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Financing livelihoods

FinAccess conference - 8 November 2022

CENTRAL BANK OF KENYA

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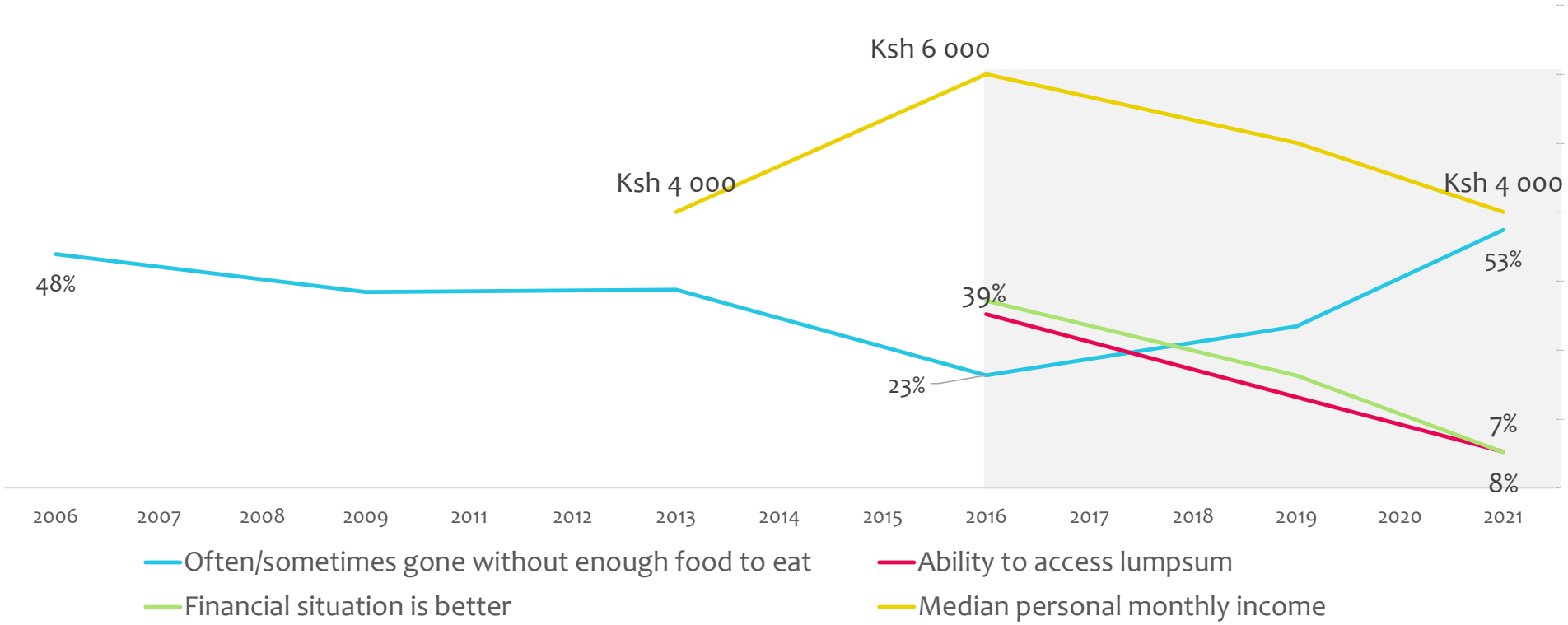
Kenya

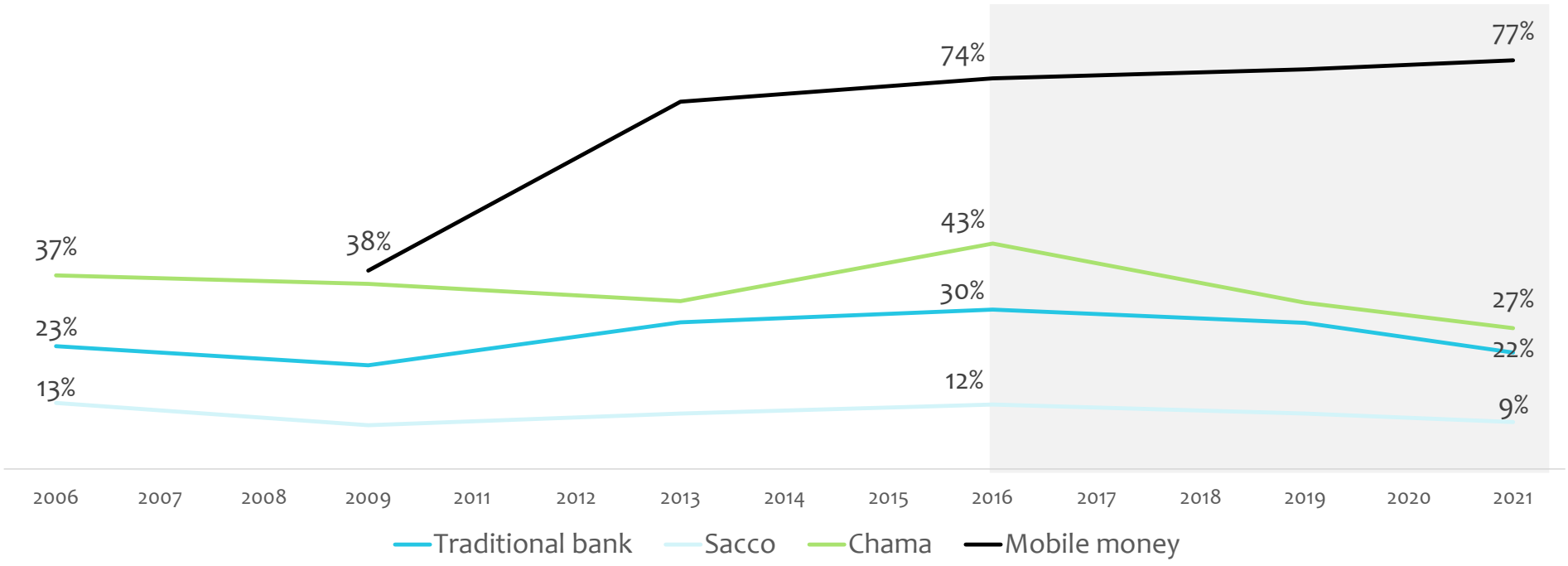
Kenya welfare and financial inclusion

Kenya welfare and financial inclusion changes since 2006

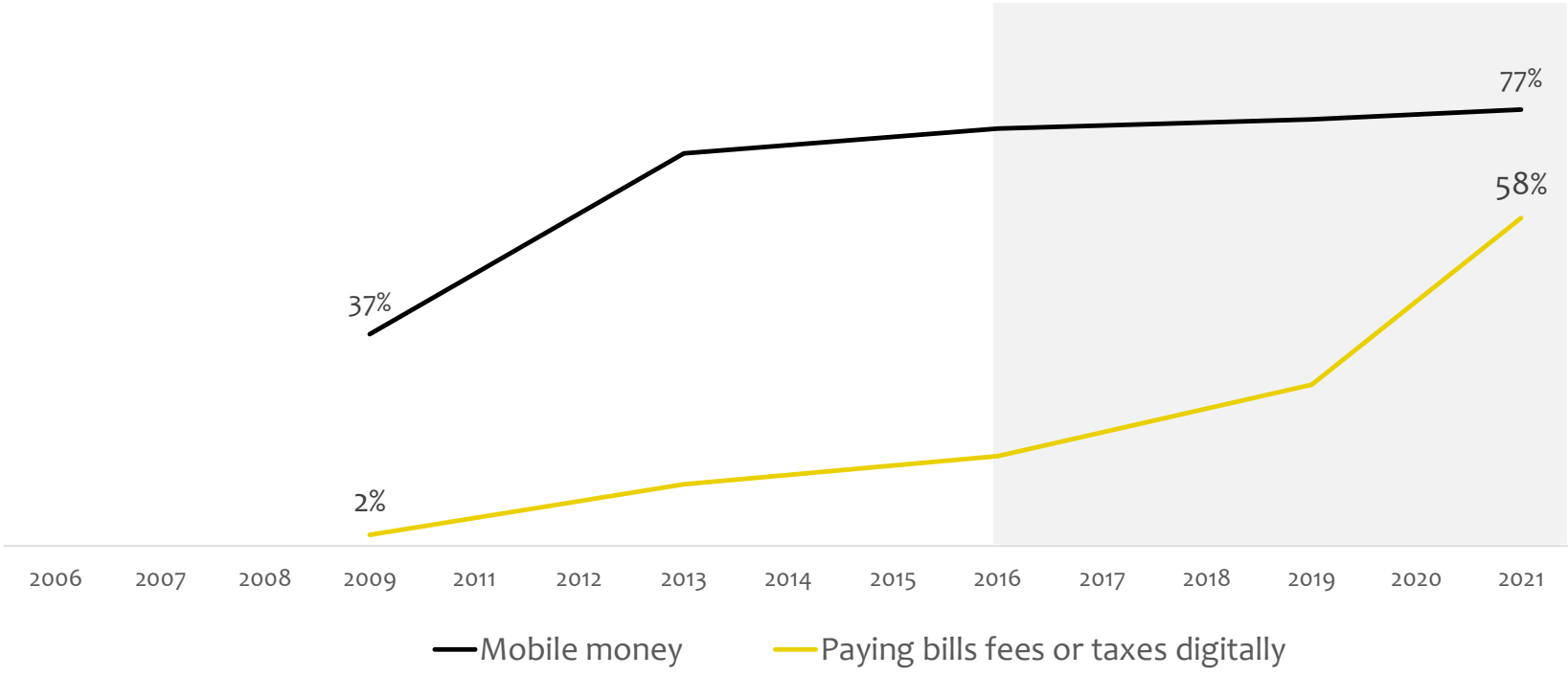
All welfare measures significantly worsened in 2021, after pre-2016 improvements



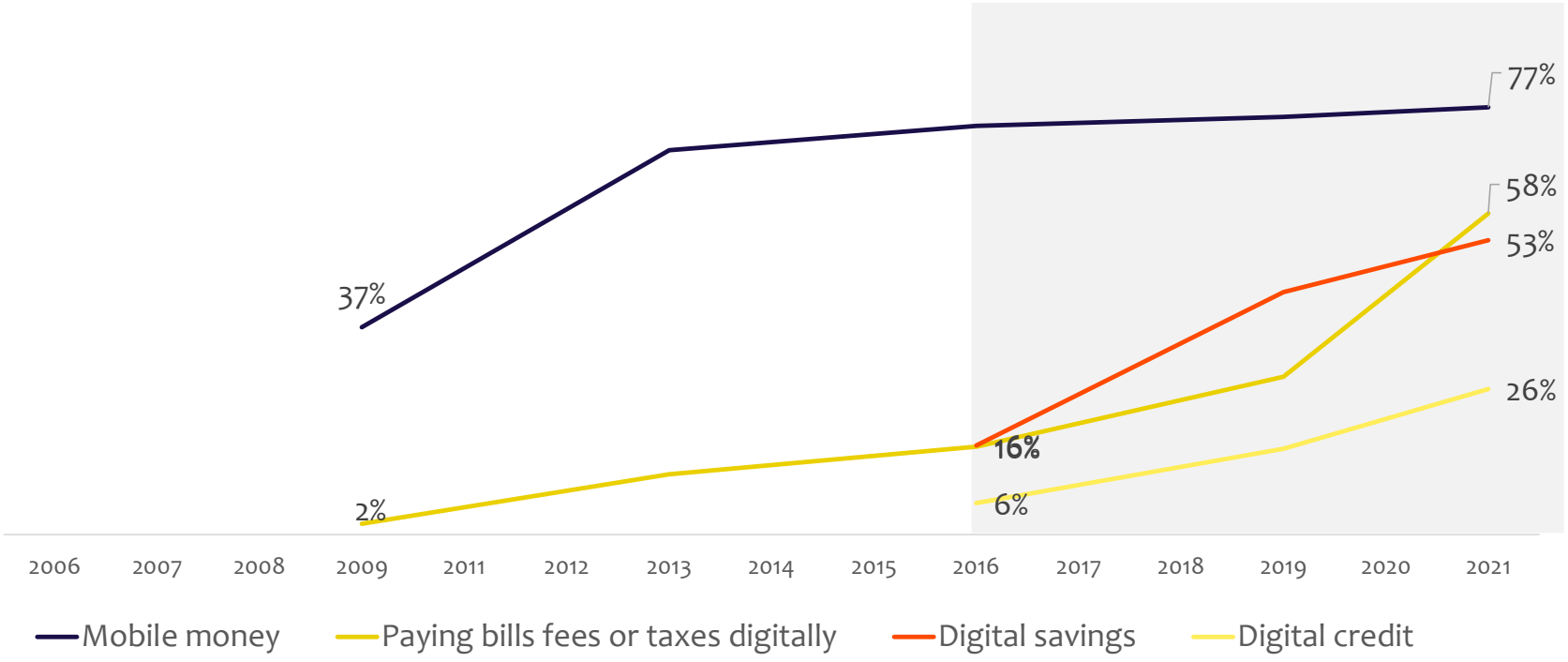
Mobile money grew throughout, but traditional finance declined after earlier gains



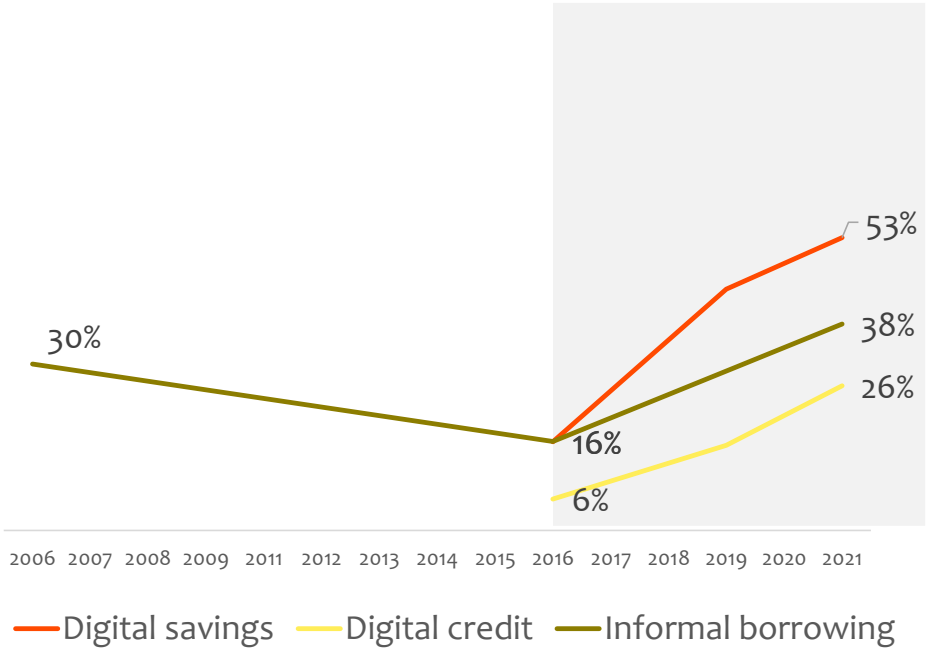
Digital payments exploded after 2019

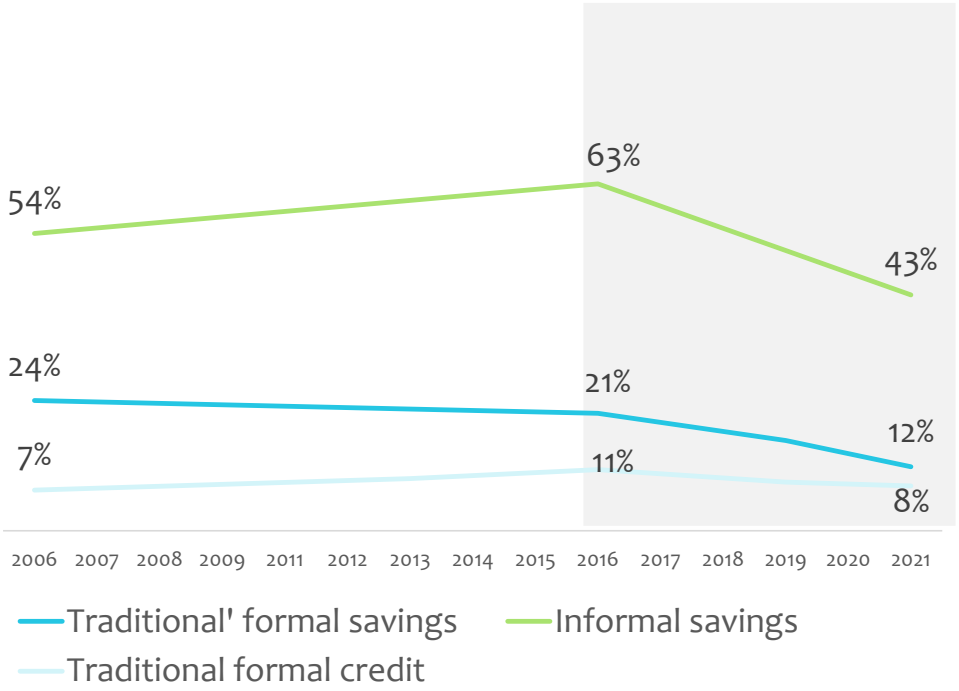


Measurement of digital savings and credit started in 2016. Uptake has been significant

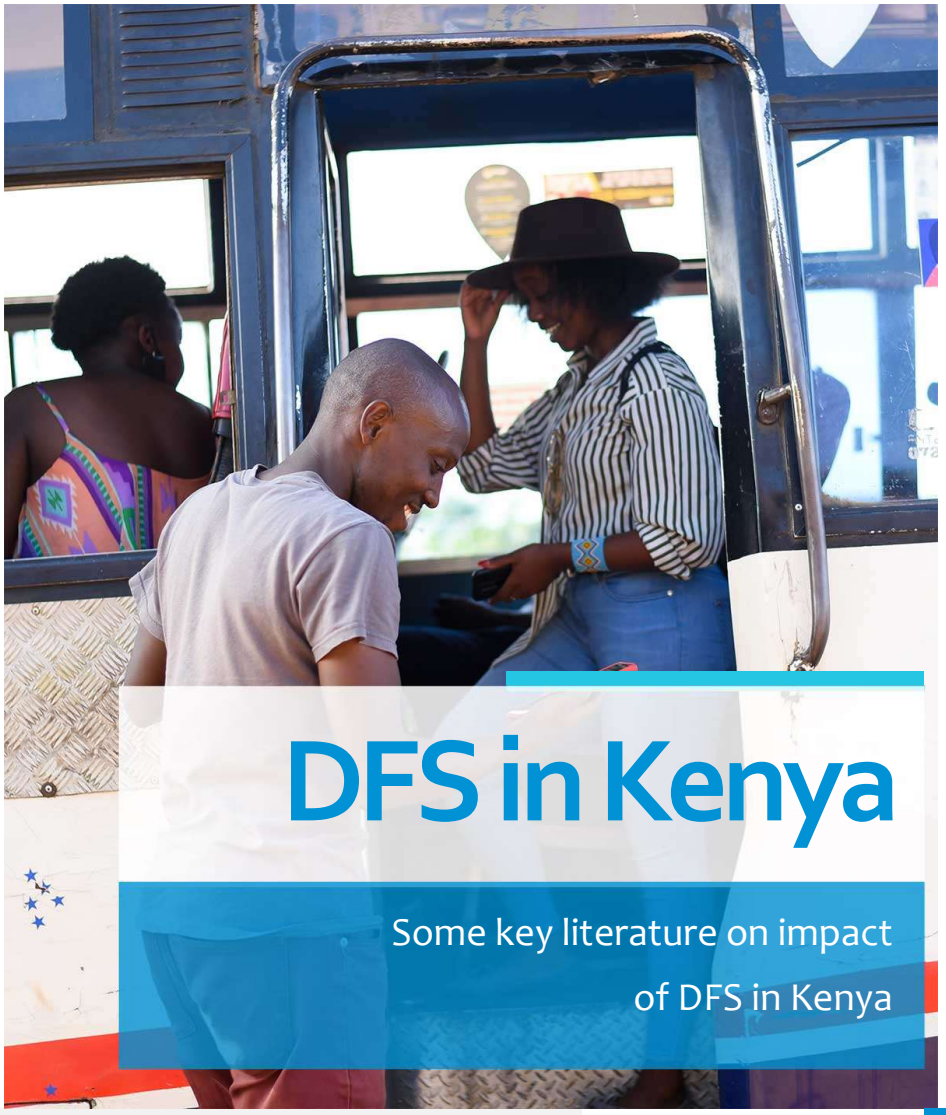


Informal and 'traditional' formal savings decreasing, and informal borrowing, digital credit and savings all increasing, in contrast to pre-2016





- Mobile money user **consumption** levels are resilient to shock (Jack and Suri, 2014)
- Female-headed households in dense agent areas grew consumption (Suri and Jack, 2016)
- Women with mobile money increased **self-employment** (Suri and Jack, 2016)
- MSMEs using mobile money are more likely to invest in **fixed assets** (Islam et al., 2016)
- Remittances received following a negative shock increased household annual **income** (Jack and Suri, 2014)
- Digital credit users who experience shocks are less likely to forego expenses (Suri et al., 2021)



DFS in Kenya

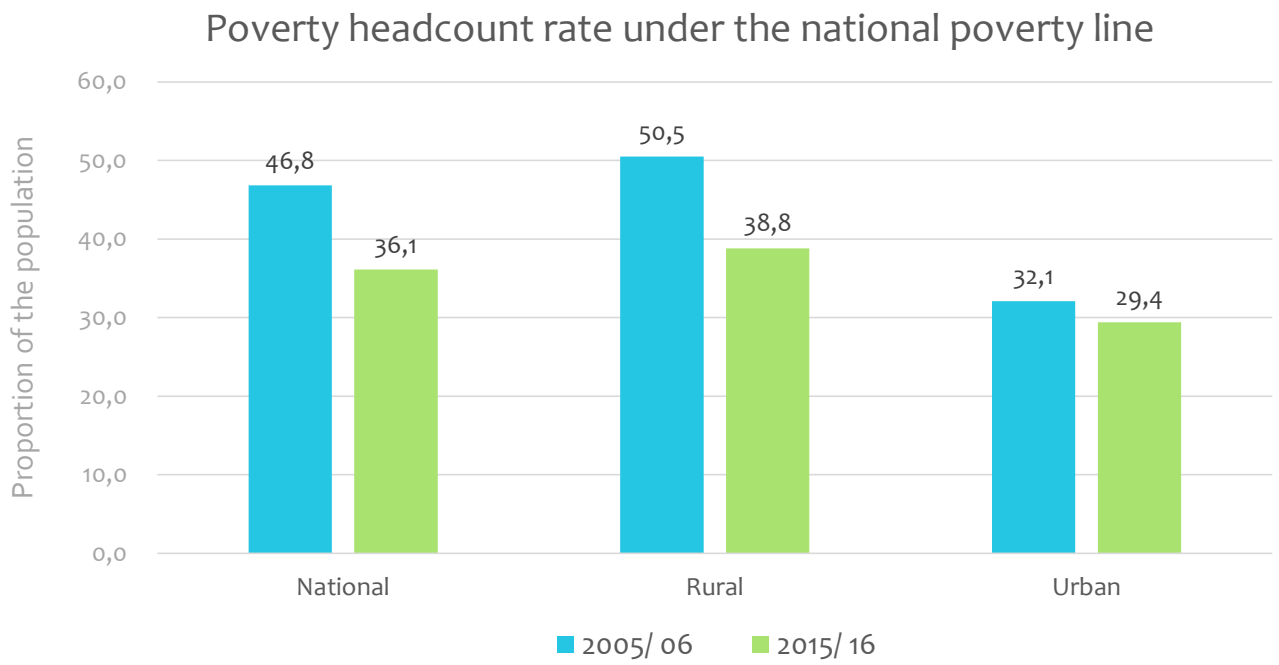
Some key literature on impact of DFS in Kenya

Significant relationships with key welfare indicators, 2016-2021

	Food poverty	Raise a lump sum	Financial situation improved
Demographics	• Lower education level • Rural	• Higher education levels • Woman • Income (tiny)	• Higher education level
Financial uptake	• Mobile money • Digital savings • Digital credit	• Bank (strong) • Chama • Digital savings • Digital credit	• Digital savings • Digital credit

Socioeconomic context

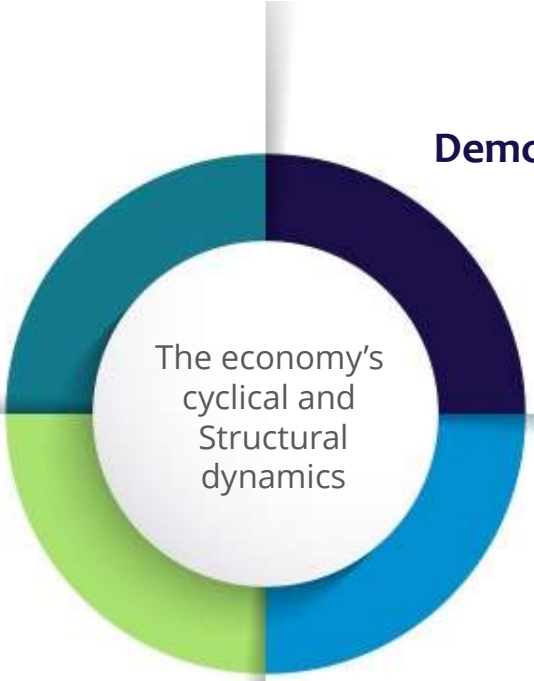
2006-2016 poverty reductions were driven by rural Kenyans



There are 4 key economic pillars driving declines in jobs and well-being

Sectoral and structural composition of GDP

Demographic (youth bulge) and skills mismatch



Market access, local consumption and exports

Government coordination

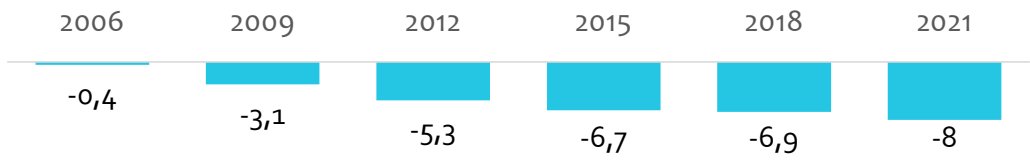
amidst devolution, non-productive unsustainable fiscal policy and interest rate cap

Government policies and coordination

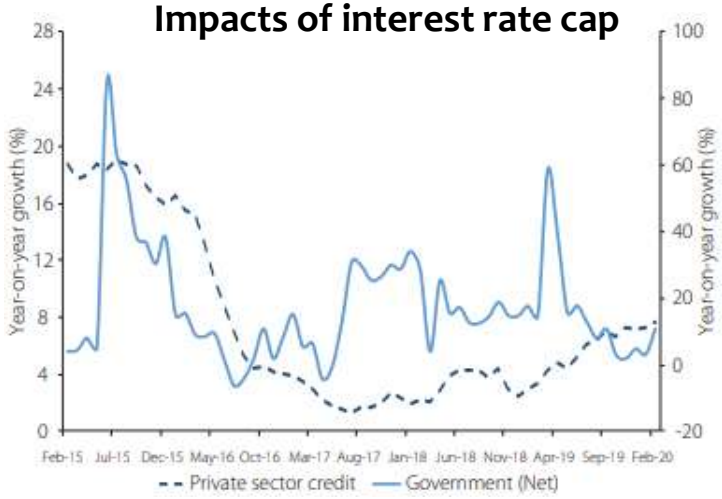
Devolution issues and coordination gap to resolve:

- Expensive diversity of roles and structures across national and county government
- Insufficient allocations and delayed disbursements
- Gaps in capacity to implement policy, especially in nascent county government institutions

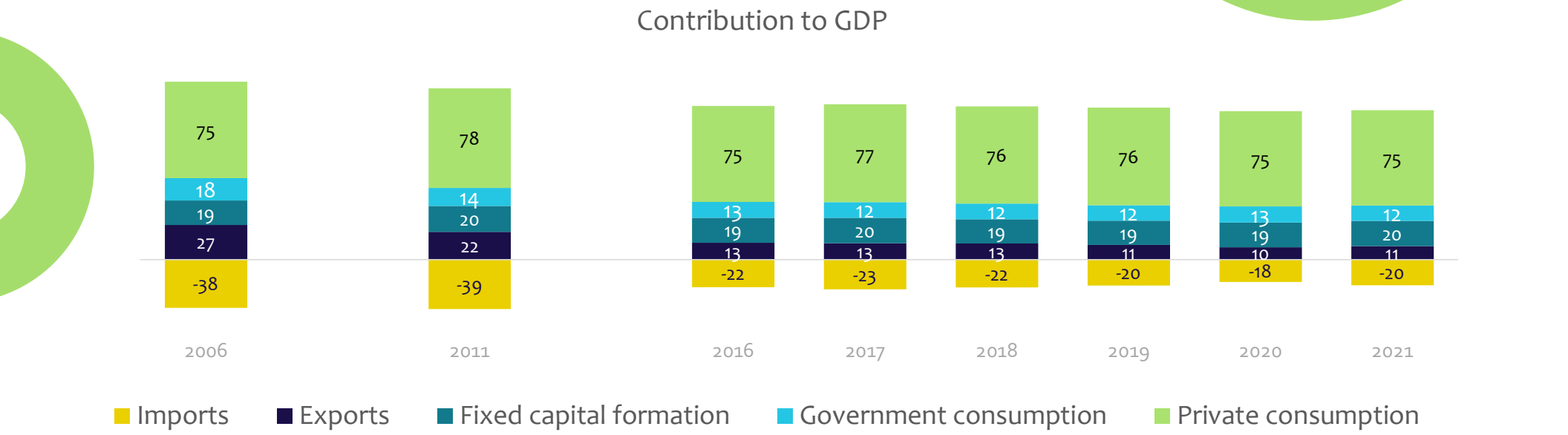
Fiscal deficit as % of GDP



Impacts of interest rate cap



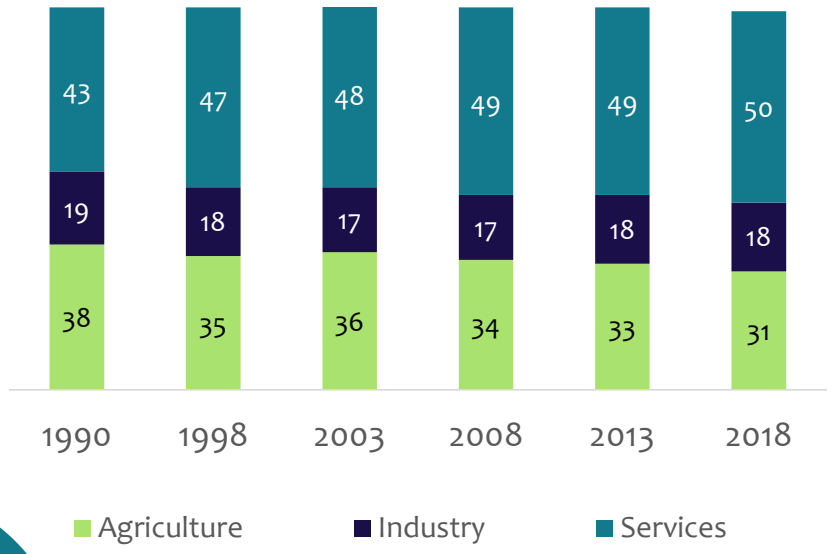
With few exports, Kenya's domestic economy has to absorb most labour



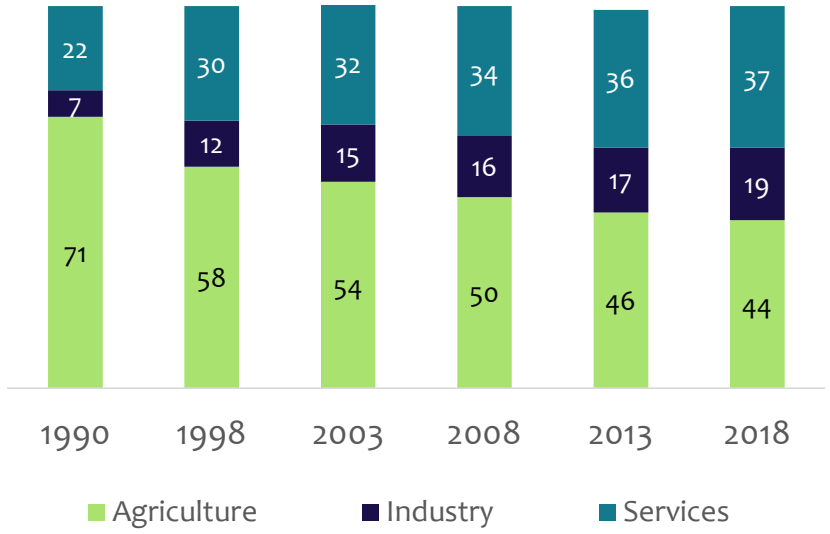
Structural composition of the economy and economic opportunity constraints:

Although a declining source of GDP, agricultural employment is still outsized – how has labour been absorbed?

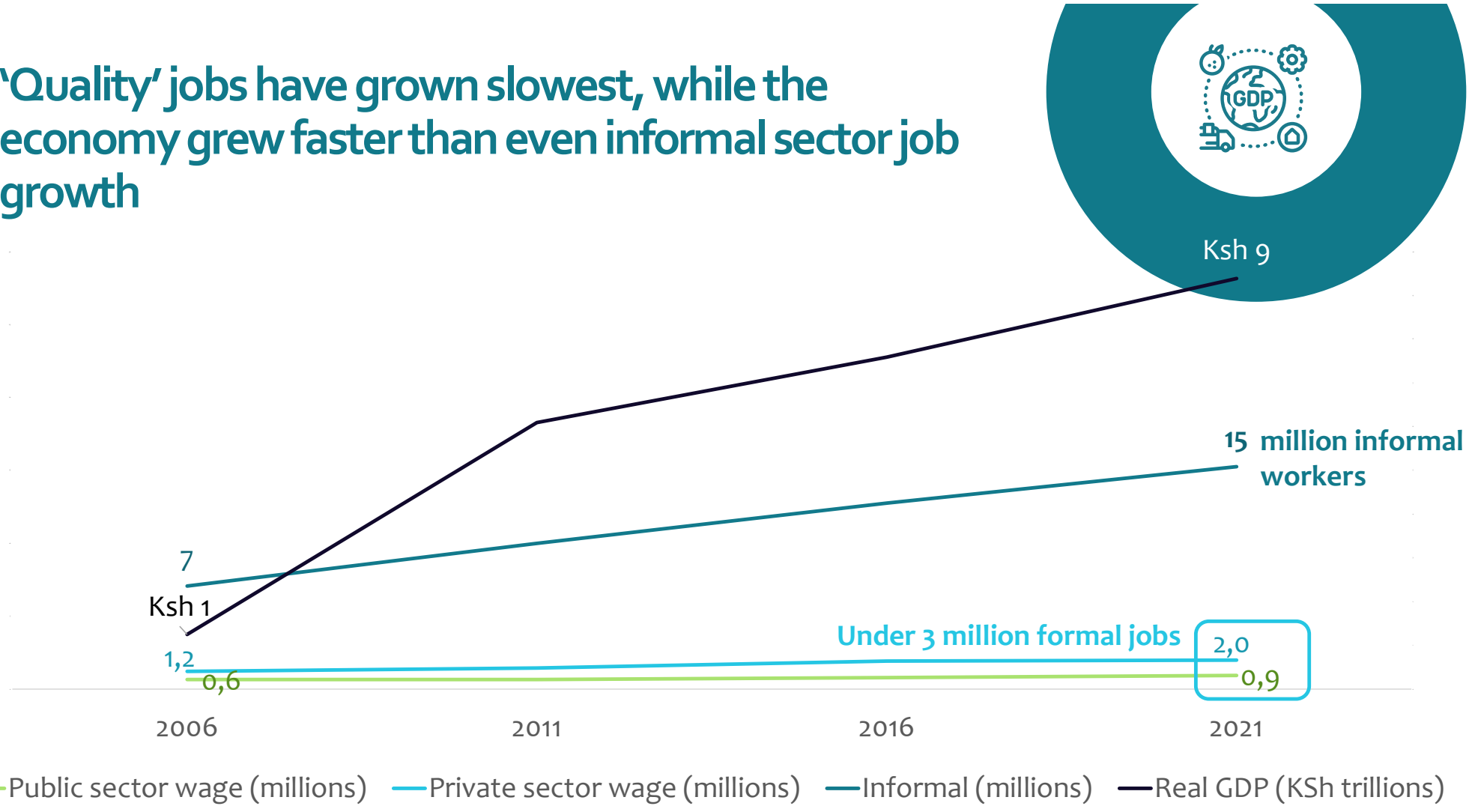
GDP by sector



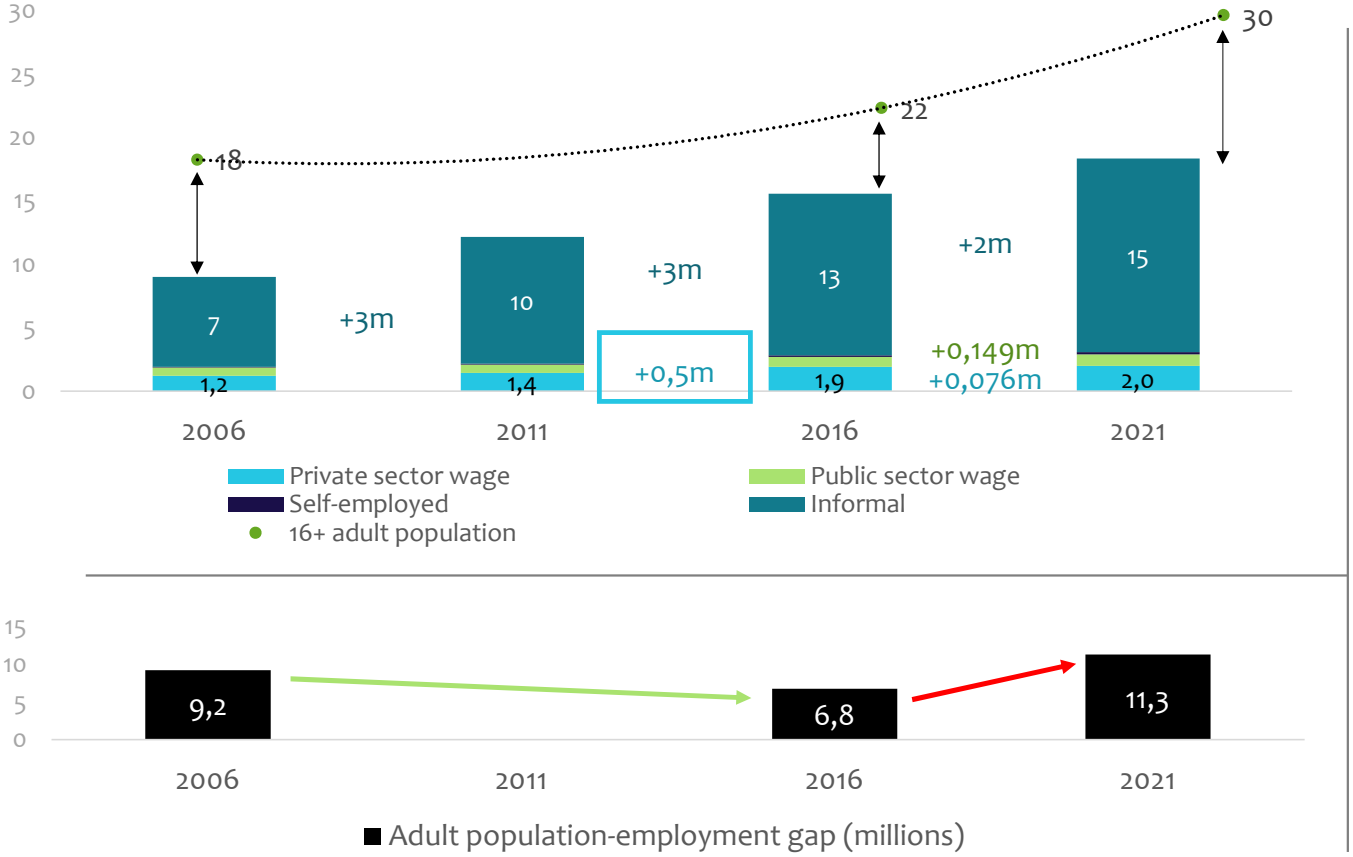
Employment shares by sector

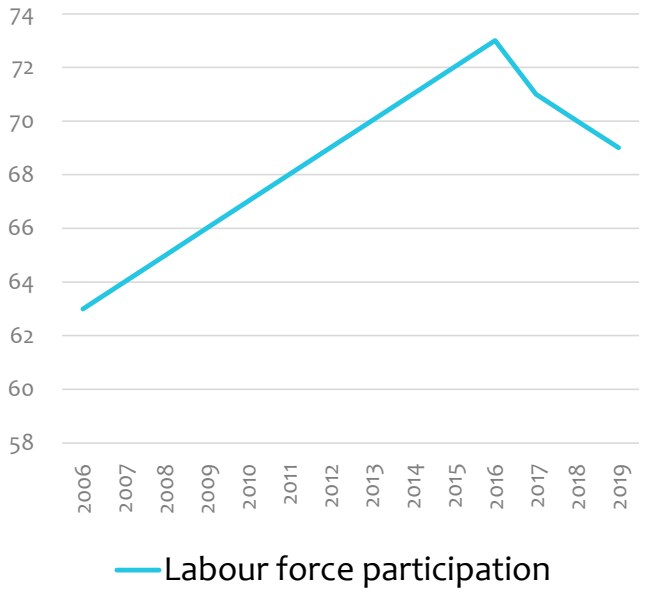


'Quality' jobs have grown slowest, while the economy grew faster than even informal sector job growth

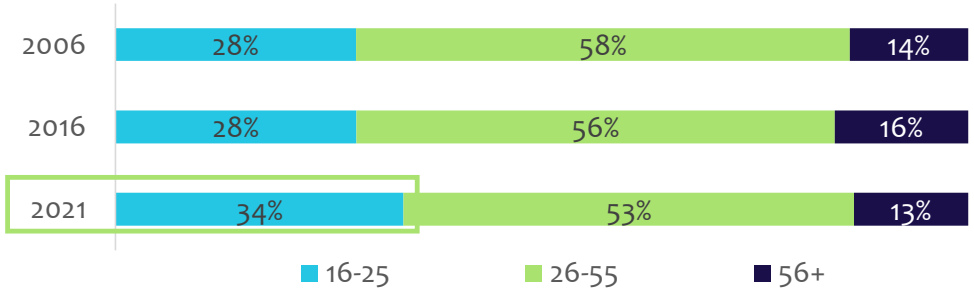


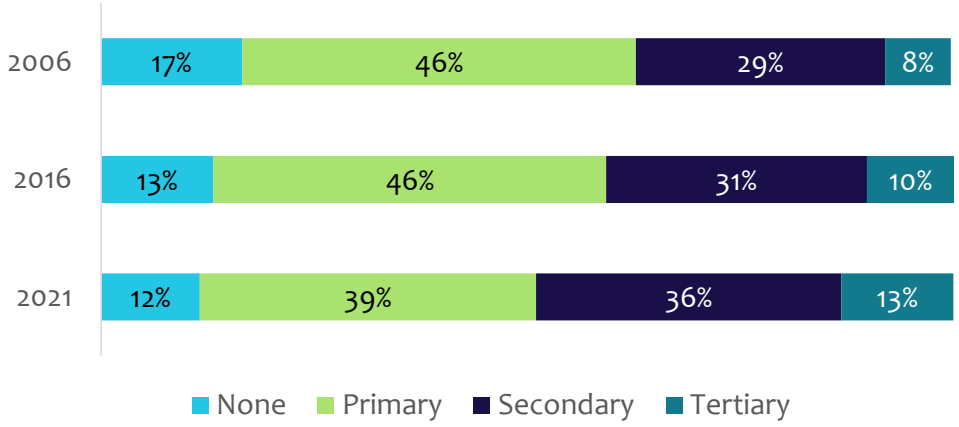
Since 2016, job growth fell behind adult population growth…



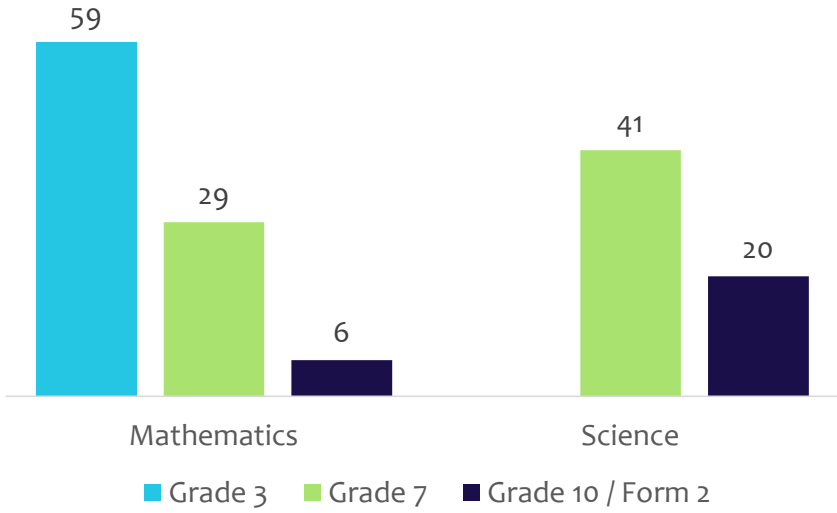


Demographic (youth bulge) and skills mismatch

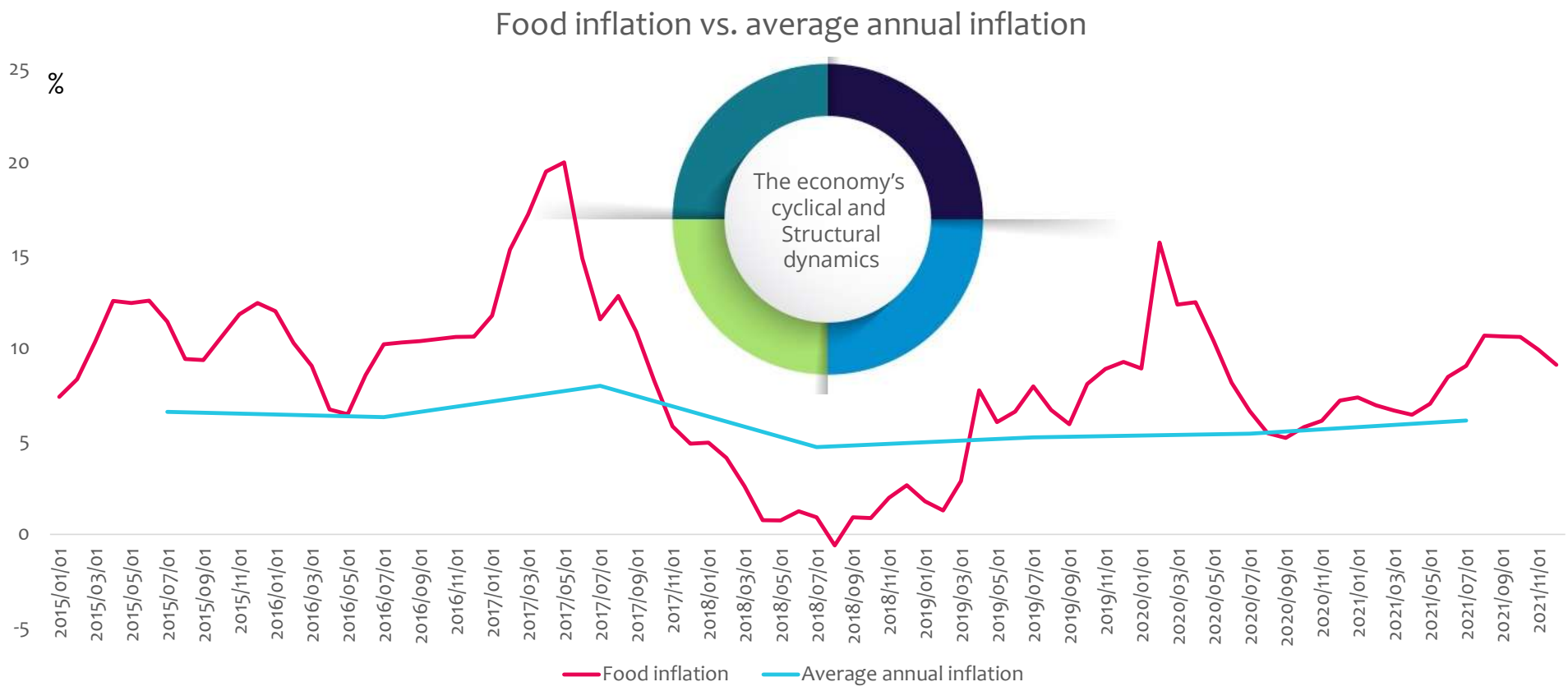




% students reaching minimum competency level, by subject and grade, 2018-19



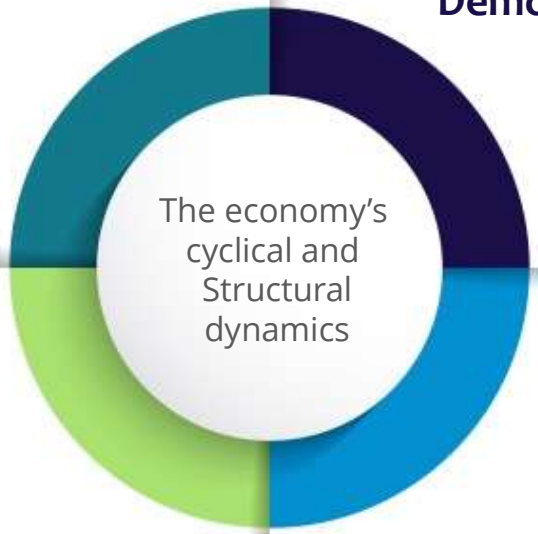
Food inflation roller-coaster signifies rural economy struggles



The economy's cyclical and structural dynamics driving declines in jobs and well-being

Sectoral and structural composition of GDP

Demographic (youth bulge) and skills mismatch



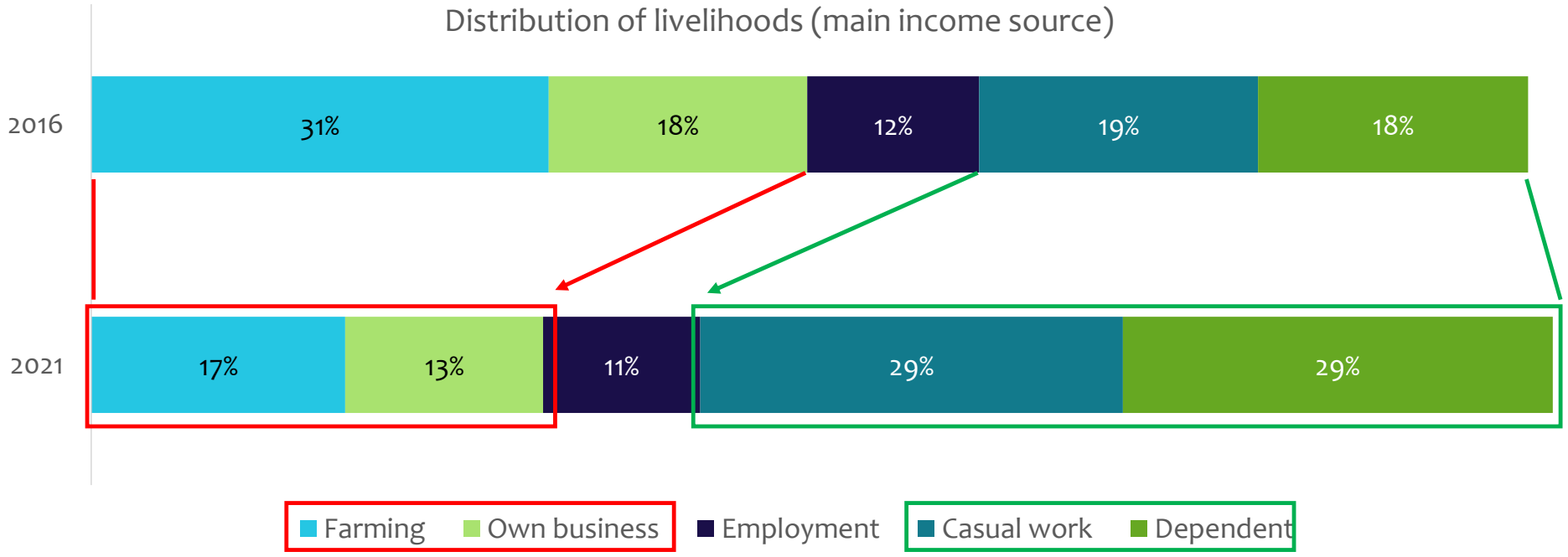
Market access, local consumption and exports

Government coordination

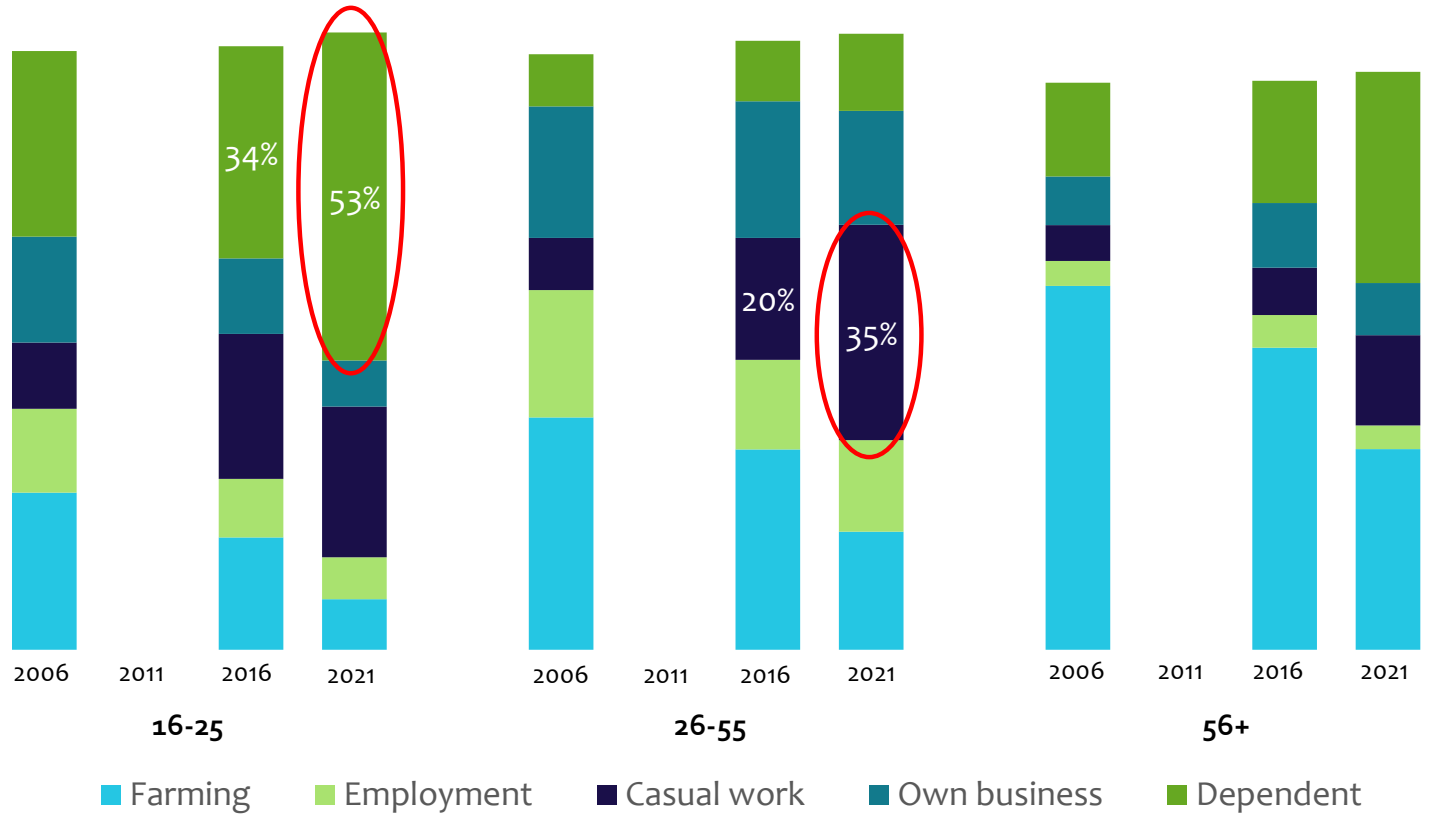
amidst devolution, non-productive unsustainable fiscal policy and interest rate cap

Shifts in livelihood

Casual work and dependent livelihoods ascendant: fewer Kenyans earn money from farming or business; average number of sources of income is down to 1,2 – from 1,5 in 2016.

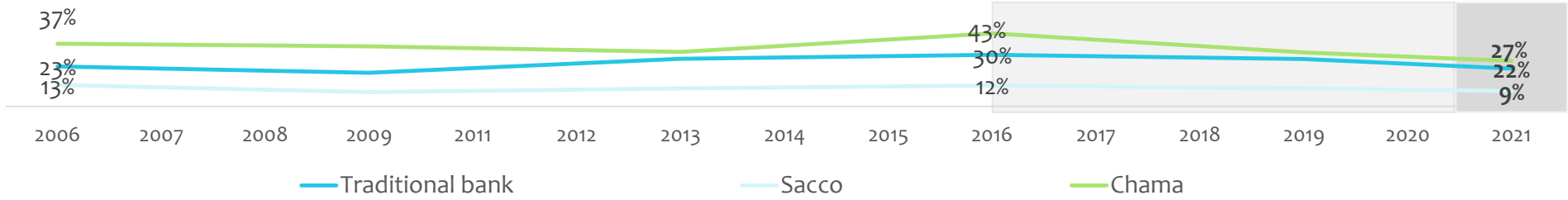


Youth are increasingly dependents and productive age are increasingly casual workers

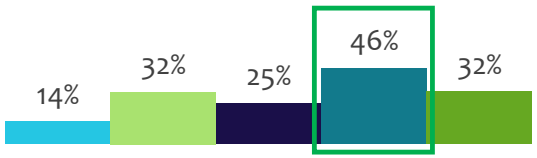


Livelihood welfare and financial uptake insights

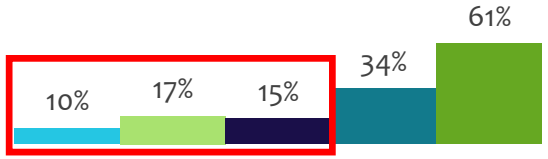
After 2016, uptake of traditional financial measures declined by about a third…



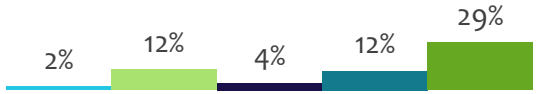
2021 % chama uptake



2021 % traditional bank uptake

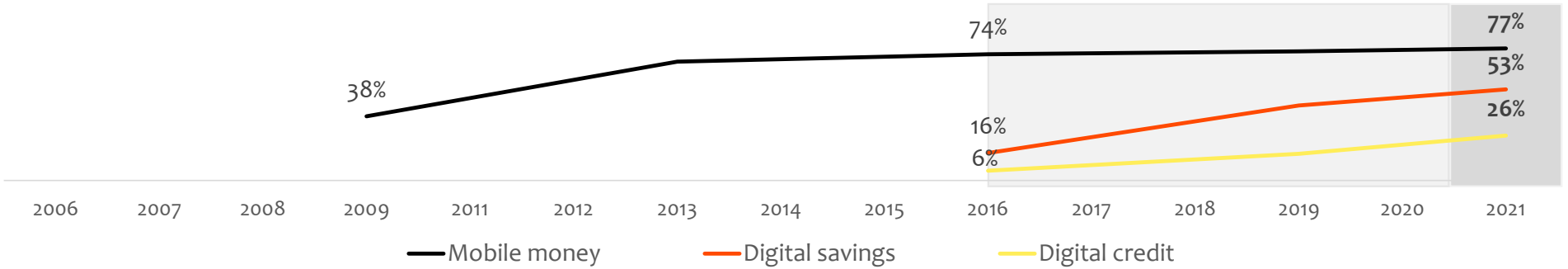


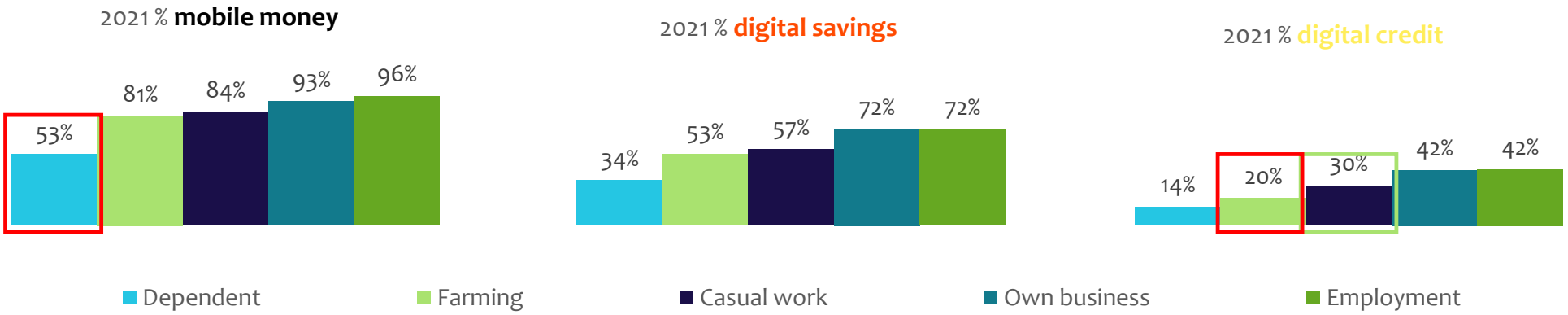
2021 % sacco uptake



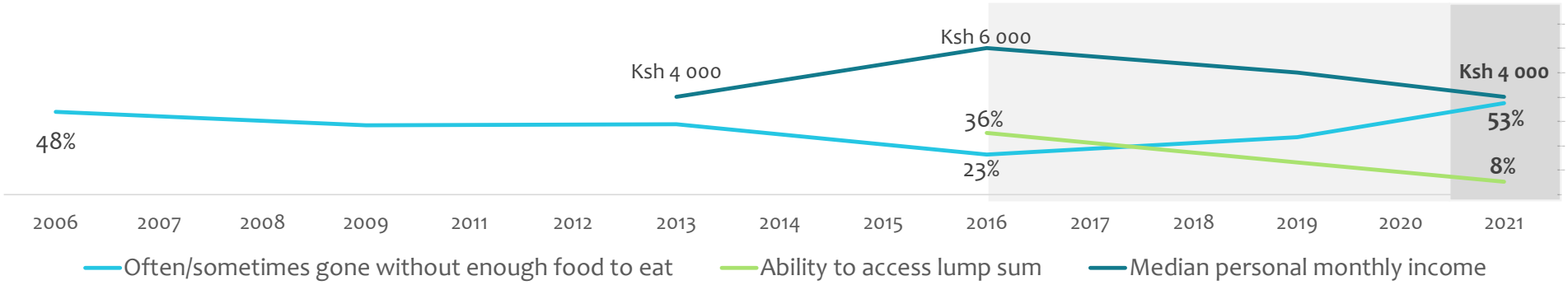
Dependent | Farming | Casual work | Own business | Employment

… while digital savings and credit exploded



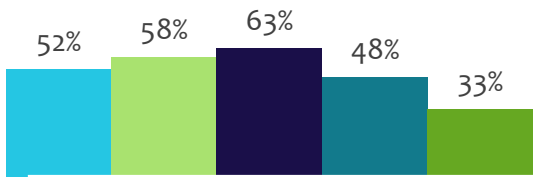


All welfare measures significantly worsened in 2021

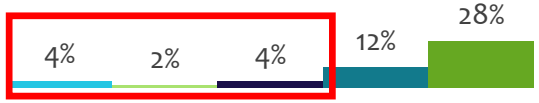


Liquidity / resilience measures

2021 % often/sometimes gone without food

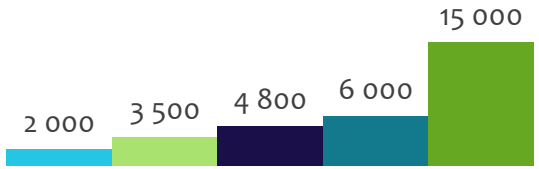


2021 % ability to access lump sum



Growth measure

2021 median personal monthly income (KSh)



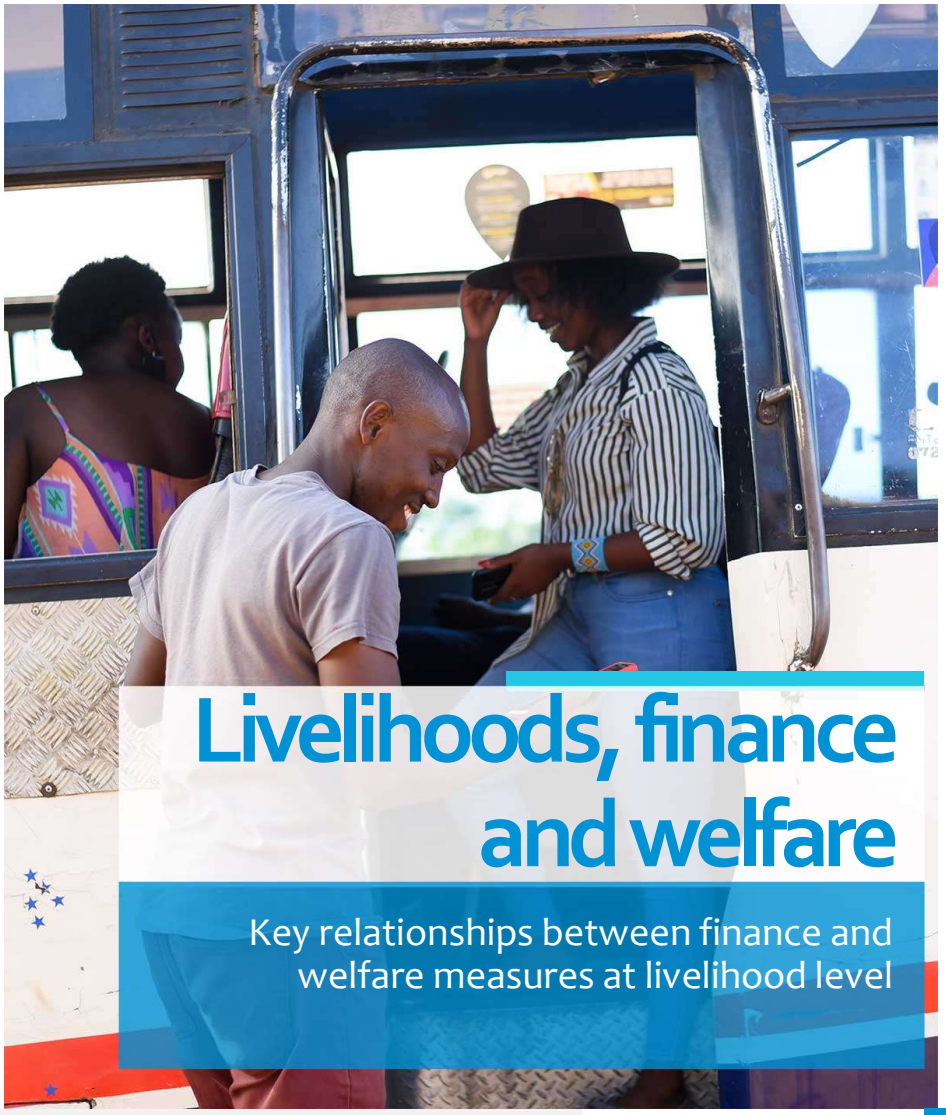
Dependent | Farming | Casual work | Own business | Employment

Savings leads to greater **food security** for all livelihoods

- Saccos and banks make the biggest difference but fewer Kenyans use them
- Digital savings and mobile money have a lower impact but many Kenyans are benefitting.

Bank uptake has the greatest **impact on income** across all livelihoods

- Chama uptake also leads to improved income, although the impact is smaller.



Livelihoods, finance and welfare

Key relationships between finance and welfare measures at livelihood level

Qualitative insights

When do financial services support accumulation and growth?

Education, social support and obligations determine the livelihood trajectory

28 - Cynthia

Cynthia's higher education, and supportive spouse set her on a path to business; and enable her to use chama's to accumulate the capital to grow

2012 — Secondary complete

2013 — Casual work ----- Baby — **Home bank Mpesa**

2014 — Salon internship & saves ----- Married — **Bank open, close**

2016 — Own salon ----- **Spouse meets day to day expenses** — **2 Chamas X3 loans+ ROSCA**

2018 — Till number Mobile lenders

2019 — Safer location, more services

Future
Raise 150K for expansion

25 - Peris

2012 — Primary drop out ----- Live-in help at 14yr

2014 — Baby at 17 ----- Married ----- **Home bank**

2015 — **Mpesa**

2016 — 2016, Baby 2 ----- **Alcoholic spouse**

2018 — Laundry Lady ----- Spouse deserts

2019 — Mobile lenders

Future
Maybe cereal shop no savings

Peris' strong financial capabilities helps her to use digital finance to maintain her obligations and educate her kids, despite her survivalist status

Mpesa + Fuliza, small + lumpsum
"I use Fuliza all the time, even now I have a 1k loan I used for my son's schoolbooks.."

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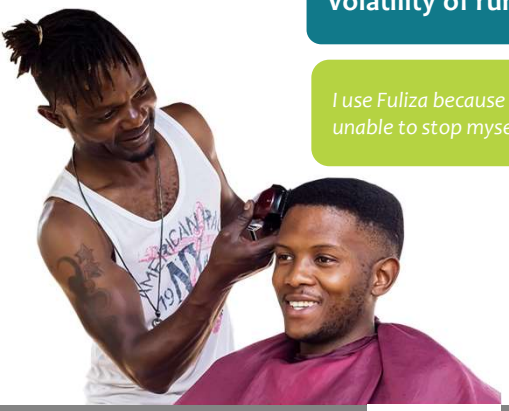
Rural male youth have high aspirations. In a constrained economy, borrowing could lead to unsustainable debt

24 - Evans



Volatility of rural business

I use Fuliza because it is very addictive. Once I pay, I am unable to stop myself from borrowing again.

Future
Expansion, generator

2010	2011	2014	2015	2016	2017	2018	2019	2021
				Secondary drop out --- construction Father's connection	Opens barber shop --- Father pays 6 month's rent			Barber shop opens, plus construction
				Mpesa using father's ID	Own mpesa Bank Mobile lender	Sacco, parents' connection	Barber shop closes	+Mpesa to bank +Mshwari savings

31 - Gideon

2010	2011	2014	2015	2016	2017	2018	2019	2021
Completes secondary, family business		Father dies --- Takes over grocery shop	Mpesa agent	Equity agent				
Mpesa	Bank A	Mpesa Till	Equity paybill Bank B (long term savings/shocks)				Loans bank, mobile lender	Indebted, sells bull

2017 maize farming, collapses

Future
Wholesale shop

But what else can explain this trend amongst rural youth?

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Public sector employees' trajectories most benefit from formal finance institutions; Chamas play similar but smaller roles through social relations

64 - Lucy

Uses banks to accumulate productive assets leveraged through institutional relationships. Formal financial sector solutions favor public sector employees.

Future
More rentals

2004
2006 — Public sector employee, rental units using bank — Bank A-salary Bank B -rent
2007 — Divorced ----- Rentals destroyed post-election violence
2008 — New rentals home ----- Builds family home
2016
2017 — Sacco, borrows struggles
2018 — Dairy + more rental ----- Retirement lump sum — Chama for social
2019 — Spouse losses job — Promoted to supervisor
2021 — 4 kids — Several chamas

43 - Regina

Prior 2004 married with a child at 16 — Chama
Formal farm employee

Unable to leverage on formal financial services despite being in formal employment.
However, through social relations, her chamas provide similar security, flexibility, and stability.

Future
Business or farming, unsure

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Summary

Kenya welfare and financial inclusion

- Up to 2016, Kenya had impressive pro-poor growth that absorbed many into the labour market
  - Led by rural Kenyans, the poverty rate significantly declined.
- This was also a time when both 'traditional' finance and mobile money uptake grew.
- Since 2016 Kenya has continued to grow…
- However, the adult population has swelled while sectoral growth drivers have been less labour-absorbing.
- Welfare and 'traditional' finance measures have declined.
- Income has shifted away from farming and business, towards dependency and casual work.

Summary

How finance supports livelihoods

- Rural Kenyans are increasingly vulnerable.
- Finance does not appear to be the straightforward route to accumulation and improved livelihoods.
- Pre-existing qualities like social connections, gender and education, open up relative capacities for Kenyans to accumulate funds.
- Once you are positioned, you can successfully accumulate finance to invest in the future – particularly using banks, saccos and chamas.
- For the other, more vulnerable earning Kenyans, digital finance provides an avenue for survival. This is particularly for Kenyans with better digital financial capabilities.

CENTRAL BANK OF KENYA

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fsd Kenya

ThankYou

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