

# UNDERSTANDING THE UNMET FINANCIAL NEEDS AND OPPORTUNITIES OF KEY SEGMENTS IN KENYA

## URBAN SMALL BUSINESSES

Focus note 4 of 7

### MOTIVATION FOR THE RESEARCH

An inclusive financial sector is a key enabler for achieving the long-term development strategy set out in Vision 2030 as well as the “Big Four” agenda that prioritises manufacturing, universal healthcare, affordable housing and food security. The financial sector can catalyse change through providing access to meaningful financial products that empower individuals and contribute to broader economic development in Kenya.

This study used FinAccess 2019 data to segment adults in Kenya to better understand the financially underserved. Seven priority segments were identified as being crucial to the realisation of the long-term development strategy and stated policy objectives including the “Big Four” agenda. This series of focus notes explores each of the identified priority segments. [Check the FSD Kenya website](#) for more information on the segmentation and the other six segments.



### THE NEEDS-BASED APPROACH

The needs-based framework is a new measure of financial inclusion that has been adopted in Kenya as part of the FinAccess survey. Originally developed by insight2impact (i2i), the framework measures how effectively the uptake and usage of available financial services meets the needs of consumers. Needs that are unmet, or not fully met, present opportunities where regulators, policy makers, and/or financial services providers could better serve these customers. There are four universal financial needs:

**TRANSFER OF VALUE**  
*The ability to send or receive money*

76% of Kenyans aged 18+ have received OR made a digital payment in the past 12 months

**LIQUIDITY**  
*The need to meet expenses in a single income cycle*

62% of Kenyans aged 18+ have experienced liquidity distress in the past 12 months

**RESILIENCE**  
*The ability to deal with unexpected financial shocks*

36% of Kenyans aged 18+ have experienced a financial shock in the past 12 months

**MEETING GOALS**  
*The ability to achieve life objectives that require large amounts of money*

59% of Kenyans aged 18+ are currently trying to meet a specific goal



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 7 key segments that display unmet financial needs and are strategically important for policy objectives and economic growth.



## URBAN SMALL BUSINESSES

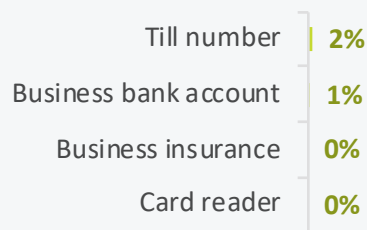
2.2 Million adults 18+

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, and tend to be unregistered, consisting 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

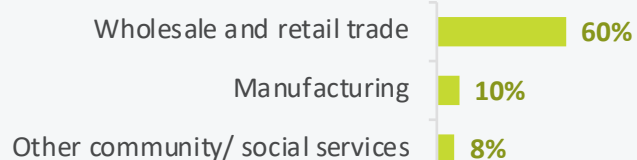


**84%** are one-person businesses

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

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

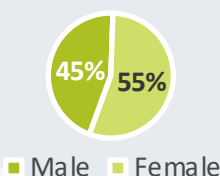
#### TOP 3 ACTIVITIES



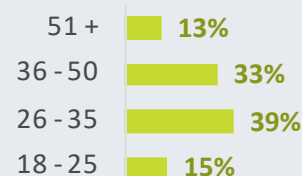
## DEMOGRAPHICS

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.

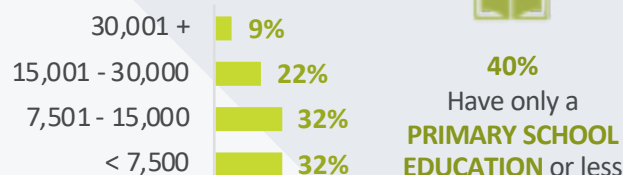
#### GENDER



#### AGE GROUP



#### MONTHLY INCOME (KSH)



### 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

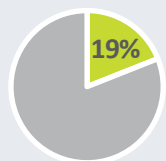
**34%** of the segment currently has insurance

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

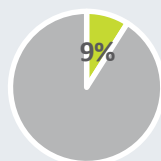
## TRANSFER OF VALUE



Received a payment linked to their business activities directly into their account in the past 12 months



Made a digital payment for business-related activities in the past 12 months

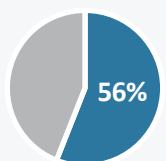


Urban Small Businesses generally accept cash only; less than 20% of the segment has accepted a digital payment from a customer in the past 12 months and only 9% have paid suppliers and/or employees digitally. This reliance on cash is likely due to the out-of-pocket cost of digital payment solutions compared to cash, which is perceived to be free, as well as the documentation required to implement digital solutions.

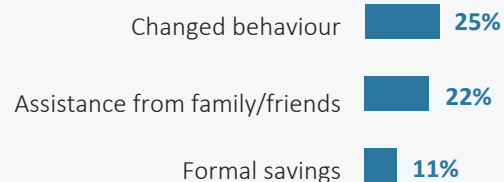
## LIQUIDITY



Experienced liquidity distress in the past 12 months



Top 3 mechanisms used to cope (Experienced liquidity distress)

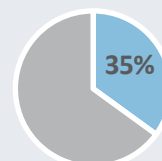


The segment is vulnerable to liquidity distress; more than half were unable to meet their regular expenditures in the past 12 months. Most of the segment who experienced liquidity distress relies on non-financial mechanisms to cope with liquidity distress, including changing their behavior by reducing consumption (10%) or working additional hours or jobs (15%) and relying on assistance from their social networks.

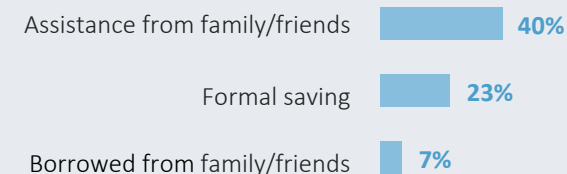
## RESILIENCE



Experienced a financial shock in the past 12 months



Top 3 mechanisms used to cope (Experienced a shock)

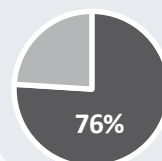


More than one third of the segment has experienced a big cost from a shock. The main shocks experienced by the segment include a major sickness, health problem or injury (22% experienced this) and the death of a family member (10%). Those who have experienced a shock mostly rely on assistance from family or friends or their formal savings.

## MEETING GOALS



Currently trying to meet a goal



Top 3 mechanisms to meet goals (Trying to meet a goal)



Almost 80% of the segment is currently trying to meet a specific goal. Main goals include expanding their businesses (28% of this segment is trying to achieve this goal) and housing and land-related goals (30%). Of those trying to meet a goal, many change their behavior by working additional hours or jobs to accumulate funds incrementally (33%) or reduce their consumption (4%). Over 20% say that formal savings are the main device they are using to meet their goal.

# 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 <i>main income source</i> directly into an account							
	% who have made any digital payment (including remittance payments) in the past 12 months							
LIQUIDITY	% of have experienced liquidity distress in the past 12 months							
RESILIENCE	% who experienced a financial shock in the past 12 months							
GOALS	% who are currently trying to meet a specific goal							