Segmentation of the financially under-served in Kenya and guidance for policymakers

Workshop | 5 September 2019
Please note:

This presentation was delivered to Kenyan stakeholders for their input at “Inclusive Finance: tapping the potential of the unmet financial needs of Kenyans” workshop held on the 5th of September at the Serena Hotel, Nairobi. These should be considered as the initial findings from Cenfri and 71point4. All inputs received from stakeholders will be incorporated into the final report to be published within the next two months.
Presentation structure

- Study background
- Financial needs of Kenyans and key segments
- Unmet needs and their drivers
Study background
Needs-based approach
Improving welfare by placing customer needs at the centre and targeting the underserved

Need: A collection of use cases that can be fulfilled by financial services

Transfer of value
Send money or digital value from one person to another

Meeting goals
Achieve life objectives or obligations that require funding across multiple income cycles

Liquidity
The need to meet expenses in a single income cycle

Resilience
The ability to deal with unexpected shocks that have a financial impact
Optimising the financial sector: Understanding financial needs

This research aims to:

• Identify key population segments with unmet financial needs
• Understand drivers of unmet needs
• Develop recommendations for policymakers, regulators and FSPs

Usage analysis

Assess gaps in financial services supply by looking at unmet needs

Identify opportunities

Enable the financial sector to provide for the individual and policy goals set out

Research methodology: Combination of demand-side analysis (cluster segmentation analysis of the FinAccess 2019 survey) and supply-side analysis (desktop research and stakeholder interviews).
The financial sector is integral for the Big Four Agenda

Vision 2030: “Transform Kenya into a newly industrialising middle-income country”

Third medium-term plan for the implementation of Vision 2030: Big Four Agenda

- Food security
- Manufacturing
- Affordable housing
- Universal health care

The financial sector and Big Four Agenda

- Enable deeper financial markets
- Ensure greater access to financial services
- Capacitate individuals and businesses with useful financial tools

Source: National Treasury and Planning (2018)
Financial needs of Kenyans and key segments
Kenyans experience a range of needs, to different extents

### Transfer of Value
Made no payment via an account in the past 12 months
- 6.02 million adults
- 24% Cash
- 76% Digital

### Liquidity
Could not meet regular spending needs in the past 12 months
- 15.6 million adults
- 62% Yes
- 38% No

### Resilience
Experienced a large financial shock in the past 12 months
- 9.1 million adults
- 36% Yes
- 64% No

### Goals
Currently trying to achieve a specific goal that requires a lot of money
- 14.85 million adults
- 59% Yes
- 41% No

Source: FinAccess Survey 2019
A segmentation based on livelihood identified 16 distinct segments

Segment prioritisation criteria

1. Displays unmet financial need
2. Presents viable business case for FSPs
3. Strategically important for policy objectives and economic growth

Seven segments have been prioritised

- **Agriculture**
  - Regional market farmers: 1.1 M
  - Local market farmers: 4.2 M

- **Business owners**
  - Sophisticated business: 0.5 M
  - Urban small businesses: 2.2 M

- **Employed**
  - Urban wage earners: 1.15 M
  - Public sector employees: 0.9 M

- **Youth**
  - Urban aspirational youth: 2.2 M

Source: FinAccess Survey 2019
Urban aspirational youth are between 18 and 25 years old, they have completed secondary school and are looking to either further their education or start a business.

- **Most have made or received a digital payment (driven by remittances)**
  - 88% have received a digital payment
  - 94% have made a digital payment

- **HALF have experienced liquidity distress**
  - 50% Could not meet their regular spending needs at some point over the past 12 months

- **LEAST LIKELY segment to have experienced a shock**
  - 24% experienced a resilience shock in past year, mostly health-related and farm-related shocks

- **MOST are currently trying to achieve a goal**
  - 75% are CURRENTLY trying to achieve a key goal, either to further their education or to start a business

- **100% Aged between 18 - 25**
- **100% Have completed secondary school**

Most likely to be found in Nairobi, Kiambu, Kajiado and Uasin Gishu.
Regional market farmers sell mostly cash crops to cooperatives, factories and companies

**Regional market farmers**

1.1 Million

- **Male**: 45%
- **Female**: 55%

- **54%** Aged 50 or more
- **59%** Have not done any secondary schooling

Most likely to be found in Kirinyaga, Nyamira, Kericho and Muranga

- **Farm-related payments are starting to become digitised**
  - 58% have received a farm-related payment into their account
  - 44% have made a farm-related digital payment

- **Transfer of value**

- **Most likely segment to have experienced liquidity distress**
  - 57% Could not meet their regular spending needs at some point over the past 12 months

- **Liquidity**

- **Most likely segment to have experienced a shock**
  - 46% experienced a resilience shock in the past year, mostly health-related and farm-related shocks

- **Resilience**

- **Main goals are education for their children and expanding their farms**
  - 58% are currently trying to achieve a key goal

- **Goals**
Local market farmers sell food crops at local markets, to local traders or to neighbours.

**Local market farmers**

- 4.2 million
- Male: 57%, Female: 43%
- Age: 43% aged 50 or more
- Education: 78% have not done any secondary schooling
- Location: Most likely to be found in Nyandarua, Embu, Narok and Homa Bay

**Farm-related payments are only cash based**
- 5% have received a farm-related payment into their account
- 5% have made a farm-related payment digital payment

**Transfer of value**

**Liquidity**
- 57% could not meet their regular spending needs at some point over the past 12 months

**Most likely segment to have experienced liquidity distress**

**Resilience**
- 40% experienced a resilience shock in the past year, mostly health-related and farm-related shocks

**Second most likely segment to have experienced a shock**

**Goals**
- Main goals are EDUCATION for their children and expanding their FARMS
- 48% are CURRENTLY trying to achieve a key goal
Sophisticated businesses are registered businesses that have access to business-specific financial devices.

- **Most businesses** in this segment accept digital payments:
  - 70% received a digital payment linked to business activities
  - 52% made any business-related digital payment

- **Least likely** segment to have experienced liquidity distress:
  - 36% could not meet their regular spending needs at some point over the past 12 months

- **Main shocks** include health-related shocks and death of a family member:
  - 37% experienced a resilience shock in the past year

- **Second most likely** to be currently trying to achieve a goal:
  - 79% are currently trying to achieve a goal, mostly related to expanding their businesses and housing-related goals

- **50%** aged 35 or less
- **38%** male, **62%** female
- **47%** have at least some tertiary education
- Most likely to be found in **Kiambu** and **Nairobi**

- **490,000** businesses.
Urban small businesses are unregistered and mostly consist of a single person. Business owners likely mix personal and business finances.

**Urban small businesses**

- **2.2 million**

**Transfer of value**

- Businesses in this segment are almost entirely CASH based
  - 19% received a digital payment linked to business activities
  - 9% have made a business-related digital payment

**Liquidity**

- HIGH levels of liquidity distress
  - 56% could not meet their regular spending needs at some point over the past 12 months

**Resilience**

- MAIN shocks include health-related shocks and death of a family member
  - 35% experienced a resilience shock in the past year

**Goals**

- Main goals are expanding BUSINESS and EDUCATION
  - 76% are CURRENTLY trying to achieve a key goal

- **Male**: 55%  
  - Female: 45%

- **54%** aged 35 or less  
  - (one-third of the segment are women 18 to 35)

- Most likely to be found in Nairobi and Mombasa

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CGAP  
FSD Kenya  
Cenfri  
71point4
This segment works in the public sector (many in education). It has the highest credit usage and is the most likely to be overindebted.

**Public sector employees**

- **900,000**

**Transfer of value**

- **93%** receive salary directly into an account
- **99%** have made a digital payment in the past year

**Liquidity**

- **48%** could not meet their regular spending needs in the past year
- High levels of over-indebtedness may contribute to this (31% say: more than half of their salary goes to debt repayments)

**Resilience**

- **38%** experienced a resilience shock in past year

**Goals**

- **65%** are CURRENTLY trying to achieve a key goal

**Main goals**

- EDUCATION for their children
- PURCHASING LAND

**Demographics**

- **47%** Male, **53%** Female
- **42%** aged 35 or less
- **70%** have at least some tertiary education

Most likely to be found in **Uasin Gishu, Nyamira** and **Kiambu**
Urban wage earners work in manufacturing, private households and the retail trade

**Urban wage earners**

- Mostly paid directly into an account, everyone in the segment has made a digital payment
  - 88% have received salary/wage into an account
  - 100% have made a digital payment in the past 12 months

- Just under half have experienced liquidity distress
  - 46% could not meet their regular spending needs at some point over the past 12 months

- MAIN shocks include health-related shocks and death of a family member
  - 34% experienced a resilience shock in past year

- MOST LIKELY segment to be trying to meet a housing related goal
  - 84% are CURRENTLY trying to achieve a key goal. Just under half say their MAIN goal is housing-related

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- 1.1 million
- 70% Male, 30% Female
- 65% aged 35 or less
- 82% have completed secondary school
- Most likely to be found in Nairobi, Mombasa and Kiambu

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CGAP, fsd Kenya, cenfri, 71point4
Digitisation is happening in some segments and for certain use cases, however, many remain almost exclusively cash-based.

<table>
<thead>
<tr>
<th>Transfer of Value</th>
<th>Aspirational urban youth</th>
<th>Regional market farmers</th>
<th>Local market farmers</th>
<th>Sophisticated businesses</th>
<th>Urban small businesses</th>
<th>Public sector employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from main income source received into an account</td>
<td>46%</td>
<td>58%</td>
<td>5%</td>
<td>70%</td>
<td>19%</td>
<td>93%</td>
</tr>
<tr>
<td>Make farm/business related payments via an account</td>
<td>44%</td>
<td>5%</td>
<td>52%</td>
<td>9%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Digitisation is happening in some segments and for certain use cases, however, many remain almost exclusively cash-based.

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<td>5%</td>
<td>52%</td>
<td>9%</td>
<td>9%</td>
<td>99%</td>
</tr>
<tr>
<td>Receive any payment (incl. remittances) into an account</td>
<td>88%</td>
<td>84%</td>
<td>60%</td>
<td>98%</td>
<td>81%</td>
<td>99%</td>
</tr>
<tr>
<td>Make any payments (incl. remittance payments) via an account</td>
<td>94%</td>
<td>84%</td>
<td>69%</td>
<td>97%</td>
<td>92%</td>
<td>99%</td>
</tr>
</tbody>
</table>

Digitisation is happening in some segments and for certain use cases, however, many remain almost exclusively cash-based.
The segments deal with their liquidity distress using various devices

<table>
<thead>
<tr>
<th>Liquidity</th>
<th>Aspirational urban youth</th>
<th>Regional market farmers</th>
<th>Local market farmers</th>
<th>Urban small businesses</th>
<th>Public sector employees</th>
<th>Urban wage earners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experienced liquidity distress past 12 months</td>
<td>50%</td>
<td>57%</td>
<td>57%</td>
<td>56%</td>
<td>48%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Source: FinAccess Survey 2019
The segments deal with their liquidity distress using various devices

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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>50%</td>
<td>57%</td>
<td>57%</td>
<td>56%</td>
<td>48%</td>
<td>46%</td>
</tr>
<tr>
<td>Formal credit</td>
<td>6%</td>
<td>5%</td>
<td>1%</td>
<td>2%</td>
<td>21%</td>
<td>9%</td>
</tr>
<tr>
<td>Informal credit</td>
<td>2%</td>
<td>14%</td>
<td>11%</td>
<td>9%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Borrowed from friends/family</td>
<td>11%</td>
<td>5%</td>
<td>6%</td>
<td>7%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Formal savings</td>
<td>10%</td>
<td>12%</td>
<td>6%</td>
<td>11%</td>
<td>20%</td>
<td>33%</td>
</tr>
<tr>
<td>Informal savings</td>
<td>1%</td>
<td>3%</td>
<td>2%</td>
<td>5%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Savings with friend/family/ secret place</td>
<td>8%</td>
<td>6%</td>
<td>3%</td>
<td>5%</td>
<td>7%</td>
<td>4%</td>
</tr>
<tr>
<td>Sold asset/crops/ livestock</td>
<td>1%</td>
<td>7%</td>
<td>14%</td>
<td>3%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Assistance from family/friends</td>
<td>33%</td>
<td>23%</td>
<td>24%</td>
<td>22%</td>
<td>9%</td>
<td>17%</td>
</tr>
<tr>
<td>Changed behaviour</td>
<td>13%</td>
<td>16%</td>
<td>20%</td>
<td>25%</td>
<td>18%</td>
<td>20%</td>
</tr>
<tr>
<td>Did nothing</td>
<td>3%</td>
<td>9%</td>
<td>13%</td>
<td>10%</td>
<td>9%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: FinAccess Survey 2019
Agricultural segments are the most likely to have suffered a shock in the past year. The most common shock across ALL segments is a major sickness/health problem/accident or injury.

<table>
<thead>
<tr>
<th>Resilience</th>
<th>Regional market farmers</th>
<th>Local market farmers</th>
<th>Sophisticated businesses</th>
<th>Urban small businesses</th>
<th>Public sector employees</th>
<th>Urban wage earners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experienced big cost from managing resilience shock</td>
<td>46%</td>
<td>40%</td>
<td>37%</td>
<td>35%</td>
<td>38%</td>
<td>34%</td>
</tr>
</tbody>
</table>

| Source: FinAccess Survey 2019 | 18 |

- **Formal credit**
  - Regional market farmers: 6%
  - Local market farmers: 0%
  - Sophisticated businesses: 5%
  - Urban small businesses: 3%
  - Public sector employees: 12%
  - Urban wage earners: 6%

- **Informal credit**
  - Regional market farmers: 2%
  - Local market farmers: 4%
  - Sophisticated businesses: 1%
  - Urban small businesses: 3%
  - Public sector employees: 1%
  - Urban wage earners: 2%

- **Borrowed from friends/family**
  - Regional market farmers: 2%
  - Local market farmers: 5%
  - Sophisticated businesses: 4%
  - Urban small businesses: 7%
  - Public sector employees: 2%
  - Urban wage earners: 2%

- **Formal savings**
  - Regional market farmers: 29%
  - Local market farmers: 9%
  - Sophisticated businesses: 50%
  - Urban small businesses: 23%
  - Public sector employees: 37%
  - Urban wage earners: 29%

- **Informal savings**
  - Regional market farmers: 3%
  - Local market farmers: 3%
  - Sophisticated businesses: 3%
  - Urban small businesses: 3%
  - Public sector employees: 3%
  - Urban wage earners: 3%

- **Savings with friend/family/secret place**
  - Regional market farmers: 6%
  - Local market farmers: 4%
  - Sophisticated businesses: 5%
  - Urban small businesses: 5%
  - Public sector employees: 0%
  - Urban wage earners: 6%

- **Insurance**
  - Regional market farmers: 4%
  - Local market farmers: 3%
  - Sophisticated businesses: 10%
  - Urban small businesses: 2%
  - Public sector employees: 11%
  - Urban wage earners: 4%

- **Sold asset/crops/livestock**
  - Regional market farmers: 10%
  - Local market farmers: 17%
  - Sophisticated businesses: 0%
  - Urban small businesses: 4%
  - Public sector employees: 1%
  - Urban wage earners: 10%

- **Assistance from family/friends**
  - Regional market farmers: 27%
  - Local market farmers: 39%
  - Sophisticated businesses: 16%
  - Urban small businesses: 40%
  - Public sector employees: 23%
  - Urban wage earners: 27%

- **Changed behaviour**
  - Regional market farmers: 6%
  - Local market farmers: 8%
  - Sophisticated businesses: 6%
  - Urban small businesses: 6%
  - Public sector employees: 6%
  - Urban wage earners: 6%

- **Did nothing**
  - Regional market farmers: 3%
  - Local market farmers: 7%
  - Sophisticated businesses: 0%
  - Urban small businesses: 1%
  - Public sector employees: 2%
  - Urban wage earners: 3%
The MAIN goals of those CURRENTLY trying to achieve a goal differ across segments. Urban aspirational youth are either trying to start a business or study further, whereas a significant portion of urban wage earners have housing-related* goals

<table>
<thead>
<tr>
<th>Goals</th>
<th>Aspirational urban youth</th>
<th>Regional market farmers</th>
<th>Sophisticated businesses</th>
<th>Urban small businesses</th>
<th>Public sector employees</th>
<th>Urban wage earners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currently trying to achieve a goal</td>
<td>75%</td>
<td>58%</td>
<td>79%</td>
<td>76%</td>
<td>65%</td>
<td>84%</td>
</tr>
<tr>
<td>Start or expand a business</td>
<td>32%</td>
<td>8%</td>
<td>25%</td>
<td>28%</td>
<td>11%</td>
<td>20%</td>
</tr>
<tr>
<td>Education for self or family</td>
<td>30%</td>
<td>13%</td>
<td>5%</td>
<td>13%</td>
<td>17%</td>
<td>12%</td>
</tr>
<tr>
<td>Buy/build a house/apartment to live in</td>
<td>5%</td>
<td>10%</td>
<td>12%</td>
<td>13%</td>
<td>11%</td>
<td>24%</td>
</tr>
<tr>
<td>Buy land</td>
<td>3%</td>
<td>10%</td>
<td>15%</td>
<td>13%</td>
<td>12%</td>
<td>20%</td>
</tr>
<tr>
<td>Buy inputs/ assets for business/farm</td>
<td>1%</td>
<td>12%</td>
<td>3%</td>
<td>3%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>Buy/build property to sell/rent</td>
<td>1%</td>
<td>1%</td>
<td>15%</td>
<td>3%</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Buy or things for personal use</td>
<td>2%</td>
<td>1%</td>
<td>4%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Move to own/a better property</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Improve house</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: FinAccess Survey 2019 | 19. Note* Housing related goals includes: buy/ build a house/ apartment to live in, buy land, buy/build property to sell/ rent, Move to own or better property, and Improve a house
Wealthier segments use formal savings and credit devices to try meet their main goals. Many segments rely on non-financial devices to meet these goals.

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</tr>
</tbody>
</table>

| Source: FinAccess Survey 2019 | 20 |

<table>
<thead>
<tr>
<th>Device</th>
<th>Aspirational urban youth</th>
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<tr>
<td>Formal credit</td>
<td>9%</td>
<td>19%</td>
<td>20%</td>
<td>10%</td>
<td>33%</td>
<td>18%</td>
</tr>
<tr>
<td>Informal credit</td>
<td>0%</td>
<td>4%</td>
<td>4%</td>
<td>5%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Borrowed from friends/family</td>
<td>6%</td>
<td>3%</td>
<td>0%</td>
<td>1%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Borrowed from Gov/NGO</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Formal savings</td>
<td>23%</td>
<td>23%</td>
<td>46%</td>
<td>24%</td>
<td>31%</td>
<td>41%</td>
</tr>
<tr>
<td>Informal savings</td>
<td>2%</td>
<td>7%</td>
<td>2%</td>
<td>8%</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>Savings with friend/family/secret place</td>
<td>6%</td>
<td>3%</td>
<td>4%</td>
<td>6%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Sold asset/crops/livestock</td>
<td>0%</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Assistance from family/friends</td>
<td>10%</td>
<td>4%</td>
<td>0%</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Changed behaviour</td>
<td>27%</td>
<td>19%</td>
<td>22%</td>
<td>36%</td>
<td>11%</td>
<td>23%</td>
</tr>
<tr>
<td>Did nothing</td>
<td>3%</td>
<td>1%</td>
<td>0%</td>
<td>1%</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Several key needs cut across the target segments

<table>
<thead>
<tr>
<th>Category</th>
<th>Images</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity management</td>
<td><img src="image1" alt="Image" /> <img src="image2" alt="Image" /> <img src="image3" alt="Image" /></td>
</tr>
<tr>
<td>Business and climate resilience</td>
<td><img src="image4" alt="Image" /> <img src="image5" alt="Image" /> <img src="image6" alt="Image" /></td>
</tr>
<tr>
<td>Business expansion</td>
<td><img src="image7" alt="Image" /> <img src="image8" alt="Image" /></td>
</tr>
<tr>
<td>Health risk resilience</td>
<td><img src="image9" alt="Image" /> <img src="image10" alt="Image" /></td>
</tr>
<tr>
<td>Housing</td>
<td><img src="image11" alt="Image" /> <img src="image12" alt="Image" /></td>
</tr>
<tr>
<td>Digital transfer of value</td>
<td><img src="image13" alt="Image" /> <img src="image14" alt="Image" /></td>
</tr>
</tbody>
</table>
Unmet needs and their underlying drivers
Growing debt undermines future liquidity management
High levels of liquidity distress amongst wealthiest segments, leading to overreliance on credit

Indebtedness among public sector workers
Public sector workers who have taken out a loan (27% have no credit)
Proportion of monthly income contributed to debt repayments:

- Less than a quarter of income: 35.29%
- Between one-quarter and one-half of income: 19.12%
- Half of income or more: 45.89%

Experienced liquidity distress in the past 12 months

- Public sector workers: 48%
- Urban wage earners: 46%
- Aspirational urban youth: 50%

Source: FinAccess Survey 2019
And this is a rapidly growing trend

Growth of number of digital loans and loans from mobile banking

- 197% increase from 2016 to 2018
  - 1.25 million in 2016
  - 3.72 million in 2018

Negative consequences:
- 47% have repaid a digital loan late and 12% have default
- 2.7 million negative reports on digital loans

So Kenyans fall back on welfare-reducing strategies to repay their debt.

**Regional market farmers**
- Reduced expenditure on food items to repay loan: 57%
- Reduced expenditure on non-food items to repay loan: 34%
- Borrowed money to repay the loan: 24%
- Sold/gave assets or belongings to repay: 24%

**Public sector workers**
- Reduced expenditure on food items to repay loan: 39%
- Reduced expenditure on non-food items to repay loan: 19%
- Borrowed money to repay the loan: 18%
- Sold/gave assets or belongings to repay: 6%

Source: FinAccess Survey 2019
Imbalance in regulatory approach has allowed innovation but left consumers vulnerable

**Coordination**

- Lack of coordination within and between regulators

**Challenge:**

- Lack of coordination within and between regulators

**Information flows and feedback loops**

**Challenges:**

- Weak coordination mechanisms
- Asymmetric information as a result of infrequent coordination

**Positive outcomes for consumers**

**Challenges:**

- Loan stacking trends
- Rising negative listing
- Use of welfare-reducing strategies for debt repayment

**Innovation**

**Consumer protection**
Redressing the balance important for sustainable development of the sector

Coordination

Opportunity:
- Improve coordination mechanisms

Information flows and feedback loops

Opportunities:
- Promote wider information-sharing between FSPs and non-FSPs
- Improve collection of credit information (including positive listing)

Positive outcomes for consumers

Opportunities:
- Credit Act for assessment of traditional and digital credit
- Financial market regulation designed for positive consumer outcomes
Farmers’ and SMEs’ resilience and access to growth finance undermined by challenging FSP business case
Farmers and SMEs frequently forced to rely on unsustainable livelihood resilience strategies

**Regional market farmers**

- **Primary response to natural disaster shock**
  - Formal and informal credit: 7%
  - Formal and informal saving: 50%
  - Insurance: 0%
  - Sold an asset/livestock/crops: 10%
  - Got assistance from family/friends/community: 3%
  - Changed behaviour: relocated/expenses/work more: 21%
  - Did nothing: 7%

**Sophisticated businesses**

- **Primary response to business shock**
  - Formal and informal credit: 10%
  - Formal and informal saving: 58%
  - Insurance: 10%
  - Sold an asset/livestock/crops: 0%
  - Got assistance from family/friends/community: 16%
  - Changed behaviour: relocated/expenses/work more: 6%
  - Did nothing: 0%

25% of sophisticated businesses want to expand their businesses, 15% want to buy a house to rent and 15% want to buy land but only 20% of them use formal credit.

Source: FinAccess Survey 2019
But they constitute a tough business case for FSPs

Value chain finance analysis prioritises the financial needs within the context of specific upgrades of a value chain if it is to take advantage of end-market opportunities.

Challenges

- Marginal business case
  - Heterogeneous groups
  - Segments disadvantaged by fragmented value chains
  - Systemic nature of climate risks

Asymmetric information

- Heterogeneous groups
- Distribution challenges

Marginal business case

- Heterogeneous groups
- Segments disadvantaged by fragmented value chains
- Systemic nature of climate risks
However, there are ways to coordinate value chains effectively

VCs can be integrated horizontally, vertically or in both dimensions

<table>
<thead>
<tr>
<th>Model</th>
<th>Driver of organisation</th>
<th>Rationale</th>
<th>Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producer-driven</td>
<td>• Small-scale producers</td>
<td>• Access new markets</td>
<td>• Alignment, coordination and accountability</td>
</tr>
<tr>
<td></td>
<td>• Large-scale farmers</td>
<td>• Obtain higher market price</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Stabilise and secure market position</td>
<td></td>
</tr>
<tr>
<td>Buyer-driven</td>
<td>• Processors</td>
<td>• Assure supply</td>
<td>• Revenue collection</td>
</tr>
<tr>
<td></td>
<td>• Exporters</td>
<td>• Increase supply volumes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Retailers</td>
<td>• Supply more discerning customers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Traders and wholesalers</td>
<td>• Meet market niches</td>
<td>• R&amp;D and services</td>
</tr>
<tr>
<td>Facilitator-driven</td>
<td>• NGOs and other support agencies</td>
<td>• Make markets work for the poor</td>
<td>• Market management and promotion</td>
</tr>
<tr>
<td></td>
<td>• National and local governments</td>
<td>• Regional and local development</td>
<td></td>
</tr>
</tbody>
</table>

Sources: FAO 2010, Vroegindewey 2015, IIED 2017
And comparing tea and maize illustrates the importance of an effective coordinating function.

**Tea value chain:** contributes to **1.7%** of GDP

- **Highly integrated and efficiently operating value chain**
  - Plantation/ Estate
  - Estate Factory
  - Warehouse in Mombasa
  - Mombasa Tea Auction
  - Traders/Buying Agents
  - Freight Handler at Mombasa Port

**Maize value chain:** contributes to **0.1%** of GDP

- **Complex and unorganised system resulting in food security issues**

Kenya Tea Development Agency plays central coordination role for smallholder farmers.

Sources: MAFAP 2013, ODI 2015, KNBS 2018
KTDA illustrates how an effectively coordinated value chain can overcome many of these challenges.

**Challenges**

**Asymmetric information**
- Heterogeneous groups
- Distribution challenges

**Lack of consumer knowledge**
- Lack of knowledge about:
  - Needs and opportunities within VC
  - Delivery channels
  - Repayment channels

**Marginal business case**
- Heterogeneous groups
- Segments disadvantaged by fragmented VCs
- Systemic nature of climate risks

**Instruments applied by KTDA**
- **Alignment, coordination and accountability**
  Accountable to the smallholder farmers
- **Revenue collection**
  Levy and annual bonus to farmers
- **R&D and services**
  - Extension services
  - Research and training facilities
  - Loans
- **Market management and promotion**
  - Manages all sales for producers
  - Negotiates with buyers on producer’s behalf
  - Sales promotion of teas

FSPs should consider to play or support a coordinative role in VCs to address challenges in serving SMEs and farmers.

Sources: MAFAP 2013, IFC 2014, IIED 2017
Inadequate health financing options to manage risk
Social solutions underpin health resilience in Kenya

Unsustainable when risk are systemic, ongoing and prevalent for a longer time

<table>
<thead>
<tr>
<th>Region</th>
<th>Regional market farmers</th>
<th>Urban wage earners</th>
<th>Public sector workers*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal and informal credit</td>
<td>12%</td>
<td>13%</td>
<td>20%</td>
</tr>
<tr>
<td>Formal and informal saving</td>
<td>36%</td>
<td>32%</td>
<td>39%</td>
</tr>
<tr>
<td>Insurance</td>
<td>6%</td>
<td>3%</td>
<td>13%</td>
</tr>
<tr>
<td>Sold an asset/livestock/crops</td>
<td>10%</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Got assistance from family/friends/commuity</td>
<td>30%</td>
<td>37%</td>
<td>24%</td>
</tr>
<tr>
<td>Changed behaviour: relocated/expenses/work more</td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Did nothing</td>
<td>2%</td>
<td>1%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Main device used for health shock

*Small sample size of 54

Source: FinAccess Survey 2019
Inadequate health financing options inhibits health resilience

Financing scheme as % of total health expenditure (2015/16)

- **30%** Government and compulsory schemes
- **26%** Household out-of-pocket payment
- **18%** Rest of the world financing schemes
- **13%** Voluntary payment schemes

**NHIF constrained to offer consumer-centric value**
- Communication and information sharing
- Administrative obstacles
- Inflexible, high cost payment plans
- Delayed claim approval

**Lack of private sector top-up options**
- Perceived weak business case
- Private sector crowded out
- Insufficient innovation incentives

Sources: Ministry of Health (2017), Barasa et al. 2018 l 39
Opportunity exists for complementary private-public solutions to boost uptake and profit

Financing scheme as % of total health expenditure (2015/16)

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Lack of private sector top-up options
- Perceived weak business case
- Private sector crowded out
- Insufficient innovation incentives

Opportunities for private sector
- Capture complementarity between NHIF and private solutions
- Foster digital platforms for on-demand health support and finance

Sources: Ministry of Health (2017), Barasa et al. 2018 | 40
Unavailability of affordable housing and financing options
Affordable quality housing is a problem among even the wealthiest.

What constitutes inadequate housing?
- Semi-permanent
- Temporary
- Traditional
- Inadequate toilet
- Overcrowded

Urban wage earners:
- 26% [0.28m] live in inadequate dwellings

Public sector workers:
- 30% [0.3m] live in inadequate dwellings

Source: FinAccess Survey 2019
Affordable housing constrained by weak financing and constrained value chains

Current challenges

- Weak financing options
- Risk preferences of banks
- Liquidity constraints of SACCOs
- Low availability of construction financing
- Inefficient administrative processes
- Fragmented VCs

Unavailable affordable housing
Constrained property value chains
Greater efficiencies and opportunities can still be tapped

Current challenges:
- Weak financing options
- Risk preferences of banks
- Liquidity constraints of SACCOs
- Low availability of construction financing
- Inefficient administrative processes
- Fragmented VCs
- Constrained property value chains
- Unavailable affordable housing

Opportunities:
- Liquidity facilities and innovation
- Greater regulatory guidance dual entity model
- Improve regulatory framework
- Streamline inefficient land titling and transfer processes
- Sector coordination and defragmentation of VCs
- Dual entity model
- Greater regulatory guidance
Weak digitisation of merchant payments
Over 90% of adults still rely on cash for daily expenses

*HAVE MADE AT LEAST ONE PAYMENT VIA ACCOUNT FOR THE USE CASE IN THE PAST 12 MONTHS*

<table>
<thead>
<tr>
<th>Use Case</th>
<th>No</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paying daily expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paying for assets</td>
<td>78%</td>
<td>22%</td>
</tr>
<tr>
<td>Paying monthly bills</td>
<td>66%</td>
<td>34%</td>
</tr>
<tr>
<td>Paying School fees</td>
<td>64%</td>
<td>36%</td>
</tr>
<tr>
<td>Paying money to Government</td>
<td>63%</td>
<td>37%</td>
</tr>
<tr>
<td>Sending money outside Kenya</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>Sending/Giving money within Kenya</td>
<td>28%</td>
<td>72%</td>
</tr>
<tr>
<td>Paying money to pension schemes</td>
<td>26%</td>
<td>74%</td>
</tr>
</tbody>
</table>

Source: FinAccess Survey 2019
Merchant use of digital similarly low relative to cash

Cash payments raise merchant cost and undermine business expansion goals

Methods of payment for *business expenses* in the past 12 months

- **Urban small businesses**
  - Mobile money: 8%
  - Cash: 97%

- **Sophisticated businesses**
  - Mobile money: 40%
  - Cash: 82%

Source: FinAccess Survey 2019 | 47
Weak merchant and provider incentives enable cash preferences

Challenges

Preference for cash

Weak merchant incentive

- Operational cost drivers
- Low transaction costs of cash
- Consumer preferences
- Tax regulation

Weak provider incentive

- Limited competition
- Cost of cash not borne by MNOs
New value-driven approach needed towards merchant digitisation

**Challenges**

- Preference for cash
- Weak merchant incentives
  - Operational cost drivers
  - Perceived costlessness of cash
  - Consumer preferences
  - Tax regulation
- Weak provider incentives
  - Limited competition
  - Cost of cash not borne by MNOs

**Opportunities**

- Research **digitisation barriers** of merchants
- Investigate and address **structural inefficiencies**
- Promote innovation (e.g. QR codes, open APIs)
- Research **true costs of cash** in relation to MNOs

**CGAP**

**fSD Kenya**

**Cenfri**

**71point**
<table>
<thead>
<tr>
<th>Cross-cutting need</th>
<th>Unmet need</th>
<th>Drivers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity management</td>
<td>Unsustainable liquidity management</td>
<td>Imbalanced regulation</td>
</tr>
<tr>
<td>Business and climate resilience and business expansion</td>
<td>Sub-optimal strategies for resilient livelihoods</td>
<td>Fragmented value chains</td>
</tr>
<tr>
<td>Health risk resilience</td>
<td>Inadequate healthcare financing options</td>
<td>Lack of private sector top-up solutions and constrained NHI</td>
</tr>
<tr>
<td>Housing</td>
<td>Poor access to affordable housing</td>
<td>Low availability of housing finance and inefficiencies housing sector</td>
</tr>
<tr>
<td>Digital transfer of value and business expansion</td>
<td>High reliance on cash</td>
<td>Weak digitisation incentives for merchants and providers</td>
</tr>
</tbody>
</table>
Thank you

Please engage with us:

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jeremy@cenfri.org

Claire Hayworth  
claire@71point4.com

Michaella Allen  
michaella@cenfri.org
Structure of breakout sessions

Structure of breakout discussions

- Split group into 4 breakout discussion tables – each one with a different topic (see box)
- Three breakout sessions – each lasts 15 minutes
  - **Session 1**: 11:00 – 11:15
  - **Session 2**: 11:20 – 11:35
  - **Session 3**: 11:40 – 11:55
- After each breakout session, **participants are free to** either stay at their table or to rotate to the next table

Breakout discussion topics

- Striking the balance in regulating for the digital age
- Strengthening agricultural livelihoods
- Enhancing affordable housing
- Enabling digitisation of merchant payments