

01 There appear to be many unmet financial needs that could be met by innovative solutions from FSPs.

While the focus of attention of financial inclusion practitioners is rightly on the poor, the analysis highlights that in Kenya, it is not only the poor whose needs remain unmet. For instance, many relatively higher-earning public sector workers and salaried employees live in sub-standard dwellings and have a well-articulated need for land or housing. Likewise, owners of relatively sophisticated businesses indicate an unmet need for capital to fund business expansion. Nevertheless, the data would seem to indicate that Kenya's credit market does not adequately serve these needs, even for those with capacity to borrow.


Photo: FSD Kenya

In addition, the ability to withstand shocks appears to be limited even in these higher-earning segments. Voluntary take up of insurance products is limited, while the proposition offered by mandatory products, principally the NHIF, is poorly aligned with their needs. Of those who have NHIF, a majority who have experienced a health-related shock report that they draw down on savings or use assistance from family and friends to cope. Further research on the benefits package associated with NHIF contrasted with the needs of the market may be helpful in identifying opportunities for FSPs.

02 In some cases unmet financial needs are a reflection of poorly functioning underlying supply chains.

Where affordability is not the primary constraint limiting innovation, other supply-side barriers may exist. In the case of housing finance for instance, there are constraints that impede delivery of affordable housing products. These include lack of title and serviced land, as well as poor municipal capacity to grant planning approval.[8] More finance directed into a constrained supply chain is likely to result in higher prices. The development of financial solutions – no matter how well aligned they are with the needs of the market – in the absence of a systemic overhaul of the value chain into which finance will be applied is therefore likely to be counter-productive. It is therefore critical that needs-based approaches are contextualised within a relevant supply chain, and that underlying (non-financial) blockages are also addressed.

03 Innovative solutions are required to fund higher education.

Education is noted as a key goal across most of the priority segments, but most significantly by Urban Aspirational Youth. While the affordability of education is constrained in the short-term, it is likely to improve significantly as they become employed or become business owners. There may be an opportunity to develop products that rely on these future income streams, in partnership with accredited educational institutions who might be well placed to carry risk associated with post-study employment outcomes.

04 Digitisation offers significant potential advantages but may not be better than cash, yet.

While certain payment use cases have been digitised, most notably, remittance payments via mobile money, others remain firmly cash based. This is particularly the case with respect to merchant payments for day-to-day needs. While Sophisticated Business Owners largely accept digital payments, Urban Small Business Owners remain almost exclusively cash-based. There are visible barriers that prevent them from accepting digital payments, including high upfront set-up costs and lack of documentation where businesses are informal. This is particularly unfortunate, as a visible record of payments received and made by these informal businesses could result in these currently 'hidden' or 'underground' businesses becoming visible. From the perspective of the financial sector, this visibility creates a sufficiently well-described entity with which FSPs can engage on a contractual or formal basis, even if the business remains unregistered.

Digitisation could offer significant benefits to business owners including the potential to build stronger relationships between businesses and suppliers, as well as provide greater transparency which could enable value chain financing.

Of course, digitising payments requires the customer to adopt digital payment channels and mechanisms. Arguably, the Kenyan consumer market is well-primed to do so, given familiarity with digitised remittances. That said, while the digitisation proposition appears compelling to researchers and financial inclusion practitioners, there may well be a strongly embedded preference for cash that is difficult to unseat. More research is required with businesses, their customers and their suppliers to better understand payment preferences and propositions, and the kinds of incentives required to encourage take-up of digital payment solutions.

05 Beyond survey data: a role for administrative and transactional data in product development.

While the analysis of survey data provides a very useful picture of the market at a macro level, product innovation would benefit immeasurably from analysis of additional data, including 'thicker' qualitative data on needs, experiences and perceptions, transactions data generated by FSPs and other infrastructure or platform providers who enable the financial sector, as well as administrative data often curated by state entities. For instance, the survey data indicates that many public sector workers may be over-indebted. A third of public sector workers say they typically spend more than half of their monthly incomes on debt repayments. The survey indicates that these loans, mostly from SACCOS and banks, are being used largely for productive purposes such as education, housing and land. More research is required on the impact of credit on this segment, including the marketing practices of credit providers, the actual (rather than stated use) of the loans, and the extent to which the segment is, in fact, over-indebted. A review of credit bureau data, together with a sample of salary slips, would be very helpful in exploring this.

Administrative data on claims made to the NHIF could be useful in assessing the types of claims made and the time taken to process claims. Likewise, the pricing of education loans would benefit from a predictive analysis on student completion rates using data from educational institutions, as well as tax data to understand how many become salaried employees. This is not to say transactional and administrative data is always going to yield insights; clearly where cash and informal activity dominate, transactional and administrative data may be limited. But increasingly, as the digital economy grows, and the data landscape expands, there will be more opportunities to harvest insights from these datasets.

06 There are some cases where the market, on its own, may be unable to meet needs.

This is particularly the case with regard to resilience needs in the Regional Market Farmer and Local Market Farmer segments. These are the most likely of the priority segments to have experienced a financial shock in the past 12 months. This vulnerability impacts on their ability to manage liquidity and meet longer-term goals. At the same time, global warming is likely to increase exposure to risk in this segment. Privately provided insurance products may be too expensive given the magnitude and coverage of these risks. A publicly funded underpin may therefore be required to encourage private sector providers to enter the market.

End notes

1. A formal financial device includes all financial services and products used through prudentially regulated and supervised FSPs, financial services and products offered through service providers that are subject to non-prudential regulation and supervision (oversight) by Government Ministries/ Departments with focused legislations and financial services and products offered through providers that are legally registered legal persons and/ or operate through direct Government interventions.

2. The Fin-needs framework, pioneered for the first time in the FinAccess 2019 survey, was originally developed by insight2impact (i2i), a South African think tank. The framework measures how effectively the uptake and usage of available financial services meets the needs of consumers.

3. This research was conceptualized by FSD Kenya and CGAP to better understand the profile, needs, and ambitions of financially underserved segments in Kenya. With funding from CGAP, CENFRI and 71point4 explored the data – including FinAccess 2019, a study by CBK, KNBS, and FSD Kenya – and identified seven key segments that display unmet financial needs and are strategically important for policy objectives and economic growth.

4. Digital payments include all payment made via mobile money, bank transfer, bank cheque, or via credit card or debit card

5. Dwellings are defined as potentially inadequate if the type of building is defined as "temporary", "semi-permanent" or "traditional", or the dwelling does not have an adequate toilet, including a bucket, uncovered pit latrine or none, or the dwelling is over-crowded defined as having more than three people per sleeping room.

6. For more information on the challenges of developing affordable housing see CAHF' research: http://housingfinanceafrica.org/documents/case-study-13-delivering-affordable-housing-in-kenya-the-case-of-karibu-homes-ltd/

7 See https://thesharetrust.com/resources/2018/building-a-digital-platform-for-shg-facilitators

8. For more information on the challenges of developing affordable housing see CAHF's research by Seeta Shah and Ravi Ruparel: http://housingfinanceafrica.org/documents/case-study-13-delivering-affordable-housing-in-kenya-the-case-of-karibu-homes-ltd/

9-Riverside,
Riverside Drive
Nairobi

info@fsdkenya.org

+254 20 513 7300

fsdkenya.org

@FSDKe