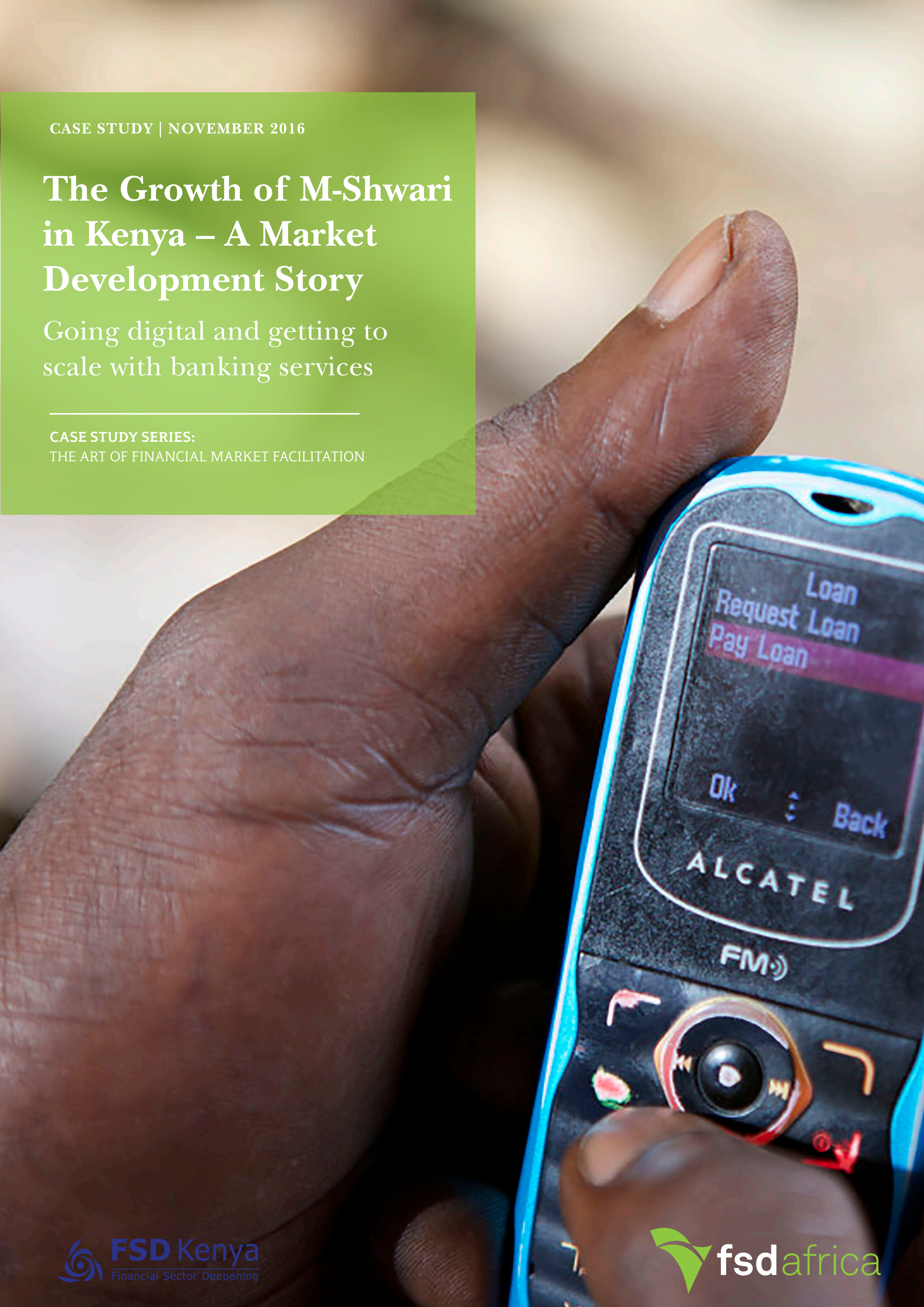
CASE STUDY | NOVEMBER 2016

The Growth of M-Shwari in Kenya – A Market Development Story

Going digital and getting to scale with banking services

CASE STUDY SERIES:
THE ART OF FINANCIAL MARKET FACILITATION



FSD Kenya
Financial Sector Deepening

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Foreword

Since January 1949, when a U.S. President Truman speech ushered in the modern era of international development, successive generations of theorists and practitioners have wrestled to determine the best means to deliver international development assistance to the world's poor.

Progress has followed a steady trajectory with the number of people living in extreme poverty falling from 1.99 billion in 1981 to 896 million in 2012. In spite of such progress, many questioned the prevailing relief-based approach to poverty reduction. The direct delivery by international aid agencies of welfare-enhancing goods and services to the poor would, they argued, lead to a temporary spike in poverty impact, but leave little behind once priorities changed or the money ran out.

It is against this backdrop that the 'making markets work for the poor' approach was born. This approach – also known as 'M4P', 'market systems development' or 'market facilitation' – gathered momentum during the late 1990s and 2000s. In July 2008, the Springfield Centre ran its inaugural '*Making Markets Work*' training course in Glasgow, Scotland. In September 2015, the World Bank's Consultative Group for the Assistance of the Poor (CGAP) issued: '*A Markets Systems Approach to Financial Inclusion: Guideline for Funders.*'

Today, 'making markets work for the poor' is a relatively well-understood concept. It focuses on harnessing the power of market systems, including their full range of participants – from suppliers and consumers to rule-makers and support services providers – to deliver benefits for poor men and women on a lasting basis. It seeks to achieve and maintain a careful balance between public and private sector interests, between the bottom-line and the bottom of the pyramid.

To do this, M4P programmes work closely with market players to understand market dynamics and test whether or not necessary behaviour changes can endure **(see Adopt, Adapt below)**. At other times, M4P programmes work with a diversity of players to encourage behaviour and practice changes to deepen and broaden the market system responses and improve the functioning of support systems **(see Expand, Respond below)**.

None the less, evidence from the field about how to apply the market facilitation approach in practice remains fairly limited and is often poorly documented. Despite some good examples,[1] there is a general dearth of material that captures which interventions work, which do not, and why. Accordingly, there remain important unanswered questions, such as: How to balance pressure for short-term results with slow-burn market development activities? What does effective communication and measurement look like, and what can it achieve? What attributes do successful market facilitators possess? How does crowding in and replication take place in practice? How and when do market facilitators look to exit? How is it best to select, engage and work with partners? What to measure, when and why?

This case study process emerged as a response to this challenge – a desire to learn more about the art of market facilitation in the field. In June 2015, FSD Africa commissioned the Springfield Centre to produce: a) one comprehensive case study of FSD Kenya – a financial market facilitation agency in Nairobi, Kenya; and b) six mini-case studies of financial market facilitation interventions from the wider FSD Network, by the FinMark Trust, FSD Kenya, FSD Tanzania and FSD Zambia.

This particular case study looks at the unique role FSD Kenya has played in the design and uptake of M-Shwari, a combined savings and loans product launched through a collaboration between the Commercial Bank of Africa (CBA) and Safaricom. It considers the extent to which FSD Kenya's strategy and approach governing the support to M-Shwari were consistent with basic M4P principles as codified in the "The Operational Guide for the Making Markets Work for the Poor Approach."[2]

Taken together, we hope that these case studies contribute useful learning to the theorists and practitioners that work in the field of 'making markets work for the poor', and beyond. For FSD Africa, the case study material will be put to immediate use in the FSD Academy M4P course – a five-day training programme for staff from the FSD Network and beyond. We warmly invite others to use and share them as appropriate.

Throughout, this process has benefitted greatly from input by FSD Network staff, as well as colleagues at CGAP – Barbara Scola and Matthew Soursourian, and at DCED – Jim Tanburn. We're also extremely grateful to the case study authors – Alan Gibson, David Elliott and Diane Johnson of the Springfield Centre. The views included in the case studies are their own. We would also like to express our immense gratitude to Eric Muriuki and the entire CBA team for their significant time investment and their willingness to have this story told.

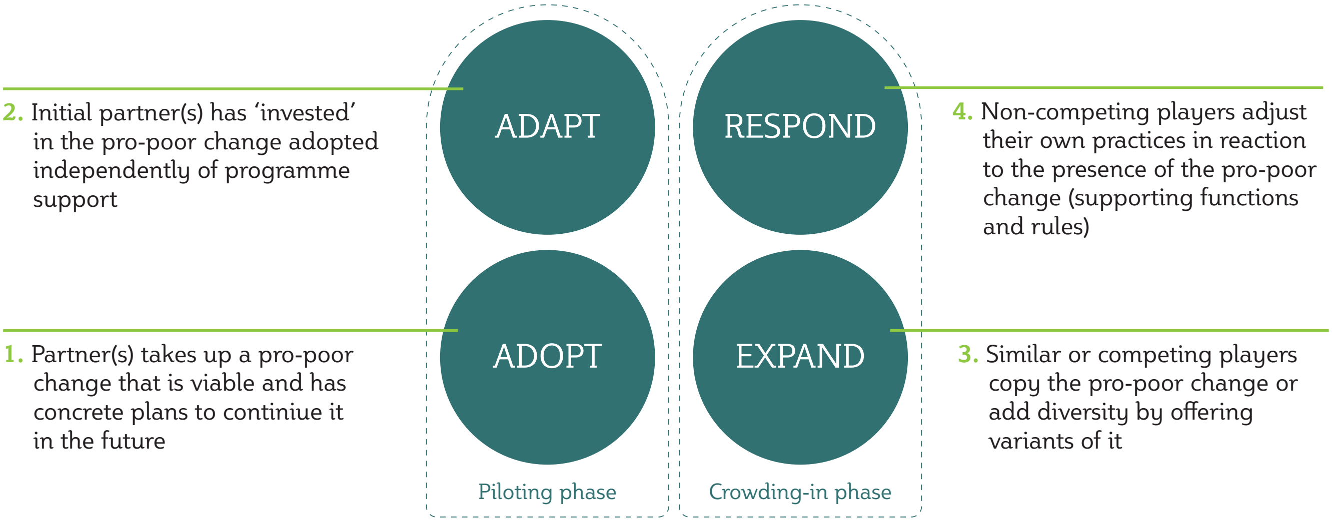
We hope that you find them engaging and informative, and that they refine and strengthen our ongoing effort to reduce poverty by making markets work for the poor.

Joe Huxley
Co-ordinator, Strategic Partnerships & Opportunities
FSD Africa

1. "The Operational Guide for the Making Markets for the Poor Approach", 2014. SDC, DFID, Springfield Centre
2. Ibid.

AAER: Systemic Change Framework

The AAER framework aims to codify the process of systemic change. It helps us to recognise market system evolution and the role of development actors, such as FSDs, within it.
To ensure coherence and the emergence of common facilitation lessons across the six mini-cases studies, the AAER Systemic Change Framework is used as the main organising structure.
However, it can only be a guide. Market system change is messy – hard to instigate, detect and attribute to specific actors. Though we attempt to use the framework as an organising the narrative, there are a number of exceptions.



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Front cover image: © FSD Kenya

1 Introduction

Many Kenyans face volatile income and consumption levels. For the median household, month-to-month income and consumption fluctuated by approximately 55% and 43% respectively.[3] The absence of means to cope with such volatility is a cause of persistent poverty.[4]

Safaricom's mobile phone-based money transfer and payments service, M-Pesa, helps to reduce income and consumption volatility.[5] By reducing transaction costs and increasing security, it has stimulated an increase in the volume, value and diversity of remittances received by its users. As a result, while shocks reduced by 7% the per capita consumption of households that don't use M-Pesa, the consumption of those households that use the service was unaffected.

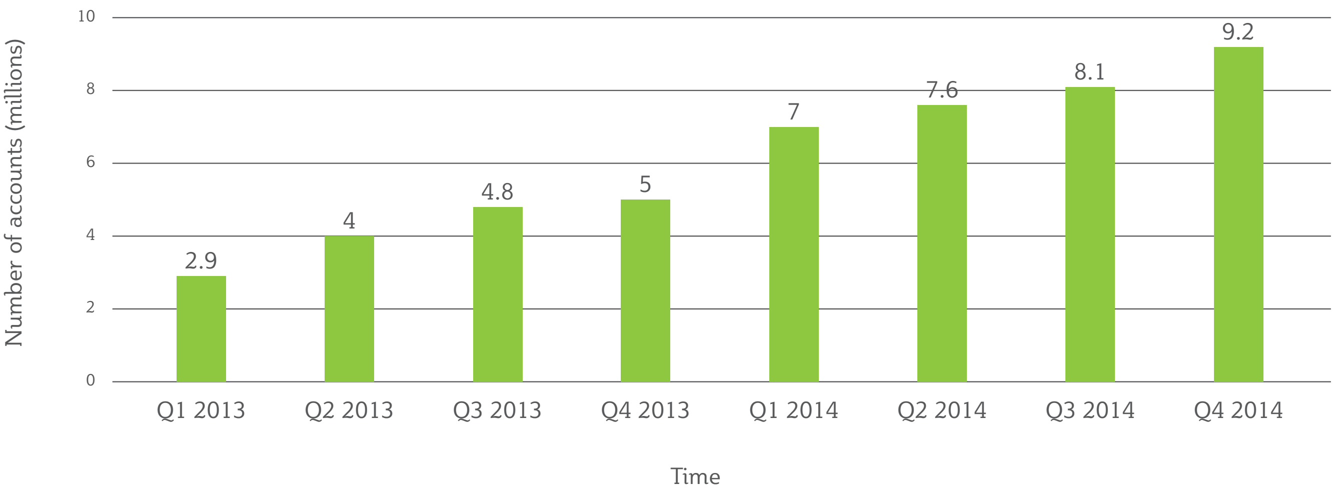
'M-Shwari aims to deepen and diversify the consumption and income benefits of M-Pesa'

M-Shwari (meaning 'calm' in Kiswahili) is a combined savings and loans product launched through a collaboration between the Commercial Bank of Africa (CBA) and Safaricom. The M-Shwari account is issued by CBA but must be linked to an M-Pesa mobile money account provided by Safaricom. The only way to deposit into, or withdraw from, M-Shwari is via the M-Pesa wallet.[6]

M-Shwari aims to deepen and diversify the consumption and income benefits of M-Pesa by providing clients with a facility to save and by offering credit beyond a user's networks of family and friends. Surveys of M-Shwari users confirm that they mainly save and borrow to manage fluctuations in their cash flow and to cope with unexpected needs.

M-Shwari was launched in January 2013. As shown in Figure 1, by the end of 2014 it boasted 9.2 million savings accounts (representing 7.2 million individual customers) and had disbursed 20.6 million in loans to 2.8 million borrowers. This impressive level of growth shows

Figure 1: Growth in M-Shwari savings accounts (in millions)



Source: CBA (2014)

3. "Kenya financial Diaries: Shilingi kwa shilingi – the financial lives of the poor", FSD Kenya (August 2014)
4. Dercon, Stefan (2006), "Vulnerability: A Micro Perspective, Queen Elizabeth House (QEH) Working Paper Series, No. 149, Oxford University.
5. Jack, William, and Tavneet Suri. 2014. "Risk Sharing and Transactions Costs: Evidence from Kenya's Mobile Money Revolution." American Economic Review, 104(1): 183-223
6. For full details on what M-Shwari is, and how it works, see Cook, Tamara and McKay, Claudia (2015), "How M-Shwari works: the story so far", CGAP Access to Finance Forum, No 10, April 2005

little sign of abating. Full-year data was not available for 2015 at the time of writing, but when interviewed on the 8th July 2015, CBA confirmed that on the preceding day 8,000 new savings accounts had been opened and 67,000 new loans had been disbursed.

Putting this in perspective, only 700,000 people in Kenya had a personal bank loan when M-Shwari was launched, and less than half this number (310,000) had loans from micro-finance institutions.[7]

At the end of 2014, M-Shwari held deposits of USD45.3 million and had USD17.7 million in outstanding loans, with a non-performing loan (NPL) rate of 2.2% (after 90 days). The most recent data for 2015[8] show deposits of USD52.2 million, outstanding loans of USD19.9 million and a NPL rate of 2%.

The poverty profile of users of M-Shwari appears to be following a similar trajectory to that of M-Pesa: early adopters are significantly more likely to be urban, above the poverty line and already banked. According to one key informant *"M-Shwari is not exclusive of the poor. Rather, it has been taken up more quickly by the less poor"*. In 2013, only 19% of M-Shwari users were below the national poverty line; this had increased to 30% by the end of 2014. It can be expected that the proportion of poorer users will grow over time, as usage amongst higher income groups approaches saturation.

The key point is that as a result of M-Shwari, millions of poor Kenyans now use savings and credit services that help them manage risks, mitigate the impact of shocks and, increasingly, invest in improving their livelihoods.

As a result of M-Shwari, millions of poor Kenyans now use savings and credit services that help them manage risks. © FSD Kenya

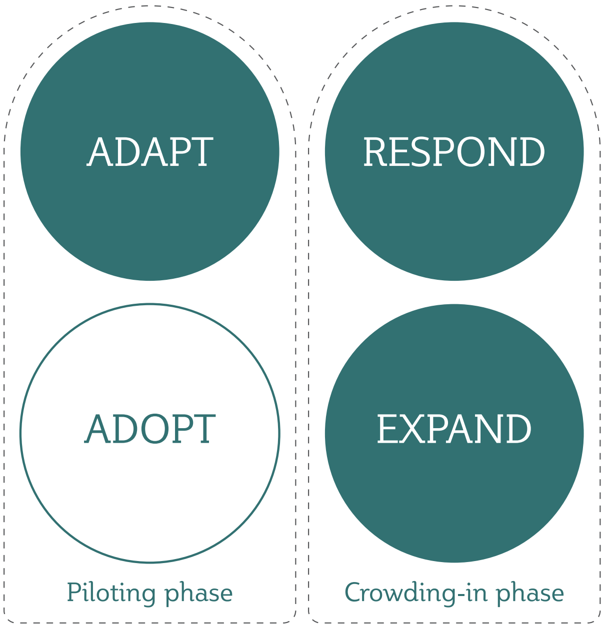
7. FinAccess 2013
8. www.safaricom.co.ke/images/Downloads/Resources_Downloads/Full_Year_2014_2015_Results_Presentation.pdf

2 M-Shwari – unpacking the extent of market system change

This section assesses the M-Shwari experience using the systemic change framework (Adopt - Adapt - Expand - Respond) described at the beginning of this document. It examines how the system has changed in response to intervention by FSD Kenya, in collaboration with its partners.

2.1 Adopt: has the initial pro-poor innovation been taken up and is it viable?

As a result of development intervention, a market player(s) has successfully *adopted* a behaviour or practice change to the ultimate benefit of the poor, has recognised the value of continuing with these changes, and has accordingly made plans to invest in upholding these changes and covering any associated recurrent costs.



Safaricom wanted to find a banking partner that could offer a savings and credit product built upon the M-Pesa system, and targeting M-Pesa users, in order to deepen and diversify M-Pesa's benefits.

Safaricom partnered with Equity Bank, attracted by its extensive branch network and retail banking expertise. M-Kesho (meaning 'tomorrow' in Kiswahili) was launched in 2010 as a mobile phone banking and savings platform that enabled Equity Bank customers to save or withdraw money and also borrow small loans from their mobile phones.

In its first six months, M-Kesho attracted more than 600,000 users, but usage levels remained low and it did not continue to scale. As the World Bank observed: *"although released to much fanfare, M-Kesho has not been widely promoted subsequently, which may reflect difficulties Equity Bank and Safaricom have had in managing the partnership."*[9]

M-Kesho had highlighted an unmet demand and demonstrated how a banking service might technically be connected to the M-Pesa platform. Safaricom therefore sought and identified a new partner: CBA. However, CBA is a Corporate focused bank with a niche Retail market, that specifically targets higher net worth individuals. The partnership with Safaricom – whilst presenting a considerable opportunity – required a mass market focus and responsiveness to poorer consumers. A view expressed privately within CBA was *"Equity Bank failed: CBA will only succeed if it effectively addresses the underlying causative factors."* To establish a viable business case and develop a product with features that responded to the needs of poor consumers it was recognised that detailed understanding of the target market was required. This led CBA to approach FSD Kenya.

An agreement was negotiated, whereby FSD Kenya supported CBA in the following areas:

- Generic research: access to FSD Kenya's existing research outputs, such as demand-side surveys of customers using mobile financial services, financial landscapes, cash-lite scoping study and FinAccess.
- Product development: applied research to test product concepts and features proposed by CBA.
- Credit risk management: developing a credit score card based on data from M-Pesa users.
- Product marketing, consumer research and customer education.

CBA spent just over one year from March 2011 to June 2012 learning the 'basics' and benefitting from FSD Kenya's generic research and thinking. The applied research and technical assistance from FSD Kenya was then delivered over an intensive period from July to December 2012 and a lighter touch support for the products first few years.

9. Demombynes, Gabriel and Thegeya, Aaron "Kenya's Mobile Revolution and the Promise of Mobile Savings", World Bank Policy Research Working Paper 5988, March 2012

The total cost of FSD Kenya's investment in the partnership was approximately USD650,000 (including apportionment of staff costs). In contrast CBA invested USD14 million (reflecting the 'first principles' approach adopted by CBA i.e. seeking to understand poor clients and then design a product that responds specifically to their needs).

As the scale of its investment indicates, CBA led the process. FSD Kenya staff and contracted advisers were 'embedded' within, and in support of, the CBA team. FSD Kenya funded research responded iteratively and swiftly to needs defined by CBA, and any methods developed were increasingly incorporated into the core functions of the CBA research team.

Once the product – M-Shwari – had been developed, FSD Kenya wanted to proceed prudently, with a pilot test targeting 100,000 clients. Conversely CBA's business case depended on reaching scale quickly. This potential tension never materialised, because – against all expectations – CBA received 1 million enquiries (in the form of a request for a SIM update to be able to use the product) on the first day of the launch. Within three months, M-Shwari had signed up 2.9 million clients, rising to 5 million by the end of the first year.

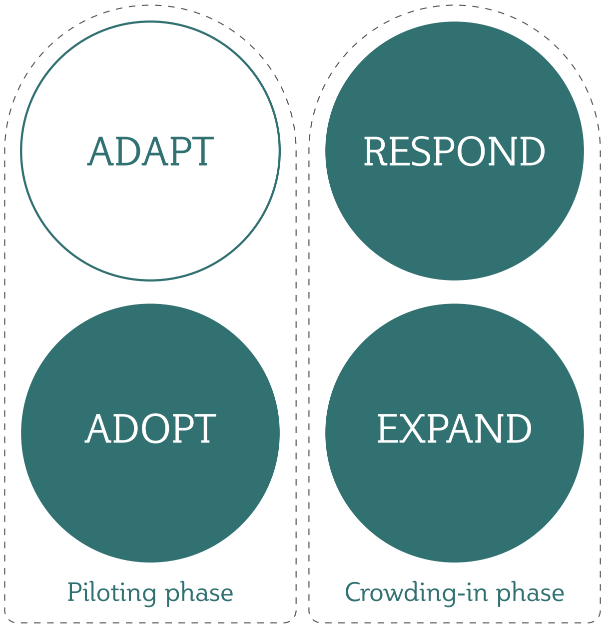
CBA projected breaking even within 22 months of M-Shwari's launch. Unsurprisingly, given the scale of interest, CBA confirmed they broke even after 11 months, and had fully paid back their initial investment and recurrent costs within 17 months.

At the time of writing M-Shwari accounts for approximately 15% of CBA's total revenue and 19% of its net profit (earnings before interest and taxes).

2.2 Adapt – has the market partner continued the innovation without further aid-funded support?

The market player(s) that adopted the behaviour or practice changes with the support of the development intervention has made qualitative and/or quantitative investments that allow them to *continue* with or *augment changed practices*, without further programme support. These actions, independent of the programme, constitute an 'acid test' for whether pro-poor outcomes will sustain at any level.

Having launched the product, CBA sought to augment M-Shwari in two areas: updating the credit scorecard (moving from predictive data based on M-Pesa data, to actual observed M-Shwari client data)-and segmenting consumers to more tightly focus marketing and account management efforts.



The original scorecard was based on telecommunications data of M-Pesa users. It was therefore partial and predictive in nature. Time-series observations of actual savings and credit behaviour of M-Shwari clients were needed to provide greater accuracy. CBA updated the model over the first year, seeking advice, where required, directly from the consultant provided by FSD Kenya to build the first scorecard. This new revised scorecard reduced the non-performing loan rate considerably.

The second area augmented was the segmentation of consumers, to learn more about them so that the product could be matched more closely to their needs. This work began in 2015, led by CBA, with some support from FSD Kenya.

Once a week, the project team (led by CBA staff, and supported by FSD Kenya project staff) identified a particular consumer segment. The segments identified were simple, e.g., users who tend to keep money on M-Shwari but have not opened a 'lock saving' account (a time deposit account paying an additional 1% above the basic), or users who had borrowed in the past but had been inactive in the last quarter.

A series of messages would then be written, aimed at stimulating more activity on users' accounts. The messages had a limit of 140 characters. Simple variations were developed, based on the principles of behavioural economics, such as personalisation, loss aversion and peer group comparisons. The team experimented to determine which messages were most effective in increasing uptake and usage, judged against a comparison group that received no messages at all.

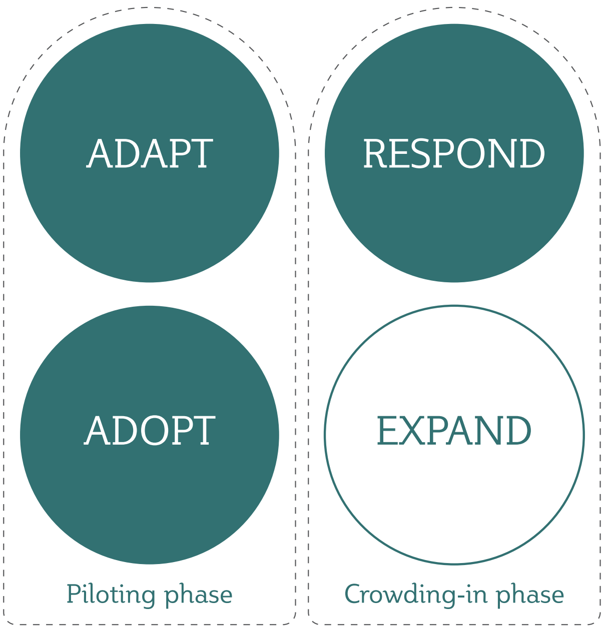
This approach, introduced by FSD Kenya, and now mainstreamed within CBA, proved insightful and effective. Across all the experiments, messages increased rates of response to targeted behaviours (such as taking a loan or making a deposit) by about 95% above the comparison group receiving no message. For example, when CBA sent messages targeting inactive customers without credit limits, it resulted in new deposits up to three times higher than in the comparison group. Response rates varied widely depending on the specific consumer segments and behaviours that were targeted. For instance, inactive account holders were less responsive to messages; short term but inactive borrowers with good repayment history were more responsive to messages.

The evidence suggests that the following are important elements of effective messages:

- Providing clear instructions
- Inducing loss aversion (e.g. "don't miss this opportunity!")
- Personalising messages (i.e. using customer names)
- Placing key information at the beginning of the message

2.3 Expand – has the innovation spread across the system?

A number of market players similar to those that pioneered the pro-poor behaviour or practice changes have adopted comparable changes – either pure *copies or variants on the original innovation* – that are upheld without programme support.



CBA pushing out the access frontier to poorer clients

CBA worked hard to stimulate greater awareness, understanding and usage from 'accepted' users of M-Shwari. However, the acceptance rate for new credit applicants peaked at around 40%. This meant that CBA was learning nothing about the 60% of rejected applicants. FSD Kenya was concerned that more applicants were being rejected than accepted, and that these were likely to be from poorer groups.

CBA decided to investigate this further, with support from FSD Kenya, with the objective of pushing out the 'access frontier' to new loan applicants from poorer backgrounds. This was called project TOBOA.

Over a six-month period from December 2013 to May 2014, TOBOA targeted loans to around 100,000 people from the rejected majority. CBA agreed to take the first 4% of losses (this rate being the prevailing NPL rate in its main portfolio). FSD Kenya provided a guarantee fund against any further losses, to a maximum of KSh30 million (circa USD 342,000[10]).

The target group was segmented and investigated, using a variety of research methods (focus groups, telephone interviews, etc). The results of TOBOA were considerable:

- Only 5% of loans defaulted, much lower than FSD Kenya had expected, calling on only KSh0.5 million (circa USD 5,700) from FSD Kenya's guarantee fund.
- People targeted were considered twice as risky as other M-Shwari users, and were much poorer against various criteria. On average, existing M-Shwari users transacted USD10 per month on M-Pesa; the new users approved following TOBOA only transacted an average of USD1 per month.
- The learning about poorer groups generated under TOBOA fed into a further revised scorecard for the whole population, which multiplied the number of variables being used. Using this scorecard halved the NPL rate halved to 2%, increased acceptance rates from 40% to 47%, and saw the total proportion of M-Shwari clients with an assigned credit limit at any one time rise from 42% to 57%.
- As a result of TOBOA more than 1 million discernibly poorer users accessed credit.

Competition emerges from KCB M-Pesa

CBA enjoyed a two-year exclusive deal with Safaricom. At the conclusion of this agreement, Safaricom opened a new partnership with Kenya Commercial Bank (KCB) launching KCB M-Pesa, a product directly comparable to M-Shwari but with some distinctive features and different terms and conditions.

It is beyond the scope of this mini-case to explore this

10. Converted from www.oanda.com which gives an average Ksh:USD exchange rate of 0.0114 over the period 1 December 2013, to 31 May 2014.

competitive response in detail. What is known is that in the six months after its launch, KCB M-Pesa attracted 1.4 milion users. CBA reports that there has been no detrimental impact on M-Shwari, in terms of the defection of users, dormancy rates or decline in the rate of new users signing up – in fact M-Shwari's user numbers continue to grow at a pace. As one key informant observed: *"clients have not stopped using M-Shwari; but rather some have also started using KCB M-Pesa"*. It is reasonable to assume that whilst there may be a degree of duplication and substitution outreach will continue to grow.

M-Shwari expands to other African countries
Buoyed by its success in Kenya, in 2016, CBA is taking the M-Shwari product to three other African countries within its network, and through its partners on the continent. In May 2014, CBA launched a variant of its M-Shwari product through a partnership with Vodacom in Tanzania. A host of structural reasons have meant that the product take up is not as dynamic as that witnessed in Kenya, but CBA reports an average of 1,700 new users per day, on average, over the past year.

Interestingly, CBA has directly recruited various research and technical consultants whom FSD Kenya had sourced originally to support operations in Kenya, to now support its operations in Tanzania.

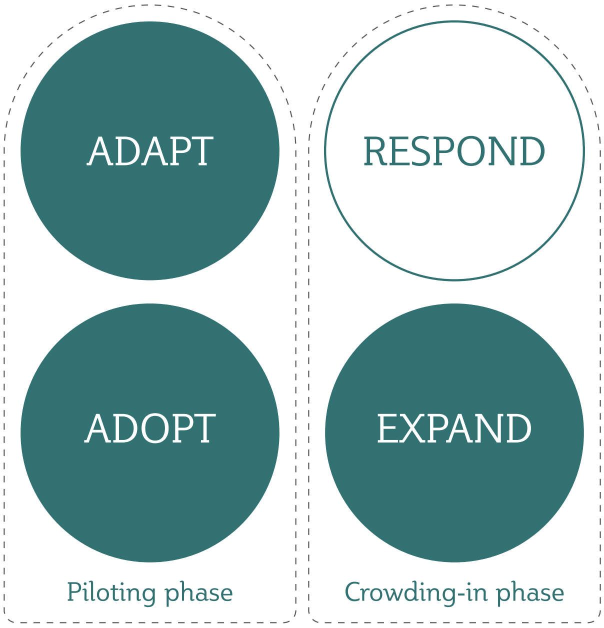
2.4 Respond – has the innovation stimulated wider changes within the system?

> The emergence and continued presence of the pro-poor changes have incited market players in supporting systems to react to the new market reality by re-organising, assuming new/improved roles, developing their own offers, or moving to take advantage of any opportunities that have been created. The response enables pro-poor behaviour/practice changes to develop further, or evolve, and indicates a new capability within the system, suggesting that it can and wants to support pro-poor solutions to emerge and grow.

M-Shwari was launched in November 2012, yet its scale means it has already changed the nature of the market, and is serving as a platform for the development of innovative new products.

The client segmentation work highlighted two categories of clients/types of client behaviour against which new specialised products have now been developed and launched:

- **Hello Doctor Kenya:** A significant proportion of M-Shwari savings and loans are used to pay for medical emergencies. In response, a mobile health service provider is now aiming to build on M-Shwari's success. Hello Doctor Kenya, part of South African financial services group MMI Holdings, has launched a service called Sema Doc that enables users to save and borrow money for medical expenses via their mobile phones. This subscription-based service offers a range of benefits, such as a telephone diagnostic service, SMS prescriptions and a cash lump sum if admitted to hospital. Hello Doctor intends to reach 200,000 subscribers by the end of 2015, the majority of which are expected to reside outside the capital city, where access to health centres and doctors is more limited.



- **Lock Savings:** A number of M-Shwari users had expressed an interest saving for a particular longer term goal or for a business related expense. The Lock Savings product pays an additional 1% in interest for those users leaving their deposits in a term account (minimum one month; up to a maximum of six months). Users are permitted to withdraw their funds before the term is due, but they forfeit the additional interest payment. Launched in June 2014, the product attracted more than 103,000 clients by December 2014. Given the limited evidence to date of M-Shwari's users building large savings, it will be interesting to see if Lock Savings can alter longer term savings behaviour. But by March 2016, the iniatial signs were posistive. Lock Savings Account balances were ten times higher than the average M-Shwari savings balances, with an average lock period of 3.8 months.

3 FSD Kenya: Strategy and approach

This section considers the extent to which FSD Kenya's strategy and approach governing the support to M-Shwari were consistent with basic M4P principles as codified in "The Operational Guide For the making markets work for the poor (M4P) approach (August 2015).

3.1 Strategy

The goal of FSD Kenya's strategy for 2011-2015 was *"to generate sustainable improvements in the livelihoods of lower income households through reduced vulnerability to shocks, increased incomes and employment"*. Against this goal, a series of 'impact pathways' were hypothesised. The work with M-Shwari fell under the 'innovations' pathway.

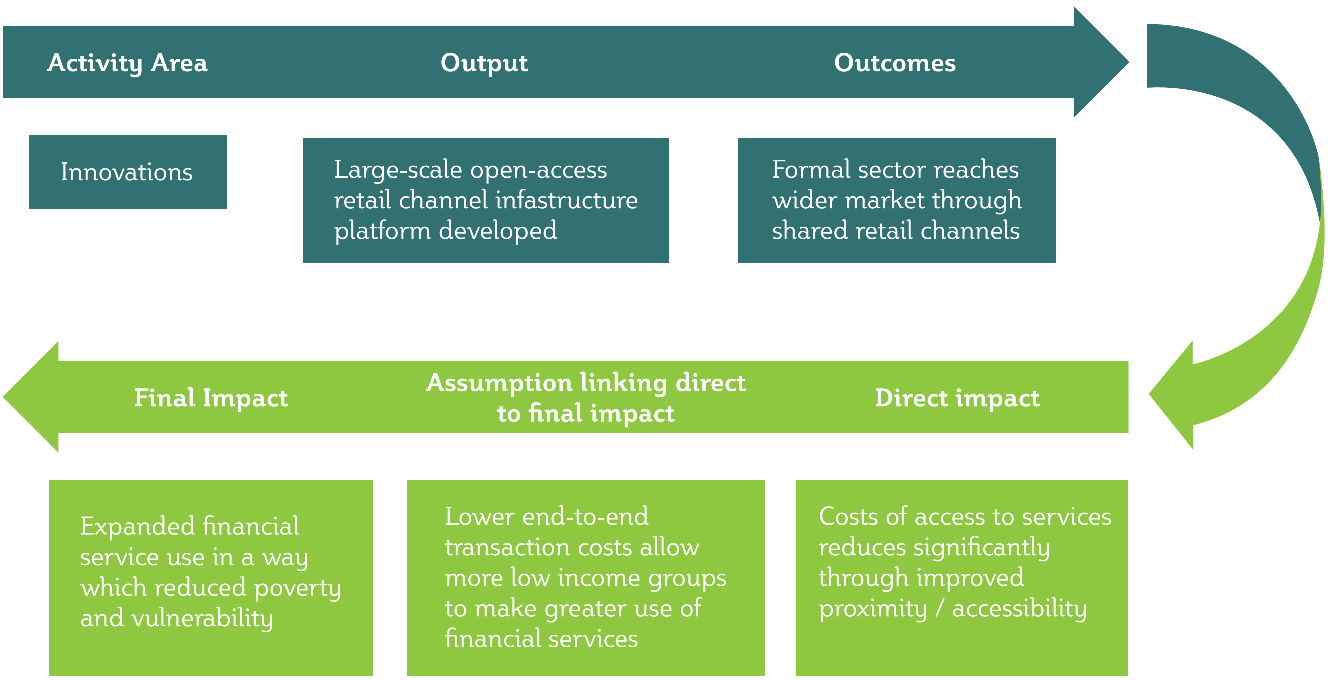
There is a clear, plausible pathway connecting support to M-Shwari with the FSD Kenya's goal. At the outset this impact pathway was supported by evidence about the economic impact of M-Pesa. The 'innovation' of building the M-Shwari banking product on to the M-Pesa platform reduces transaction costs, increasing access to formal savings and credit facilities, thereby enabling poor families to cope with shocks and reduce their vulnerability.

3.2. Diagnosis

FSD Kenya's approach is one of using analysis to determine actions, in particular understanding the demand side of the financial sector – the 'poor and their money'. This focus was the entry point for engagement with CBA. CBA was conscious that it knew little of the mass retail market or how to serve it. To emphasise this point and to get CBA thinking how to design a product in response to the needs of the poor in Kenya, FSD Kenya gave Eric Muriuki, CBA's Head of New Business Ventures *"Portfolios of the Poor"*, a book that presents analysis from year-long financial diaries of poor villagers and slum dwellers in various countries, tracking penny by penny how households manage their money.

This small gesture influenced significantly the way in which CBA approached the opportunity, and how it worked in partnership with FSD Kenya to realise that opportunity. It encouraged a first principles approach to product development (i.e. seeking to understand poor clients and then design a product that responds specifically to their needs).

Figure 2: FSD Kenya's impact pathway for innovations



There were three main types of research utilised during the process:

- **Generic research:** this drew from the extensive knowledge that FSD Kenya had accumulated about the poor and their money, including FinAccess, financial diaries and cash-lite studies. Introducing CBA to this core knowledge helped orient it to demand-side considerations, setting the parameters for the M-Shwari product which was later developed.
- **Applied research for product development:** a considerable amount of applied research was used to inform product design. Focus groups and surveys were used to test and refine product concepts, and associated marketing and branding. Research was led by CBA, and supported by FSD Kenya staff embedded in CBA and also technical consultants commissioned for the purpose. The approach to research was focused and iterative. The research was regarded as proprietorial and confidential and was therefore governed by Non-Disclosure Agreements (NDAs) between CBA, FSD Kenya and its subcontractors.
- **Applied research for product improvement:** research did not stop at product launch. It was – and is – central to how CBA reflects, improves and targets the product to different consumer segments, for instance through the TOBOA project, and the subsequent user segmentation described above.

3.3 Vision

FSD Kenya's vision for M-Shwari was a product that better responded to the needs of poor consumers, than earlier offerings such as M-Kesho, which would reach greater scale and shift the digital finance frontier.

The aim of FSD Kenya's support to the CBA-Safaricom partnership was to allow sufficient time to help CBA bring the product to market, adapt it and see it established in the market. FSD Kenya expected that competitive responses would then emerge through the 'demonstration effect' of a successful innovation. Whilst there is nothing in the FSD Kenya archives to substantiate this expectation, given the nature of the product, and the central market positioning of Safaricom, it was a reasonable assumption to hold in this instance.

As discussed in the next section, working exclusively with a single market player does create a risk of conferring an unassailable 'first mover' advantage to the supported firm, distorting competition. In principle, there was no barrier to preclude FSD Kenya from working with other market players besides CBA. In practice this would have been likely to undermined working relations with CBA. So intimate was FSD Kenya's involvement with CBA, so commercially sensitive was the learning generated, that utilising this knowledge directly with a competitor would have broken the trust between FSD Kenya and CBA.

However this is not to say that FSD Kenya intended to only focus on a single 'innovation' and product development process with a single market player. The work with CBA on M-Shwari was shaped by FSD Kenya's strategy for 2011-2015, and was later refined in more detail in its *Digital Financial Inclusion: Kenya Programme Strategy 2013-2015*, developed in partnership with The Gates Foundation. This document recognised the successes and limitations of innovations like M-Pesa and M-Shwari. It proposed an expanded approach to stimulating digital financial inclusion, putting the partnership with CBA on M-Shwari within a wider innovation market development context.

From this wider market development perspective, the sheer scale and seemingly unabated continued growth

'At the end of 2014, 2.8 Million Kenyans had access to a loan through M-Shwari'

of M-Shwari and competitor products has changed the landscape of digital finance services in Kenya. Prior to M-Shwari, FinAccess data showed that only 700,000 Kenyans had access to a personal bank loan. At the end of 2014, 2.8 million Kenyans had access to a loan through M-Shwari.

As M-Shwari has grown in scale, it has pushed out formal financial access to ever poorer people. Latest figures show that an increasing proportion of M-Shwari clients are under the national poverty line in Kenya; and with 57% of M-Shwari clients now having access to a credit assignment, millions of poor Kenyans can now access formal credit as well as savings services.

Emerging competition is offering choice and driving further innovation. New products are being developed and launched which seek to target better the needs of various consumer segments. If the current features of M-Shwari help clients to manage their short term cash flow needs, and cope with short term risk and vulnerability, new products being developed aim to help people save and invest more for growth than stability.

3.4 Intervention

Much of the partnership between FSD Kenya and CBA was confidential, even within CBA itself. Eric Muriuki observed that *"M-Shwari took around eighteen months to get to market. During this period I spent around 80% of my time on product development. Yet, only our Executive Suite really knew what I was doing. Even Safaricom thought we'd dropped the idea, such was our interest in not showing our hand too soon to the market"*.

Given the exclusive partnership between CBA and Safaricom, FSD Kenya faced the dilemma of working with a commercial entity with significant first mover advantage or rejecting an influential opportunity that could help move the market. Cognizant of the risks of distortion, FSD Kenya saw the potential to shape CBA's thinking and approach, and thereby influence the wider market. Given that CBA's financial investment in the innovation dwarfed that of FSD Kenya's, it is unlikely that the competitive advantage conferred on CBA was unassailable – a judgement borne out by the emergence of competitors such as KCB M-Pesa.

It is evident that the value added by FSD Kenya was not really financial, but took the form of insights and ideas. It is likely that CBA would have launched some form of digital product whether it partnered with FSD Kenya or not. But the partnership with FSD Kenya influenced how CBA went about things, using a first principles approach to understand and respond to the needs of poor consumers. Eric Muriuki assessed FSD Kenya's distinctive offer in the following ways:

- **"FSD Kenya is immersed in this market. They are top of the curve".**
- **"FSD Kenya frames the problem, and has clear ideas on solutions".**
- **"FSD Kenya offers precise value".**
- **"This is a partnership. Both parties see a clear value in each other".**

FSD Kenya's approach to facilitation was based on temporary but close partnership. Yes, legal formalities were observed, and non-disclosure agreements signed. But these were more to meet compliance needs, than performance management needs. This was a partnership, in which mutually compatible objectives were identified, where the distinctive, value-adding roles of each party were recognised and respected – and then reflected in how the partnership was structured and managed operationally.

"The value added to CBA by FSD Kenya took the form of insights and ideas"

3.5 Measurement

From a monitoring perspective, the decision making around entering in to a partnership with CBA, and how the partnership was managed operationally, was all fairly transparent and well documented. However, such was the commercially sensitive and secretive nature of the partnership in the development phase, there was understandably a series of "firewalls" between various staff at FSD Kenya. Such a necessarily closed culture was required to progress the relationship with CBA is, arguably, contrary to the kind of more open and transparent culture of development programmes acting in the 'public interest'.

From an evaluation perspective, the FSD Kenya 2011-2015 Strategy paper affirms a need to get beyond financial inclusion and access, and further in to assessing how people actually use and benefit from access to financial services and what poverty impact this generates. FSD Kenya intends to work further on the impact of M-Shwari but to date has mainly concentrated on issues of access – who and how many.

Qualitatively however, the focus group and phone survey exercises central to the TOBOA and segmentation work have shed considerable light on the poverty profiles of "typical" clients and how clients are using and benefitting from both savings and credit services. Such learning has given FSD Kenya the confidence that the M-Shwari work is credible and contributes to their overall mission and objectives. FSD Kenya has recently released a joint publication with CGAP looking at how M-Shwari works and its history so far[11]. In addition, FSD Kenya is working with Dr. Tavneet Suri of MIT on a research study that will explore how M-Shwari is impacting household financial health and well-being[12].

11. https://www.cgap.org/sites/default/files/Forum-How-M-Shwari-Works-Apr-2015.pdf/.
12. Data collection will be completed in 2016 and the study should be published in 2017.

4 Lessons in facilitating systemic change

FSD Kenya has been instrumental in seeing M-Shwari get to market, improving its utility to existing users and pushing out the access frontier to poorer groups.

There is a strong correlation between risk and reward. The rewards here, in commercial and development terms, were substantial. The risks too were substantial. But FSD Kenya managed and mitigated these risks in the following ways:

Clarity of mutual purpose: FSD Kenya was transparent about what it wanted to achieve, shaped by its clear vision for how financial markets might evolve in Kenya. FSD Kenya's objectives, strategy and anticipated impact pathways provided a guiding framework within which the M-Shwari collaboration emerged and was managed. This clarity of purpose was effectively communicated to potential partners. As Eric Muriuki said *"FSD Kenya will walk away first if our ideas don't contribute to FSD Kenya's objectives"*. Such clarity of mutual purpose was crucial to establishing the conditions within which genuine partnership discussions with CBA could take place.

Clarity of value propositions and roles for each party: CBA had the opportunity and the resources to develop a banking product, but it had a retail banking experience tailored to a type of client significantly different to the types of clients relevant to the opportunity at hand. FSD Kenya did understand this market segment and could offer tangible value in helping CBA to bridge this knowledge gap. The simple act of giving Eric Muriuki *"Portfolios of the Poor"* achieved two partnership-shaping effects: firstly, it helped him to realise just how much CBA didn't know, but needed to; and secondly, it cemented his recognition of the value that FSD Kenya could bring to the partnership.

This understanding of each party's respective 'offer' allowed roles, responsibilities and resources to be determined and delineated, as well as mechanisms for jointly managing and directing implementation. In essence:

- FSD Kenya took the lead role in helping to understand the demand side (clients).
- CBA took the lead role in using this demand-side knowledge to build a supply-side response through product development, and the marketing and management systems to launch it.

In investing 18 months of time and manpower, and more than USD14 million, CBA placed significant reliance on and trust in FSD Kenya as a partner. FSD Kenya repaid this trust by respecting the commercial confidentiality of the product development and launch process.

"FSD Kenya has been instrumental in seeing M-Shwari get to market, pushing out the access frontier to poorer groups"

The right type of relationship and support: The facilitative way in which FSD Kenya worked with CBA was critical to the success of the partnership, particularly in terms of building CBA's understanding and ownership:

- Embedding staff within the partner: FSD Kenya staff and contractors were embedded within the CBA team and worked from CBA's offices, however they worked with and supported them; they didn't work for them or displace them.
- Joint decision making: managerially, the process was broken down into clear, short term objectives against which progress was measured, and joint decisions taken on next steps.
- Iterative and adaptive approach: analysis determined actions. CBA staff, including Eric Muriuki, would frequently participate in focus group discussions to learn directly from targeted consumers, rather than engaging remotely by reading reports.
- Flexibility of instruments: a blend of research and technical assistance was offered by FSD Kenya in getting the M-Shwari launched. However, in trying to reach poorer clients under the TOBOA project, FSD Kenya had to take a different approach. CBA were willing to partner under TOBOA, but were not prepared to take all the risks of lending to clients rejected by their scorecard. FSD Kenya offered more direct support, in the form of a guarantee to cover the residual 96% of the risk, up to a maximum exposure of KSh30 million (USD 342,000). The fact that only KSh0.5 million (USD 5,700) was actually used by CBA is testament to the quality of targeting of this rejected majority. More importantly, this small loss increased CBA's confidence to serve this segment and yielded a massive return in terms of product im-

provement and increased access by poorer clients.

- Co-investment: FSD Kenya invested USD0.65 million in to the partnership with CBA, a sum dwarfed by the USD14 million invested initially by CBA. Whilst this level of leverage is impressive, it is instructive to note how and when FSD Kenya invested. FSD Kenya committed its inputs according to the joint decision making process. As one contractor to FSD Kenya put it, *"our inputs were important and we did a lot. But through relatively small and repeat contracts"*. FSD Kenya invested to achieve influence, using its relatively small contributions to leverage a lasting change in behaviour of its market partner.

Not losing sight of the wider market development objective: Given its close partnership with CBA, it would have been easy for FSD Kenya to have lost sight on why it was doing what it was doing: to regard the partnership as an end in itself. This is not the case. FSD Kenya is using its learning and leveraging its experience through:

- **Image:** getting other stakeholders to better understand the value of FSD Kenya as a facilitator and potential partner.
- **Innovation:** using the M-Shwari platform, and lessons from its development, to support wider replication and innovation with, and beyond, CBA.
- **Impact assessment:** using the experience to better understand who is accessing (or not) the service, how they are using the service, and what benefits they are deriving. ●

M-Shwari provides clients with a facility to save and offers credit beyond a user's networks of family and friends. © FSD Kenya

FSD Africa

FSD Africa is a non-profit company, funded by the UK's Department for International Development, which promotes financial sector development across sub-Saharan Africa. FSD Africa is based in Nairobi, Kenya. It sees itself as a catalyst for change, working with partners to build financial markets that are robust, efficient and, above all, inclusive. It uses funding, research and technical expertise to identify market failures and strengthen the capacity of its partners to improve access to financial services and drive economic growth. It believes strong and responsive financial markets will be central to Africa's emerging growth story and the prosperity of its people.

FSD Africa also provides technical and operational support to a family of ten financial market development agencies or 'FSDs' across sub-Saharan Africa called the FSD Network.

FSD Network

The FSD Network is an alliance of organisations or 'FSDs' that reduce poverty through financial sector development in sub-Saharan Africa.

Today, the FSD Network:

- Comprises two regional FSDs in South Africa (est. 2002) and Kenya (est. 2013) and eight national FSDs in Ethiopia (est. 2013), Kenya (est. 2005), Moçambique (est. 2014), Nigeria (est. 2007), Rwanda (est. 2010), Tanzania (est. 2005), Uganda (est. 2014) and Zambia (est. 2013).
- Is a leading proponent of the 'making markets work for the poor' approach.
- Specialises in a number of themes from agriculture finance and savings groups to payments, SME finance and capital market development.
- Represents a collective investment of $450+ million by DFID; Bill & Melinda Gates Foundation; SIDA; DANIDA; Foreign Affairs, KfW Development Bank; the MasterCard Foundation; RNE (Netherlands); Trade and Development Canada; and the World Bank.
- Spends $55+ million per year, predominantly through grant instruments
- Employs over 150 full time members of staff and uses a wide range of consultants

FSDs do not deliver financial services to the poor directly. Instead, they deploy financial resources, expertise and insights in collaboration with a range of public and private sector actors – from central banks and commercial banks to specialist training providers, telecommunication firms and microfinance networks – to create the market conditions that deliver financial inclusion, not only during the FSD intervention, but also beyond.

FSD Africa, Nairobi, Kenya
info@fsdafrica.org
@FSDAfrica
fsdafrica.org

The Springfield Centre
global@springfieldcentre.com
@TheSpringfieldC
springfieldcentre.com

Department for International Development
enquiry@dfid.gov.uk
@DFID_UK
gov.uk