The state of financial health in Kenya: Trends, drivers, and implications
Evidence from FinAccess

September 2022
Financial Sector Deepening Kenya (FSD Kenya) is an independent trust dedicated to the achievement of a financial system that delivers value for a green and inclusive digital economy while improving financial health and capability for women and micro and small enterprises (MSEs).

We work closely with the public sector, the financial services industry, and other partners to develop financial solutions that better address the real-world challenges that low-income households, micro and small enterprises, and underserved groups such as women and youth face.

FSD Kenya was established in 2001 to support the development of inclusive finance as a means to stimulate wealth creation and to reduce poverty. In 2005, FSD Kenya was constituted as an independent trust. We operate under the supervision of professional trustees with policy guidance from a Programme Investment Committee (PIC).

Our current funders are UK aid, the Swedish International Development Cooperation Agency (SIDA), and the Bill & Melinda Gates Foundation.
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Creating value through inclusive finance

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Financial health can be understood as the extent to which a person or family can smoothly manage their current financial obligations and have confidence in their financial future.
Introduction

Measures of financial health or well-being are increasingly being adopted to shed light on how individuals and groups are faring in their financial lives. For those new to the concept, financial health captures the financial side of individuals’ and families’ ability to thrive in society.

Financial health can be understood as the extent to which a person or family can smoothly manage their current financial obligations and have confidence in their financial future and is typically conceived as being made up of three elements: smoothly managing short-term financial obligations and consumption needs, being capable of absorbing financial shocks and staying on track to reach long-term goals, such as purchasing a home or securing retirement income. A fourth, more subjective element, is often included in the definition and involves feeling confident and in control of one’s finances.

Drawing on the predominant definitions of financial health, in 2016, FSD Kenya developed the multi-dimensional financial health index (MFHI) - an experimental measure to gauge the financial health of adults using the nationally representative FinAccess survey. The MFHI uses a set of nine indicators derived from several of the questions in FinAccess and combines those indicators into an overall index using an aggregation methodology derived from Oxford’s multi-dimensional poverty index. Using three rounds of FinAccess data, this paper documents how financial health among adults in Kenya changed between 2015 and 2021 and explores some of the plausible drivers that explain those trends. It concludes with a discussion of some of the policy areas that can help establish a more stable foundation upon which individuals and families can build financial health and become more resilient to economic, climate and health risks.

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1 As an example of the growing global interest in financial health, a working group comprised of financial health experts from the public, private, non-profit sectors was convened by the United Nations Secretary General Special Advocate for Inclusive Finance for Development (UNSGSA) to advance the focus on financial health globally among policymakers and financial service providers. For more on UNSGSA’s work on financial health see https://www.unsgsa.org/publications

2 The component indicators used to measure financial health using the multi-dimensional financial health index (MFHI) were first collected in the 2016 round of FinAccess. The MFHI is an experimental statistic developed by FSD Kenya and the Central Bank of Kenya. Kenya’s financial health index is measured through 9 indicators across 3 domains- ability to manage day to day, ability to cope with shocks and ability to invest in the future (see annex 1 for more details). More detail about the methodology is presented in the Annex.
The financial health of Kenya’s adult population has eroded rapidly since mid-2015. In 2021, less than 1 in 5 adults demonstrated an ability to jointly secure basic daily needs, cope with the costs of unexpected shocks and invest in their livelihoods and future.

Greater financial strain is evident across diverse demographic segments: men and women, urban and rural, youth and prime working age adults (Figure 1).

People’s own evaluations of their financial lives corroborates this finding, as do changes in what people view as their most important goal. In 2016, for every adult that said their financial life had worsened in the past year there was one adult that said it had improved. By 2021, this ratio was over 9 to 1. Over this period, personal goals moderately shifted from future oriented ones (such as education) towards more pressing needs (such as getting a job and putting food on the table) (Figure 2).

Financial health has declined not just among the poor but also among wealthier groups. Since 2016, the share of adults with high levels of financial health in the top wealth quintile has halved, dropping to 30 percent in 2021. Meanwhile, indications of high financial health fell steeply for the poorest 40 percent of adults with only 5 percent of those in

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3 There are slight differences in the computation of the financial health index due to changes in the questionnaire over time, with the figure for 2021 which has led to slight variations in the metric for 2021, with estimates ranging from 15 to 19 percent. Going forward, the Central Bank, Kenya National Bureau of Statistics and FSD Kenya are convening to standardise and improve the measure of financial health for Kenya. See Annex 1 for more detailed discussion.

4 Aside from perceptions of one’s financial situation in FinAccess, perceptions of the performance of Kenya’s economy more broadly from the nationally representative Afrobarometer survey provide additional support for the finding of declining Financial Health. In a question about the general direction of the country, the percentage of adults saying the country has been going in the wrong direction increased from 47 percent in 2016 to 74 percent in 2021.

5 Using an asset index, the FinAccess sample is divided into 5 wealth segments which signifies their material living standards. The FinAccess wealth index is computed using principal components drawing on the quality of housing construction and facilities and ownership of assets.
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these bottom wealth quintiles now classified as financially healthy (Figure 3). The share of adults in the top wealth quintile struggling financially rose more sharply during the COVID-19 pandemic period than for the poorest 40 percent of adults, potential evidence of the effect of supply chain disruptions, reduced demand for services from social isolation and layoffs that affected business owners and employees who are over-represented in the top wealth quintile.

Figure 3:
Financial health has declined for higher and lower wealth adults
Adults by the level of their financial health (% 18+): High (healthy) / Low (Struggling)

Source: Author’s calculations from FinAccess surveys. Notes: Financial health status is based on the Multi-dimensional financial health score as follows: High: >= 0.6 / Mid-range 0.3 - 0.6 / Low < 0.3.
Why has financial health declined? The following section draws on FinAccess microdata and other economic indicators to draw out some of the likely drivers of these trends. Analysis of these data sources suggests that inflation, demographics, stagnant incomes, and a deficit of good employment opportunities - exacerbated by the COVID-19 recession, are some of the main factors driving a broad-based decline in financial health.

1. **Inflation**: Over 1 in 2 adults experienced a cost-of-living shock during 2021 and of all shocks experienced, cost of living was cited most frequently as having the largest impact on household finances (Figure 4). Adults say they have adjusted to price shocks mostly by cutting back on expenses or getting help from friends and family, and to a lesser extent looking for new work.

![Figure 4: Adults are facing greater challenges making ends meet...](image)

... rising prices are a big factor; cost of living was most common shock reported by adults in 2021...

<table>
<thead>
<tr>
<th>Shocks faced by adults (%) 18+ in the past year 2019/2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost of living</strong></td>
</tr>
<tr>
<td>57</td>
</tr>
</tbody>
</table>

Adults deal with rising living costs primarily by cutting back on expenses or receiving transfers from friends and family. Strategies used to cope with the financial aftermath of the main shock faced in past year (% adults 18+)

<table>
<thead>
<tr>
<th>Cost of living</th>
<th>Job loss</th>
<th>Illness or accident</th>
<th>Death in family</th>
<th>Climate Shock*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost held at Bank/SACCO/MFI</td>
<td>7</td>
<td>4</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Savings held in mobile wallet</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Savings held in cash</td>
<td>9</td>
<td>9</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Borrowed from Bank/SACCO/MFI</td>
<td>16</td>
<td>17</td>
<td>4</td>
<td>17</td>
</tr>
<tr>
<td>Borrowed from mobile app</td>
<td>14</td>
<td>14</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Borrowed from social network</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Cut back on expenses</td>
<td>31</td>
<td>5</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Changed jobs</td>
<td>24</td>
<td>4</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Transfers from social network</td>
<td>19</td>
<td>19</td>
<td>20</td>
<td>14</td>
</tr>
<tr>
<td>Sold assets</td>
<td>20</td>
<td>20</td>
<td>27</td>
<td>6</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

**Source**: Author's calculations from FinAccess surveys. **Notes**: Climate shocks include natural disasters such as floods or drought, as well as diseases & pests.
Food prices increased at a compound average annual rate of 8.2 percent, and cumulatively by 74 percent, between December 2014 and December 2021 (Figure 5). The cost of food has major implications for household finances since food spending comprises over half of typical monthly household spending in Kenya, and even more for low-income households. More recently, the onset of the Russian invasion of Ukraine has caused further rises in international food and fuel prices. In May of 2022, food prices in Kenya increased by 12.4 percent compared to May of 2021, spurring protests. The cost of basic services also rose significantly between 2014 and 2021. For example, transportation costs rose by 52 percent and housing costs (including utilities) rose by 40 percent.

Indirect evidence of the effects of inflation on material and financial well-being include more common reports of food insecurity and of difficulty making money last between income payments. The share of adults in food secure households (those reporting that their household had never gone without enough food to eat in the past year), declined from 67 to 47 percent between 2019 and 2021. This drop was more pronounced among households in rural areas and the urban areas outside of Nairobi.

2. Income: Nominal personal monthly income reported by adults in FinAccess did not increase over time, even though nominal GDP per capita increased by 40 percent from KSh 12,000 to KSh 16,600 per month between 2015 and 2021.

In FinAccess, the share of adults earning at the higher end of the income spectrum (KSh 15,000 or higher) fell by 9 percentage points between the 2016 and 2021 survey rounds while the share earning in the mid to lower end of the income spectrum (earning less than KSh 10,000) increased (Figure 6). Median self-reported income fell from KSh 6,700 in 2016 to KSh 5,000 in 2019 and remained at that level through 2021. While our ability to draw precise inferences...
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about income from these data points is limited, they do suggest that personal monthly income has not kept up with the rise in consumer prices. In this context, for households to avoid a decline in material living standards (via reductions in consumption), more members of the family must either enter the labor market or initiate cash-earning activities (such as starting a business or investing in income-earning assets); or a main earner must either switch to a higher paying livelihood (perhaps involving migration) or take on “side-hustles”; or some combination of the above.

3. Opportunity: Since 2016, formal employment and business ownership, two important pathways for upward mobility, became less common and the pandemic further narrowed these avenues for income growth. The share of adults drawing at least some income from formal employment fell from 18 to 12 percent between 2016 and 2021 and the share deriving most of their income from employment fell slightly from 13 to 11 percent (Figure 7). Men bore the brunt of formal job losses (the share of men in employment declined by 30 percent between 2019 and 2021). Around 18 percent of adults relied on business earnings for most of their income in 2016 and 2019, but that share declined to 14 percent in 2021. The drop in business earnings as a source of income between 2019 and 2021 was most pronounced in Nairobi and among adults in households ranking in the top 20 percent of the distribution of material living standards.

Since 2016, adults have been moving away from farming both as a primary and secondary income source. In 2016, nearly 1 in 3 adults derived most of their income from farming, with an additional 14 percent engaging in agriculture as a secondary source of income. In 2021, fewer than 1 in 4 adults derived most of their income from farming, and only an additional 8 percent engaged in agriculture as a secondary source of income.

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Figure 6:
The Share of adults earning above KSh 10,000 per month fell from 40 to 31 percent between 2016 and 2021
Adults by personal monthly income categories (% 18+)

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<table>
<thead>
<tr>
<th>Personal monthly income (KSh, self-reported)</th>
<th>2016</th>
<th>2019</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>15,000+</td>
<td>28</td>
<td>22</td>
<td>19</td>
</tr>
<tr>
<td>10,000 - 15,000</td>
<td>12</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>5,000 - 10,000</td>
<td>23</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>2,500 - 5,000</td>
<td>15</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>&lt; 2,500</td>
<td>21</td>
<td>24</td>
<td>24</td>
</tr>
</tbody>
</table>

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Source: Kenya National Bureau of Statistics, monthly CPI publications  
Notes: Monthly income data is based on question: Including all your sources of income, how much money would you say you get on average in a MONTH?

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It is important to acknowledge that there are a host of issues in using self-reported income data. Monthly income estimates from FinAccess are based on people’s responses to a single survey question and rely on their ability to recall and aggregate income streams, oftentimes from a more than one source. Average income from agriculture or running a business may be particularly hard to compute mentally, given that income inflows may be infrequent and seasonal (in the case of farming) and costs associated with generating revenues should be netted out.
During the pandemic, casual work and transfers displaced farming and business ownership as the top two most important income sources for adults. In 2021, casual work and transfers represented the largest source of income for 30 and 25 percent of adults, respectively. Transfer income made up for losses in employment and business income – most notably among men. The share of men dependent on transfers for most of their income more than doubled between 2019 and 2021. In contrast, women with livelihood transitions during the pandemic, disproportionately shifted their main livelihoods from farming and running a business to casual work. In most cases, these occupational shifts represent changes from higher paying activities to lower paying ones.
4. Demographics and social security: For every adult of prime working age (25-64) in Kenya, there are nearly 2 other people either under the age of 25 or over the age of 64\(^\text{10}\). In a context of limited government spending on social security and education, the finances of working adults caring for children or elderly relatives will be sensitive to (1) decisions about how much education children will pursue, (2) the cost of education and health care and (3) the availability of jobs or livelihoods for youth and older individuals.

Kenyans are increasingly committing financial resources for education, reflecting growing enrollment in secondary schools and the out-of-pocket costs required to pay school fees. Between 2016 and 2020, while enrollment in primary school dropped slightly from 10.2 to 10.1 million, enrollment in secondary schools rose from 2.7 to 3.5 million and the primary to secondary transition rate increased from 81 to 91 percent\(^\text{11}\). In 2016, 28 percent of adults were using their savings or loans to finance “education for myself, children, siblings or others” (Figure 8). By 2021, this share increased to 36 percent. The most common investment-oriented use of savings or loans in Kenya, especially for the adults in the poorest households, is related to education followed by investments in livelihood activities such as starting a business or purchasing agricultural inputs.

In addition to sizeable education expenses, during the pandemic, the share of youth and retirement age individuals receiving transfers from family or friends increased by over 10 percentage points, providing needed support to recipients, while potentially squeezing the finances of working age adults that provide funds (Figure 8). The share of adults over the age of 65 receiving institutional transfers (from government or NGOs) doubled among between 2016 and 2019 - reflecting the expansion of Kenya’s Older Person’s Cash Transfer program (OPCT). But during the pandemic, it was informal social networks that scaled to provide a lifeline of support to older adults (and youth) in need.

Furthermore, the pandemic also increased the risk of costly health spending. While the main shock experienced by adults during

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\(^{10}\) Based on United Nations World Population Prospects population estimates for 2020. In 2020, there were an estimated 20.4 million Kenyans between the age of 25 and 64, compared to 33.3 million either over the age of 64 or under the age of 25.

\(^{11}\) Enrollment data and primary to secondary transition rates are from the 2021 Economic Survey from the Kenya National Bureau of Statistics.
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2021 related to the rising prices of goods and services, COVID-19 raised the likelihood of families having to cope with the financial consequences of fatal health outcomes. Between 2019 and 2021, there was a notable increase in the rate of reported deaths among a family member or relative, from 12 to 16 percent, implying a 28 percent increase in mortality risk during the pandemic compared to 2019. The prevalence of mortality shocks rose most sharply in Nairobi, from 11 percent in 2019 to 24 percent in 2021, implying an increase in the mortality risk of 118 percent and suggesting that the health impacts of COVID-19 were more severe in Nairobi compared to other areas.

Between 2019 and 2021, there was a substantial decline in those able to obtain needed medical care. Like with declines in food security (ability to put food on the table), the decline in the share of adults able to obtain needed medicine or medical care was most pronounced in rural areas or in the country’s secondary cities. Other data suggests that the main reason for this was inability to afford medicine and health care\textsuperscript{12}. During the pandemic individuals absorbed the costs of health shocks mostly with the financial support of friends and family and by selling assets, which could reflect the high costs of hospitalization in relation to available savings, ability to borrow or gaps in insurance coverage.

Given that the burden of financing education and medical costs falls heavily on working adults, it is not surprising that the 2021 Global Findex found that paying for education and health are the two financial issues that most worry Kenyans\textsuperscript{13}. Two in three adults say that they are very worried about unexpected medical costs from a serious illness or accident and 54 percent are very worried about paying for education. When asked to name their biggest financial worry, 33 percent of adults said healthcare and 39 percent said education. FinAccess provides a more objective indication of the difficulty many families have in paying education costs: in 2021, over half of all prime working age adults, and over two in three of the poorest, struggled to keep up with school fees and as a result had a child sent home from school (Figure 10).

\textsuperscript{12} FSD Kenya COVID-19 Tracker, Finances, Health and Coping in Kenya (2022)

Figure 10: Over half of all prime working age adults have struggled to keep up with school fees, a major challenge for student learning and secondary school completion.

Prime working age adults (%, 25-64 years) who have a child they support be sent home from school due to lack of school fees in the past year.

Source: Author’s calculations from FinAccess surveys.
Between 2006 and 2021 the share of adults with a formal financial institution or mobile money account more than tripled, rising from 27 to 84 percent, but the pace of financial inclusion has been slowing.

Between 2019 and 2021, the share of adults with a formal account only increased by 0.5 percentage points per year, compared to increases of 2.7 percentage points per year between 2013 and 2019. Although not the sole reason, declining financial health has likely contributed to the slowdown in the adoption of formal accounts. Among adults not currently using a traditional or mobile bank account, the share citing having “no money to save” as the primary reason for not using one increased by 21 percentage points between 2019 and 2021, from 35 to 56 percent; the share citing having “no job or regular income” as the primary reason rose from 22 to 35 percent and the share citing that they “can’t afford to maintain an account” rose from 19 to 23 percent.

Since 2016, fewer adults used informal and formal instruments to save and more adults channeled savings into mobile money accounts. For example,

**Figure 11:**
Between 2019 and 2021, usage of mobile money wallets for savings increased rapidly, while usage of other savings instruments fell.

% of adults (18+) using a savings instrument by type

<table>
<thead>
<tr>
<th>Instrument Type</th>
<th>2016</th>
<th>2019</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saves informally (cash group, family friends)</td>
<td>35%</td>
<td>56%</td>
<td></td>
</tr>
<tr>
<td>Saves through a bank or non-bank financial institution</td>
<td>19%</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>Saves with a mobile money account</td>
<td>22%</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>Saves with any instrument</td>
<td>50%</td>
<td>65%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s calculations from FinAccess surveys.
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Figure 12:
Between 2019 and 2021, usage of loans from family and friends, and shopkeeper credit more than doubled. In 2021, Fuliza, a mobile money overdraft facility, became the most common type of credit in use by Kenyans in the top wealth quintile.

% of adults (18+) using a savings instrument by type

As financial conditions tightened for individuals and families, the demand for quick, low-value and flexible credit also rose rapidly. Between 2016 and 2020, the share of adults purchasing goods on credit (or taking loans) from shopkeepers increased from 13 to 28 percent, the share using loans from family and friends rose from 7 to 16 percent, and the share using “Fuliza,” a mobile money overdraft facility launched in 2019 by M-Pesa, reached 18 percent in 2021 (Figure 12). While the share of adults using mobile bank and digital app loans (like M-Shwari or Tala) rose from 6 to 15 percent of adults between 2016 and 2019, it subsequently fell to 11 percent in 2021, possibly suggesting Fuliza seized some market share from more established digital lenders. Usage of non-digital loans from banks, SACCOs and MFIs declined from 14 to 6 percent over this period.
The relationship of these shifts in the credit landscape to financial health are also evident in the reasons people give for using their loans. Between 2016 and 2021, the share of adults using one or more of their loans to help them meet day to day needs more than doubled from 17 to 40 percent (Figure 13). The use of loans for coping with emergencies also rose significantly from 4 to 12 percent. Similar trends are evident in changes in the prevalence of savings use-cases.

The net result of these dynamics is that more adults are in debt, and more are having some trouble paying back loans. In 2021, 50 percent of adults had an outstanding balance on one or more loans at the time of the survey (up from 41 percent in 2019), 57 percent of adults reported that they had trouble repaying a loan in the past year (up from 48 percent in 2019) and 32 percent of adults reported that they had defaulted on one or more loans in the past year (up from 16 percent in 2019) (Figure 14). It is worth noting that between 2015 and 2021, the quality of the banking sector’s loan portfolio also deteriorated: the value of non-performing loans as a share of total gross-loans increased steadily from 6 to 13.1 percent.\(^{14}\)

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**Figure 13:** Between 2016 and 2021, the use-case for savings or loans that increased the fastest was for day to day consumption needs, followed by emergencies.

Adults (%18+) using savings or loans for:  *day to day needs / emergencies / any investment / durables (house-hold goods/vehicle)*

**Source:** Author’s calculations from FinAccess surveys.

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**Figure 14:** Between 2019 and 2021, the share of adults holding some debt and who had trouble repaying loans increased.

Adults (%18+) that...  *currently have outstanding debt on one or more loans / in past year, borrowed, sold assets or reduced food expenditure to repay loans / in the past year, defaulted on one or more loans*

**Source:** Author’s calculations from FinAccess surveys.

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\(^{14}\) Bank non-performing loans to total gross loans for Kenya were sourced from the World Bank World Development Indicators (Indicator ID: FB.AST.NPER.ZS).
Incomes did not keep up, and the pandemic economy caused many adults to transition to lower paying casual work to fill gaps in lost salary or business income.
The sustained decline in financial health in Kenya from mid-2015 through mid-2021 documented in this paper occurs against a backdrop of economic growth during all but one of the intervening years alongside the consolidation and diversification of digital financial services that today, are nearly universally available.

Nonetheless, individuals and families faced increased pressure on multiple fronts. On the one hand, the price of basic goods and services rose substantially. On the other, incomes did not keep up, and the pandemic economy caused many adults to transition to lower paying casual work to fill gaps in lost salary or business income. Transfer income was an important lifeline, especially to lower income segments, the elderly and families coping with health shocks and the loss of loved ones, but recurring payments to younger and older members of one’s social network also place additional demands on available liquidity. With diminished cash flow, fewer adults were setting money aside for unexpected expenses and more adults turned to short-term, low-value credit solutions for consumption smoothing and emergencies. Low-income Kenyans primarily borrowed from friends and family or purchased items on credit from a local shopkeeper and higher income Kenyans increasingly made use of new digital financial services, including unsecured digital loans and mobile money overdrafts. During this period, an increasing share of Kenyan adults had difficulty repaying their loans.
Compounding climate, price and employment shocks hitting a country with few formal safety nets; high inequality in the distribution of the opportunities generated by economic growth; and a demographic bulge of youth passing through secondary school-age and into the workforce are headwinds that have eroded the financial health of Kenyans. This is concerning because although the Kenyan economy has rebounded substantially since it contracted in 2020, with food prices accelerating due to the war in Ukraine, Kenyan households will continue to face financial pressures with a diminished ability to cope with additional shocks. Many of the strategies that Kenyans rely on for raising emergency funds – such as liquid savings, remittances and loans from friends and family or selling livestock - may be depleted or increasingly difficult to access. In 2021, when asked how they would raise KSh 11,000 in an emergency in 30 days, 88 percent of the adults in Kenya’s poorest households said they could raise the money from one of several sources (predominantly from family and friends, work or selling assets) but only 32 percent said they could raise those funds without much difficulty (Figure 15).

Establishing a more robust foundation for broad-based financial health will require creating the conditions that boost the purchasing power of Kenyan households, freeing up income for greater savings and investment while boosting domestic demand for goods and services to support greater production and diversification. Having made huge strides in providing widespread access to financial services, Kenya’s financial sector also has an opportunity to align its efforts more deliberately with the financial wellbeing outcomes of its customers. The analysis in this paper suggests five policy directions to underpin positive financial outcomes for Kenyan households and more inclusive growth in the economy more broadly. While providing a comprehensive review and diagnostic of each of these areas is beyond the scope of this paper, they are highlighted here to reinforce their importance with respect to financial health.

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**Figure 15:**
Fewer than 1 in 3 of Kenya’s poorest adults could reliably raise emergency funds in 30 days

What would be the main source of money that you would use to come up with 1/20 of GNI per capita within the NEXT 30 days?

<table>
<thead>
<tr>
<th>Savings</th>
<th>Borrow</th>
<th>Family</th>
<th>Work</th>
<th>Sell assets</th>
<th>Other</th>
<th>Any source</th>
</tr>
</thead>
<tbody>
<tr>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>10%</td>
<td>7%</td>
<td>26%</td>
<td>17%</td>
<td>19%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>18%</td>
<td>13%</td>
<td>30%</td>
<td>19%</td>
<td>13%</td>
<td>18%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: 2021 Global Findex

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15 In 2020, Kenya’s GDP declined by 0.3 percent and in 2021, Kenya’s GDP increased by 7.5 percent (World Bank World Development Indicators, GDP Growth (Annual %), ID: NY.GDP.MKTP.KD.ZG)
1. **Lower the cost of staple foods through improved productivity of Kenyan farmers and enhanced market efficiency.** Efforts to improve food systems to deliver low-cost, high-quality food for Kenyan families need to focus on reducing transport costs and wastage, while improving the productivity of crop and livestock production.

2. **Catalyze the growth of quality jobs.** Between 2015 and 2020, Kenya’s prime working age population increased by 3.1 million but only a net of 58,000 modern wage jobs were created over that same period.\(^\text{16}\) While building an enabling environment for formal sector enterprises that can scale to provide jobs, it is important to strengthen informal/semi-formal opportunities through investing in the growth and resilience of MSEs.

3. **Shift more of the burden of social protection from working adults to tax and donor funded social security programmes which enhance welfare and provide a foundation for inclusive growth.** Dependable access to income for households through universal social security programmes have demonstrated positive impacts on financial health, also creating a stronger consumer base to drive MSE growth.

4. **Provide solutions to help families afford secondary school fees and invest in interventions that improve student learning outcomes.**

5. **Establish the regulatory framework, infrastructure and industry norms and capabilities that support the development of a financial services ecosystem that delivers positive financial health outcomes for retail customers and MSMEs.**

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\(^\text{16}\) Prime working age (25-64) population estimates are from United Nations Population Division, modern wage jobs are from the Economic Survey, 2021 (KNBS).
Annex

A. Measuring financial health

Kenya’s multidimensional financial health index (MFHI) measures people’s ability to (1) smoothly manage their day-to-day finances, (2) be resilient to unexpected shocks and (3) invest in their livelihoods and future.

The MFHI uses a collection of 9 indicators (weighted equally) to estimate a financial health score for each FinAccess respondent (Table 1). The score ranges from a low of 0 to a high of 1. For the purposes of presenting a simple summary of measure of Financial Health for the adult population, individuals are categorized as financially “healthy” if their financial health score equals or exceeds 0.6 (equivalent to having the presence of at least 6 of ANY of the 9 indicators). Using this dichotomous variable (Healthy or not) the prevalence of (high) financial health can be estimated.

Table 1

<table>
<thead>
<tr>
<th>1. Ability to manage day to day (%)</th>
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<tbody>
<tr>
<td>Consumption smoothing</td>
<td>1.1</td>
</tr>
<tr>
<td>Planning</td>
<td>1.2</td>
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<tr>
<td>Providing for the family</td>
<td>1.3</td>
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<tr>
<th>2. Ability to cope with risk</th>
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<tbody>
<tr>
<td>Coping with illness</td>
<td>2.1</td>
</tr>
<tr>
<td>Access to lump sum</td>
<td>2.2</td>
</tr>
<tr>
<td>Emergency fund savings</td>
<td>2.3</td>
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<th>3. Ability to invest in livelihoods &amp; the future</th>
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<tbody>
<tr>
<td>Intentional savings</td>
<td>3.1</td>
</tr>
<tr>
<td>Alternative: Currently using savings to help achieve a specific goal that requires a lot of money</td>
<td></td>
</tr>
<tr>
<td>Productive investment</td>
<td>3.2</td>
</tr>
<tr>
<td>Savings for old-age</td>
<td>3.3</td>
</tr>
<tr>
<td>Intends to (or currently is if age &gt; 65) using savings, pension or investment income to make ends meet in old age</td>
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The financial health of Kenya’s adult population has been falling since mid-2015 when it was first measured. Among all adults aged 18 and over, the mean financial health score fell from 0.53 to 0.36 between 2016 and 2021. In other words, while just over 50% of the weighted component indicators signaled positive financial health in 2016, just over one third of the indicators did in 2021, on average. Using the criteria defined above, only 15 percent of adults could be described as financially healthy in 2021, compared to 39 percent in 2016. Overall, the drop in financial health, was larger between 2016 and 2019, than between 2019 and 2021. However, for adults in Nairobi, the decline in financial health was greater between 2019 and 2021, possibly reflecting the greater economic challenges brought on by the pandemic in Kenya’s capital.

These results hold using a less stringent definition of financial health. Say you consider any one of the three indicators within each domain (day to day, risk coping, investing in the future) as a good enough signal of financial health in that domain, you could define a respondent as financially healthy if at least 3 of the 9 indicators are true but requiring that at least one indicator from each domain must contribute to the score. While a higher share of the population is classified as financially healthy using this alternative specification, the decline over survey rounds is still evident and of a similar magnitude.
Due to changes in the questionnaire, two of the financial health component indicators are not strictly comparable across all three of the survey rounds. Indicator 3.1 was omitted in 2021 and for indicator 2.2. The amount of money referenced in the question on whether adults could raise emergency money equivalent to 1 month of spending changed in a way that may not have accurately reflected changes in average monthly consumption for urban and rural households. To address the potential biasing of the index due to these inconsistencies, the following figure shows results based on a version of the Financial Health index that uses only the 7 component indicators that remained constant over the three survey rounds. A similar decline is evident.
The state of financial health in Kenya

B. Trends in the component indicators of the MFHI

Managing day to day (component indicators), % adults 18+ that:
Have no trouble making their money last between income payments / Plan how the spend their money /
Never go without food

Source: Author’s calculations from FinAccess surveys

Source: Author’s calculations from FinAccess surveys
Coping with risk (component indicators), % adults 18+ that:
Do not go without medicine or medical treatment when needed / Can access lump-sum in an emergency / Set money aside for emergencies

Source: Author’s calculations from FinAccess surveys

Coping with risk (component indicators), % adults 18+ that:
Do not go without medicine or medical treatment when needed / Can access lump-sum in an emergency / Set money aside for emergencies

Source: Author’s calculations from FinAccess surveys
Investing for the future (component indicators), % adults 18+ that: Keep money aside for specific future purpose/ Uses savings to achieve a specific, high cost, goal

Source: Author’s calculations from FinAccess surveys
Investing for the future (component indicators), % adults 18+ that: Keep money aside for specific future purpose/ Uses savings to achieve a specific, high cost, goal

Source: Author’s calculations from FinAccess surveys
The state of financial health in Kenya

Investing for the future (component indicators), % adults 18+ that: Uses savings or credit for investment/Plans to use savings, investment or pension for retirement

Source: Author’s calculations from FinAccess surveys

Investing for the future (component indicators), % adults 18+ that: Uses savings or credit for investment/Plans to use savings, investment or pension for retirement

Source: Author’s calculations from FinAccess surveys
Investing for the future (component indicators), % adults 18+ that: Uses savings or credit for investment / Plans to use savings, investment or pension for retirement

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