A PROMISE FULFILLED?

FINANCIAL MARKET DEVELOPMENT IN KENYA 2011 - 2015

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A promise fulfilled? Financial market development in Kenya, 2011-2015

Susan Johnson
Centre for Development Studies, University of Bath

with contributions from:
George Muruka and Kevin Genga, MicroSave
Silas Ochieng and Joe Adero, FSD Kenya
Silvia Storchi, Centre for Development Studies, Bath.

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ABBREVIATIONS

ATM	Automatic teller machine
CBA	Commercial Bank of Africa
CEO	Chief executive officer
DTM	Deposit taking microfinance institution
FOSA	Front office service activity
GOK	Government of Kenya
KBRR	Kenya bank reference rate
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
KTDA	Kenya Tea Development Authority
KWFT	Kenya Women Finance Trust
MCS	Market case studies
MFI	Micro finance institution
MM	Mobile money
SACCO	Savings and credit cooperative
NGOs	Non-governmental organization.
KCB	Kenya Commercial Bank
SASRA	Sacco societies regulatory authority
FSA	Financial Services Authority
POS	Point of sale
ROSCA	Rotating savings and credit association

EXECUTIVE SUMMARY

The Kenyan financial market is the subject of great interest around the world. By 2011 the dramatic rise of mobile money over the previous four years had led to a tipping point in its adoption fuelling the expectation that uptake of digitally based financial services would continue to rise apace. However, findings from in-depth research found that mobile money was facilitating the extensive array of inter-personal transactions that Kenyans undertake within their social networks. These operated with a logic of resource circulation and reciprocity, often over long time scales. Mobile money had captured these informal transactions and made them visible as a highly significant and important financial infrastructure on which low-income people depend. The research argued that mobile money had therefore "revealed the rift" between the logics of formal and informal financial sectors such that mobile money adoption was not evidence of a straightforward 'on-ramp' to deeper engagement with the financial sector as was being anticipated.

This report from a second round of research undertaken in 2014 to 2015 finds that mobile money has not unleashed the digital revolution to the extent anticipated. This limited success further underscores the finding of the "rift revealed" regarding the need for providers to understand the role of social networks and their underpinning values for managing resources– in short the ***relational financial repertoires*** Kenyans use to manage their financial lives. Instead, providers continue to base their offer on conventional ***transactional repertoires*** that fail to attract the potential volumes which continue to be captured through informal and 'relational' alternatives.

Indeed, the main shifts in expanding financial inclusion in the last decade have been instances where the transactional repertoire has most successfully met these relational financial repertoires offering a compelling value proposition to Kenyan consumers. Hence mobile money directly enabled the huge nexus of informal inter-personal exchange. Equity Bank's leadership of the expansion of conventional banking provision also met the relational financial repertoire through its willingness to lend, so making good on a reciprocal dynamic. It also tapped into underlying values related to identity and belonging, community development and mutual support. The main development at scale since 2011 is M-Shwari which is now reaching some 9% of the market - approximately half of whom do not also have a bank account, and with outreach concentrated on the young, urban and educated. Its loan offer also fulfils a reciprocity dynamic that banks had hitherto failed to address in making such small-scale loans in response to small-scale deposits.

The analysis therefore argues that if the financial sector is to deliver on its promise it must deliver value for both consumers and providers and bridge the gap between different understandings of what value entails in these different repertoires.

This study investigates the financial market in three specific locations in Kenya - two rural market hubs (Nyamira and Kitui) and Kariobangi, a low-income area of Nairobi. It examines how the market is developing and what impact on lives and livelihoods is evident. It examines both the supply and demand sides of the market, and is a mixed methods study using both in-depth qualitative interviews as well as a questionnaire survey of financial access and use.

How has financial inclusion changed since 2011?

First, the report explores patterns of access and use including triangulating these findings with other major access surveys. The conclusions from this are that:

Conventional bank access [1] over the past two to three years has stabilised at 28% of the adult population (FinAccess 2016 – 31.7%). The main routes to access are still through the receipt of incomes from business or employment and accounts proliferate as people receive multiple income streams or even open them to receive specific payments. This in turn creates high dormancy rates

Mobile money registrations are held by 72% of the adult population in this survey (FinAccess 2016 - 71.4%). Compared to penetration of 62% in 2013, this shows some continued but slower growth. Those who still do not have registered accounts are excluded for reasons such as inability to afford a phone or a lack need. Indeed household level penetration rates are likely to be over 90%. [2]

M-Shwari has been the main change in the market since 2011, this has overall outreach of 9% and 4.1% borrowing according to this survey. This compares to 17.5% of adults using it according to FinAccess 2016.[3] This data shows particularly strong outreach in urban areas (25% in low-income Nairobi, this survey), while penetration of rural markets is much weaker. Its use is concentrated among young people, the non-poor and better educated. Over 50% of respondents in this survey were already formally financially included but some 39% do not have a formal service or informal group and it is therefore reaching a hitherto excluded demographic. This may be the beginning of a more extensive diffusion curve as people learn about it and advise others on how to manage it. However, the limited qualitative data available suggests that its value proposition is not straightforward and therefore that it is less likely to experience an adoption growth rate similar to that of MM.

1 Not including new mobile banking products of M-shwari/KCB Mpesa.

2 Over 90% of households in the Kenya Financial Diaries study had at least one member with a mobile money registration.

3 M-Shwari reported 7.2m accounts and 2.8m active borrowers in December 2014. With an adult population of approximately 45m of whom some 50% are under 18, this suggests some 7.2m out of approximately 22.5m adults and a penetration rate of 32%. However, similarly to banks, the number of accounts reported by suppliers tends to be much higher than those reporting actual use. This is likely because people may have signed up but having not used these accounts do not report in surveys that they have done so. However, the number of unique borrowers reported at 2.4m would suggest an approximate borrowing penetration rate of 10% which is also much higher than our survey findings. It is important to recognise that provider reported figures tend to vastly over-estimate use.

4 Of those reporting Mshwari/KCB Mpesa usage in FinAccess 2016 some 28.4% had not previously used a bank product.

SACCOs appear to be experiencing some decline , and MFIs are also static as a small share of the market.

Informal group use - also known as ***chamas*** and merry-go-rounds is 29%. This is consistent with the earlier FinAccess 2013 figure of 28% but both are much lower than the latest FinAccess 2016 figure of 41%. This indicates that the timing of surveys is very important for monitoring group use. When surveys are undertaken at the end of the year (Nov-Dec) they are likely to underestimate use since groups frequently break up at this time and re-form early the next year. There was certainly no qualitative evidence of reduced use. Nor does there appear to be a result of a shift to the use of other mainstream services for savings or credit. The demographic being reached by M-Shwari is not the core demographic of informal groups and only 9% of current M-Shwari users also use informal groups.

What are the reasons for slow uptake of new services?

The report provides insights gained from the qualitative field work on the reasons for use and non-use, particularly focusing on how new digital channels of access - both MM and mobile banking platforms – interact with intentions to manage them.

This indicates that keeping funds in the bank for saving requires that users experience a degree of inaccessibility. As a result, technological developments such as mobile banking platforms that make access more convenient and around the clock can be a hazard to effectively managing liquidity. While access 24/7 in case of emergencies may be appreciated, these modes of access create new challenges for the discipline of managing funds that are put into banks because they are intended to be less liquid.

Moreover, what is accessible for some is inaccessible for others. Hence for some respondents – especially rural women – there is evidence of greater use of mobile money as a place to save which puts funds a bit further from daily use in the house. For those who are more mobile and used to using mobile money for payments and experience it as a place through which funds flow, then this is too liquid a place to save.

These insights demonstrate how liquidity and illiquidity are results not solely of the products features but of the social and economic circumstances of the individual (eg. gender; livelihood type such as business versus agriculture; location and proximity and so on) as well as individual dispositions towards savings discipline.

The demand for (il)liquidity arises from a range of causes and conditions such as (i) the purpose for the funds which can be related to life-cycle factors such as marriage and taking responsibility for a family; building a house; future aspirations to educate children; (ii) access to and experiences of services and the technology involved; as well as (iii) individual dispositions towards self-control and discipline.

How does financial service use support lives and livelihoods?

The report investigates in greater depth how financial service use supports lives and livelihoods. This highlights that:

Wider economic conditions are critical to impact. The use of financial services is linked to these changes and cases of success in livelihood development appeared related to areas of economic expansion. But this is within an overall context of highly competitive and frequently saturated markets.[6]

These wider market conditions include the increased demand for education to compete in highly competitive labour markets such that poor families whose children are unable to find jobs are now seeking to invest in university education creating new demands on their resources and new challenges for matching investment with liability terms.

Businessmen continually juggle their resources to make the most of them and mobilize funds for new ventures when these opportunities arise fitting with the insight that money must be constantly working.

It was noted that even in cases where businesses were formal, bank lending played a rather small role in their success although being "friendly" with the bank was necessary to ensure good services.
Social networks for business people are vital, mobilising funds can take place in different ways through these relationships, whether this involves getting payment for services rendered in the past; calling in debts; or an opportunity to sell on commission when working capital is short.

Formal lending (including MFIs) was seen as problematic because claims for repayment do not relate to the income stream. Rather lending is preferred when it is against a specific income stream as the lender better understands non-payment when this stream fails. This has the effect of confining the when a leveraged income stream fails and preventing its consequences spilling over onto other livelihood activities.

Investment is both a financial and social process and cases showed how opportunities for others to do well are valued. For example, employing relatives or being able to uplift "***needy***" friends by enabling them to acquire motorbike taxis. This solidifies friendships creating social value for those involved.

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5 Although MFI outreach is growing in absolute numbers, if this does not keep up with or exceed population growth then they decline as a proportion of the market.

6 The market for MM agents is such an example too see (Khan, et al. 2015)

Explaining low uptake: a clash of financial repertories

The report explains these findings by presenting a broader perspective on the ways people manage their money. It connects ways of managing money to a wider perspective of what it means to live well and achieve wellbeing.

First, living well involves providing materially for the family. Being able to house them and send children to school enables conforming to the social and cultural norms of marriage and having children so bringing social status, identity and self-esteem. Other values identified were being able to identify with the community, achieving a sense of belonging, being respected and understood, and living in peace.

Second, being part of a community involves conforming to the moral norm of mutual support and nurturing relationships of support enables this identification. In this way wellbeing is not individual but is achieved through social relationships within the family and community.

Third, this means that financial practices of asking for funds and helping others, and belonging to *chamas*, contribute to these goals. This is in contrast to putting funds in banks since these do not have this sense of identity with family and community or enable networks of support. Banks do not even necessarily lend to the individual saving there!

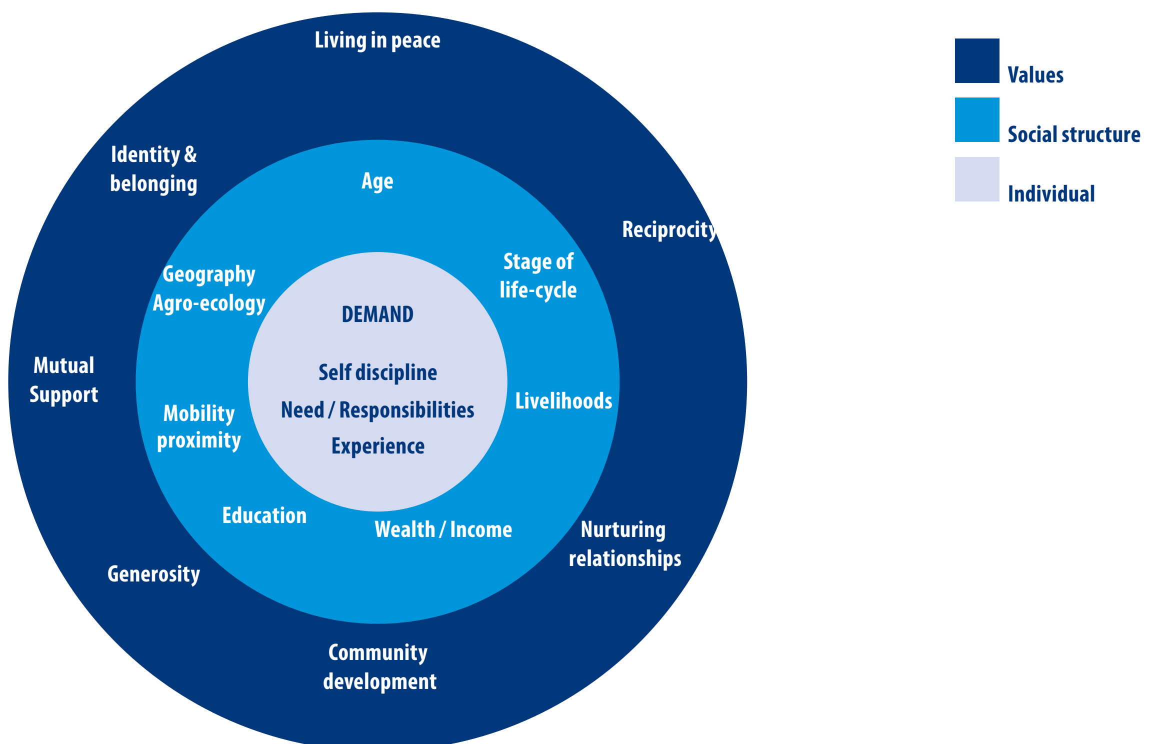
The report draws together these insights with those of related research undertaken for FSD Kenya, to propose that Kenyans operate with a ***relational financial repertoire*** embedded in the deeper values of identity and belonging; mutual support; generosity; community development; upliftment and reciprocity. It does point out that this is an ideal which operates within highly competitive environments that are also subject to opportunism, corruption, deceit and fraud. Moreover, this deeper value framework underpins demand that is patterned by socio-structural factors such as age, gender, life-cycle, geography and so on; and then by individual level characteristics such as aspirations and purpose; need and responsibilities; and experience and learning (figure 1.)

This contrasts with the ***transactional financial repertoire*** that dominates formal financial sector provision (figure 2). In this, the underlying values are profitability, capital returns, private ownership, scale, growth and so on. The nature of supply within this wider values frame is structured by firm structure, capital structure, regulation, supervision and so on. Within this context, product and service characteristics of price, terms and conditions and delivery mechanism are the outworking of these wider influences.

From this perspective, the ability of the formal sector to meet the needs of low-income Kenyans is due to the way these repertoires meet - or rather fail to meet (figure 3).

The report argues that the substantive increases in inclusion that have taken place in Kenya have occurred where the formal financial sector has not only provided a product that is cost-effective, convenient and functional for users

Figure 1: Demand and relational financial repertoires



but where it has also keyed into this deeper relational financial repertoire. The substantive increases in inclusion are three: first, mobile money through M-Pesa, which essentially unleashed the relational financial repertoire by radically lowering the transactions costs of inter-personal informal financial transfers. Safaricom has also keyed into values of national identity and national development.

Second, Equity Bank as the market leader in bank outreach has also keyed into the relational repertoire through the way it created a stronger reciprocal lending offer; demonstrated its willingness to invest in a wide range of projects in a bid to uplift; played a lead role in Vision 2030 so identifying itself with the development of Kenya as a whole community; keyed into ideas of mutual support through its educational scholarship support; and addressed a sense of identity and belonging through its "I'm a member" campaign.

Third, M-Shwari is the latest initiative which appears to be shifting the inclusion boundary – although its track record is not yet fully clear. It too seeks to make a better reciprocal offer of lending, while also riding on the back of the values of Safaricom and M-Pesa. However, apart from the reciprocity dynamic, its value framework is much less distinctive than M-Pesa and Equity Bank. Finally, this analysis helps also to understand the enduring appeal but recent decline of SACCOs. While these fit better the relational financial repertoire, they are losing out in competition to the banks as regulation has moved them towards a more transactional approach in order to avoid the potential failures

Figure 2: Supply and formal transactional financial repertoires

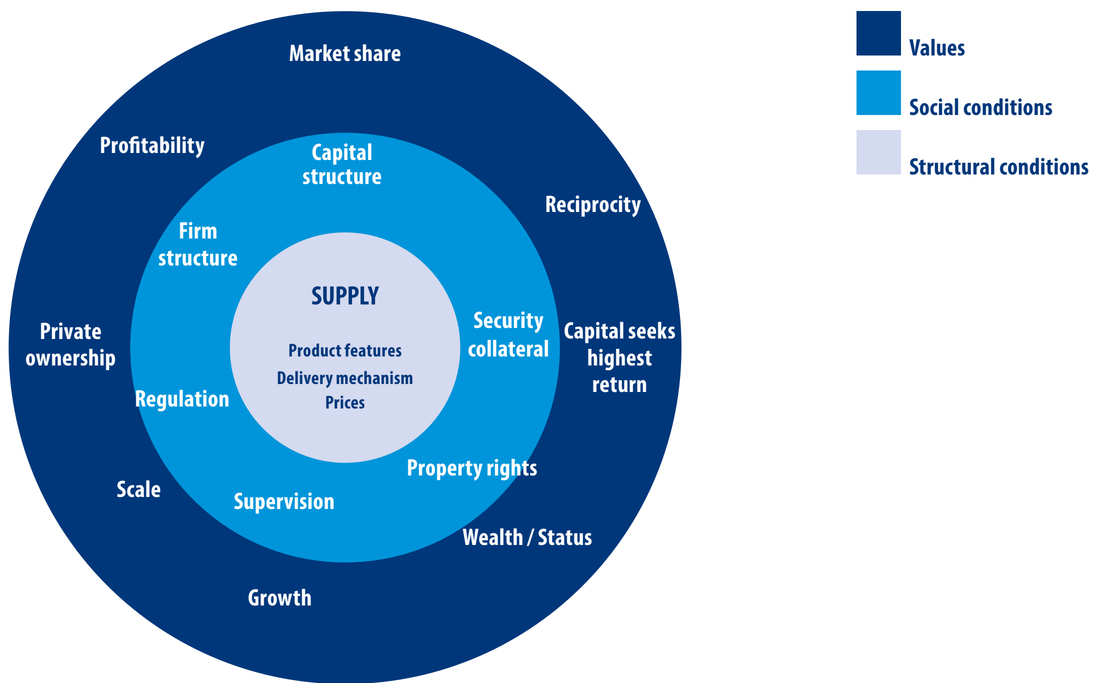
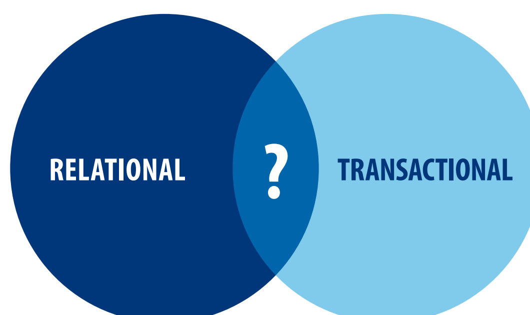


Figure 3: Expanding inclusion is where relational and transactional repertoires meet



that relational repertoires also expose institutions to. Further, the trajectory of MFIs in Kenya has also become more transactional. From origins in non-governmental organisations (NGOs) which sought to build on the relational financial repertoires of informal group-based finance, the transition to MFIs and now to micro-finance banks (MFBs) has signalled a gradual shift to transactional financial repertoires, and further explains their limited impact on the overall market.

Implications

From this analytical perspective the implications are that further significant shifts in inclusion are likely to occur when provision effectively addresses this relational dynamic. Formal sector providers therefore need to find ways to address it which go beyond simple marketing and branding - they must genuinely practice a double-bottom line which addresses social dynamics within this relational repertoire.

The implications are also the need for institutions and institutional forms that practice relational repertoires. While the need for SACCO rejuvenation is one such possibility, it might rather be an emphasis on alternative models of community development finance that is necessary. These along with the new potential of blockchains for decentralised accounting and peer-to-peer and crowdfunding may be more likely to converge with this repertoire in ways that significantly expand inclusion. Financial services which appropriately fit this relational financial repertoire will not simply expand inclusion, they will enable people to achieve their wellbeing goals in ways that resonate with their understanding of the right role of finance in building community.

Chapter 1

INTRODUCTION

The Kenyan financial market is the subject of great interest around the world. By 2011 the dramatic rise of mobile money over the previous four years had led to a tipping point in its adoption fuelling the expectation that the adoption of digitally based financial services would continue to rise apace. The supply side was beginning its shift to agent banking; new mobile-based products were being launched to great fanfare, such as M-Kesho, Orange Money. But these products appear to have made little impact on the shape of the market – and indeed some have now been assigned to the history books of failed endeavours, to be replaced by new initiatives. Mobile money registrations have flattened out at around 62% over the last two years – suggesting the top end of the adoption curve may have been reached and growth from here will be slow and must find new ways to address the needs of the excluded population. The launch of M-Shwari in December 2012 has made the largest impact reporting 7.2 million accounts and 2.8 million active borrowers in December 2014 (Cook and McKay 2015) and the latest FinAccess 2016 survey reports outreach of 17.5%. Although there is a high level of use by those already formally included (over 50%) there is also evidence that it is being used by those not otherwise formally included (excluding use of mobile money). This report examines these developments to explore the situation on the ground from the perspectives of both providers and users.

How is this current situation to be interpreted? Is the promise fulfilled or unfulfilled? How might we know? Are we simply at the beginning of new diffusion processes?

- Is agent banking leading to new banking outreach and increased use?
- Is M-Shwari a break-through product whose diffusion curve is now beginning as for example in the early stages of M-Pesa, is this the beginning of the diffusion S curve?
- Was mobile money adoption an exception whose characteristics are unlikely to be repeated?

The previous report argued that it revealed a rift between the understandings of users and providers in that it enabled the inter-personal exchanges that Kenyan's so often undertake to be carried out at lower cost providing an incredibly attractive value proposition within their existing financial repertoires of resource exchange. But given this – and the greater use of informal exchanges that it signalled – this did not necessarily mean that the simple use of mobile money to send and receive funds meant a readiness to engage with the formal financial sector in the form of banks or other formal institutional structures.

This report draws on findings from studies of local level retail financial markets that are intended to add depth and insight to the understanding of how this market is developing. The report seeks to address the question of how supply is changing at the local level and to examine qualitatively the impact that these changes are having on low income people's lives and livelihoods. In doing so it is a follow up from a 2011 landscapes study titled "The search for inclusion in Kenya's financial landscape; the rift revealed". This report uses a similar approach. It is based on in-depth investigation of supply and demand in three specific financial markets: Nyamira, Kitui and Kariobangi location in Nairobi. Two of these - Nyamira and Kitui - were studied during the previous landscapes study. This study substituted an urban site in Nairobi for the well-off rural site of Karatina in order to capture urban insights while retaining the rural sites with higher poverty levels than Karatina.

The study is a synthesis report of four separate components, the findings of each are in separate reports along with more detailed accounts of their methodologies. First, a supply-side study in which financial providers were identified and interviewed to understand their performance and perspectives on their local markets. Gaining permission from formal banks was not as successful as in previous rounds of research, however, the largest banks co-operated with the study and the data provides insights on change.

Second, was a random sample survey of 1830 people was undertaken in areas surrounding the market hubs. This involved random sampling, first of Kenya National Bureau of Statistics (KNBS) enumeration areas (EA), and second, using a quick listing of households in these EAs, involved random selection from the quick list. The survey instrument involved a section to be answered by the household head – concerning household characteristics, livelihood activities and expenditure; and a second section to be answered by a respondent chosen using the Kish grid to answer questions about their individual level financial service use.

Third, in-depth interviews were carried out with 35 respondents of the earlier Landscapes study, across the three earlier sites (Karatina, Nyamira, Kitui). These sought to understand change in livelihoods over the past four years and the role that financial services had played in these.

Finally, a qualitative study has been undertaken of a small number of respondents from the new survey. This is part of a separate study on financial capability which seeks to understand how financial management practices interact with the achievement of wellbeing goals. The data analysed for this report is from 16 respondents in Nyamira and Kitui.

Chapter 2

SUPPLY-SIDE DEVELOPMENTS: THE PROMISE

2.1 CHANGES IN THE REGULATORY ENVIRONMENT

Since 2011, there have been a number of developments in the regulation of the supply side of the retail financial system intended to extend its outreach and consolidate supervision of its operations. The key developments have been as follows:

- Agency banking: agency banking legislation was passed in 2009 with guidelines introduced in 2010. In terms of outreach this was expected to further open up access. Indeed in Nyamira one bank manager reported that by selecting locally known and respected business people in the communities to run agencies, this would further propel outreach through viral marketing in the smaller market centres. Agency outreach has in fact been significant – by the end of 2013 Equity Bank had over 11,000 agents and Kenya Commercial Bank (KCB) and Co-operative Bank had around 7,000 each. However, interviews indicated that while this had helped to decongest bank branches for straightforward cash in and out transactions, banks had been cautious in allowing them to open new accounts.
- SACCO sector: regulation requiring SACCOs with front office services activity (FOSAs) to register with SASRA was at the beginning of its four year implementation period during the 2011 study. This is now complete. All the SACCOs with FOSAs that were in the two original study areas have successfully registered. However, it is likely that this has provided a drag on their liquidity and hence created further challenges for their competitive position.
- The Microfinance (Amendment) Act 2013 has extended the deposit taking microfinance institutions (DTMs) remit allowing them to call themselves microfinance banks and operate current accounts, issue third party cheques and engage in foreign exchange transactions. While the largest MFIs had already registered as DTMs by 2011, this has involved them in a long process of developing their branch networks to meet security regulations, along with their products and services. The period has therefore seen a consolidation of their operations in their fully regulated forms. The MFBs now hold some 1m deposit accounts and some 900k loan accounts.
- Credit reference bureau regulation began in 2008 and has gradually been introduced (2011 to 2012) and extended its reach. This now requires commercial banks and DTMs to submit both positive and negative information and is a system that the banks are still getting used to. The expectation - certainly of politicians when they passed this legislation – is that it would help lower interest rates – a perpetual politically charged issue. As will be seen below, there is little evidence of this to date – if anything they may have risen slightly.
- The Kenya banks reference rate (KBRR) was introduced in July 2014 as a uniform base lending rate across the banking sector to enable consumers compare the pricing of loan products. Publication of information on interest rates for the banking sector is therefore expected to increase transparency, competition, enhance credit access and lower the overall cost of credit to borrowers. The Central Bank of Kenya (CBK) has now published the 'K' premiums for institutions[7] showing their rates over and above the KBRR.
- Technology: in 2011 many banks had developed mobile banking platforms through which customers have direct access to their accounts and this was expected to operative with the availability of agents to enhance access and use. In 2011 Equity Bank had just launched Orange Money - its tie up with the MNO Orange to drive its agency expansion, but this did not operate successfully and they shifted to a point-of-sale (POS) system. Since then Equity Bank has sought to develop the Equitel sim and thin-sim technology to compete with the market leader Safaricom.

2.2 BACKGROUND TO THE MARKET HUBS

The study was carried out in three market hubs. Two of these Nyamira and Kitui had been studied in the previous landscapes study. They were chosen to represent districts in the bottom two terciles of the poverty ranking of districts in Kenya according to the report "Wellbeing in Kenya" (Government of Kenya, 2005). Additional reasons for their choice were that FSD had particular interests in the financial markets of Nyamira and Kitui since it has funded the implementation of GSLs by CARE in Nyamira and financial services associations (FSAs) by K-REP Fedha Services in Kitui. Located in a relatively high potential agro-ecological zones Nyamira offers insight into access and use where population densities and food security are not primary problems, while Kitui represents the semi-arid spatial frontier of delivery and a context of chronic food insecurity.

The methodology for defining a market hub was developed in more depth to provide the sampling frame for the demand side survey in this study. The recently published FSP Maps were used to identify a population for whom the market centre was closer (as the crow flies) than any other market centre which had at least two bank branches within one kilometer of each other. This map was then adjusted for known major transport or other boundaries (this particularly meant that the boundary for Nyamira was treated as the district boundary with Rachuonyo). As a market hub Kitui has a significant geographical hinterland and a large population (approx. one million compared to approximately 600 thousand in Nyamira) for which it is a catchment (see maps at annex 1).

In this study Kariobangi South location was added to capture understanding of an urban population. This was chosen for the reason that a number of other financial sector studies had been undertaken in this area including the Kenya Financial Diaries (Zollmann 2014) and studies of SME financing (Totolo and Folloni).

Kitui and Nyamira have both become county headquarters in the new administrative structure. Nyamira's economy is still primarily dependent on tea, with some coffee in the northern and drier parts, and small enterprise in the town. Kitui has recently seen the discovery of coal which has also given it additional interest to external investors, along with a proposed cement production plant and new university campuses.

However, compared to SACCOs and MFIs, banks were less willing to participate in this research and fewer participated compared to the 2011 study. As a result comparable data for them in the two markets is limited (see the Supply-side report for more details). However, the data present indications of dynamics which are consistent with other data and understanding of developments in the sector, this is discussed in the next section.

2.3 TRENDS IN FINANCIAL SERVICE PROVISION AND PERFORMANCE

The period from 2008 to 2011 saw a significant expansion in the branch network of the main retail banks such that there were many new entrants into these market centres. Hence for example, Equity Bank, Co-operative Bank and Family Bank entered the Nyamira market in the two years prior to 2011, adding to the existing base of KCB and Barclays (who had earlier closed and then returned). This trend had slowed by 2014 with only Post Bank being an entrant to Nyamira and Family to Kitui (both arriving in 2011). Detailed data was available from two of the leading banks and, on the basis of this growth in deposit mobilization was 60% across the two markets though stronger in Kitui than Nyamira. Once inflation of 23% between 2011 and 2014 is taken into account, this represents real deposit growth of approximately 40%.

On the other hand, the deposit mobilization by SACCOs has seen very divergent performance. While some small SACCOs – such as traders and transport SACCOs - have grown significantly, others have experienced significant reductions in deposits. This appears to be partly a result of both competition and, for those with FOSA's, the new sacco societies regulatories authority (SASRA) regulations. MFI performance is also mixed – with some growing while others have declined. In the shift to microfinance banks, the requirement that savings kept as collateral become withdrawable deposits, led to MFBs having to place the traditionally held collateral savings in transactions accounts which members then withdrew, resulting in significant declines and aggressive deposit mobilization campaigns in the market.

The competition between banks and SACCOs for borrowers was fierce in 2011 and has remained so. This is largely for customers with income streams against which lending can be undertaken. These are mainly salaries (especially Kitui) and tea incomes (Nyamira) as both of these are managed using check-off systems which means that claim for repayment are made at source and do not rely on the borrower to repay. Indeed, competition on lending against these income streams is so fierce that it was reported in 2011 and repeated in 2014, that institutions work with insiders in institutions such as the Teachers Service Commission to ensure that their claims on salaries are put ahead of those of other institutions. Banks generally have better contacts and arrangements than SACCOs do – especially SACCOs that are not in Nairobi. Additional competition for loans against tea has come from the Kenya Tea Development Authority's (KTDA) own lending window called Green Fedha, which is able to deduct at source prior to any other claims.

Across the bank branches studied, loan to deposit ratios are over 100% in Kitui and under 100% in Nyamira. A Kitui branch manager commented that, "As we go out for savings mobilisation we meet all these masses that are looking for loans" capturing the view that deposit mobilisation does not match the demand for loans. However, it is also notable that loan growth has not actually kept pace with deposit growth in both branches in Kitui and one of the branches in Nyamira such that loan to deposit ratios have actually fallen compared to the Landscapes study. This may be because they have lost borrowers to other banks in the market in the highly competitive atmosphere (which were not able to capture due to their non-participation in the study). However, if it is indeed a more widespread trend then this does suggest that these banks might also have reached the limits in terms of their ability to match their lending offer to local demand. This inability to lend alongside deposit growth also reflects the national figures for bank accounts relative to bank loans in which the proportion borrowing from a bank has grown by only a couple of percentage points in the face of an approximately seven percentage point rise in the proportion of adults with deposit accounts (FinAccess 2013). Alongside this, leading SACCOs and MF banks have also reduced their lending portfolios as their deposits have also fallen.

Interestingly FSAs in rural Kitui have just kept their nominal deposit growth at a level that means the real value is the same. On the other hand, the Kitui Development Centre reports significant growth of the Savings Groups initiative that they had introduced although there is little data on the actual performance of the groups.

Interestingly also - while the traditional employee and cash crop SACCOs have been struggling to retain their customers in the face of competition from banks, there are at the same time other grassroots SACCOs that are being registered. These are usually among traders and business people or jua kali sectors and operate as back office only. The development of these local institutions is frequently precarious and their performance often poor however, their development represents a concern expressed by one of our respondents who was an MFI borrower to be able to borrow without the money going to "growing someone else's business". There is also innovation at this end of the market with at least one SACCO in Kitui along with a company in Kariobangi having daily collection systems to mobilize savings or cash collateral. In Kariobangi, this identifies a low income market for low value consumer loans of amounts as low as Ksh 1,000.

2.4 PRODUCTS AND PRICING

The product offerings at the banks have changed little since 2011. Transaction prices have remained fairly static in nominal terms since 2011. For example, Equity's over the counter withdrawal charge has increased by only Kshs 2 to Ksh 52 - due in part to an excise tax[8] - while the ATM withdrawal fee of Kshs30 has remained the same. These prices have therefore fallen in real terms.

In terms of loan pricing, there is some evidence that effective interest rates have fallen by between 2.5% and 4.5% in some banks and MFIs. Surprisingly KCB uses flat rate charging on a main consumer loan product which means that effective rates are much higher than the quoted rate. Interest rates therefore remain confusing and it is not clear that providers are pricing their products according to the K premium as proposed by the KBRR regulation.
In terms of products there has been little clear development or structural shift in this core part of the physically present financial market. The key product development is M-Shwari which has no local presence and we discuss its performance in the next section. As a product, it offers a savings account with zero transactions costs for deposits or withdrawals on the back of the M-Pesa mobile money platform (which charges for withdrawals). Loan eligibility is based on an algorithm of use of the savings account, airtime use and data use, and repayment performance once a loan has been taken. The product does not charge an interest rate but a fee of 7.5% per month and this is charged again on loans that are rolled over into a second month. This has extended small loans to nationwide availability on a 24/7 basis. However, interestingly it also did not feature in the discussions with these suppliers indicating that in late 2014 it was not perceived as a competitor with this standard set of services. Given its growth and the launch of KCB M-Pesa in mid-2015 in collaboration with Safaricom and in the context of the end of its two year exclusive agreement on M-Shwari with Commercial Bank of Africa, and with larger loans on offer (starting at US$30) this is likely now to be changing.

2.5 CONCLUSIONS

Overall, this evidence suggests that banks have continued to grow their businesses in real terms, but the regulatory requirements for MFIs and SACCOs have resulted in some loss of liquidity creating constraints to their operations and led to some loss of ground. It remains to be seen whether the SACCOs can develop from their more financially secure and regulated base to actually successfully compete with the banks. The SACCO model is at a competitive disadvantage from a purely cost perspective since members borrow a multiple of their withdrawable savings and this raises the costs of borrowing – some customers had begun to realise this during the Landscapes study. With the opening of the common bond by most SACCOs, there is also the risk that members also lose a sense of identity with other SACCO members over time.[9] This renders SACCOs much more like banks and banks have increasingly muscled in on the cash flows of salaries and tea (coffee is less regular and difficult to lend against). Some SACCOs - such as Wakenya Pamoja – have made significant strides in developing a microfinance business to run alongside this and done it relatively successfully.

8 An excise tax of 10% was imposed on bank service charges (except interest) in 2013. Equity did not pass this on fully to customers, while other providers - such as M-Pesa – did.

9 Although new entrants who are not part of the original common bond are usually ascribed a lower status as members, it is likely that they lose their distinctiveness in the market as they compete for customers with less loyalty or sense of identity with the institution..

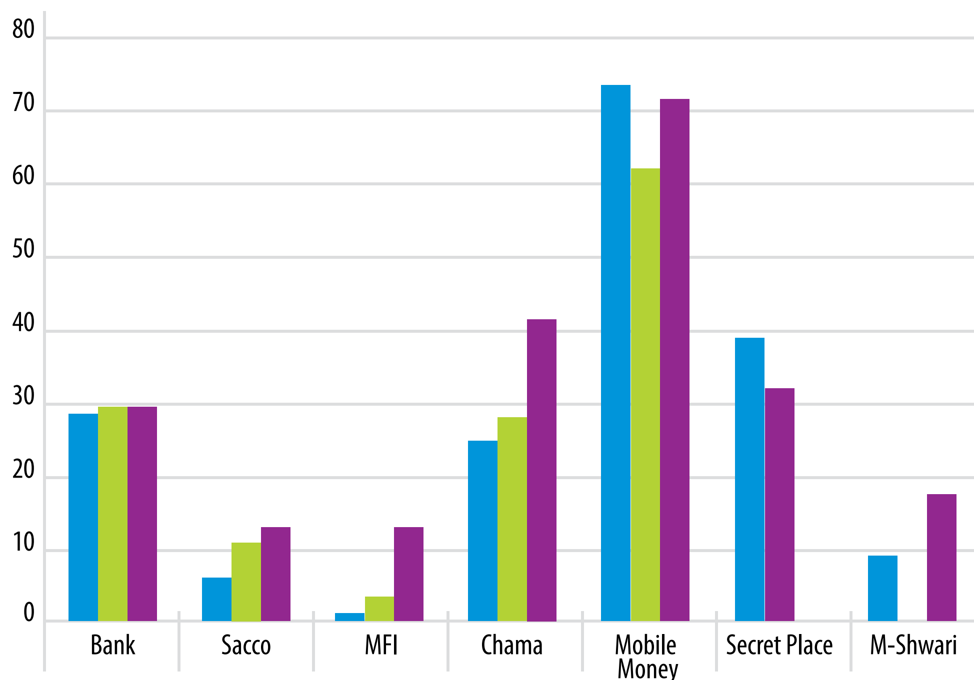
Chapter 3

DEMAND SIDE RESPONSES: CONTINUITY WITH SOME CHANGE

3.1 PROFILE OF ACCESS

The survey from the three sites in which this study was undertaken are shown in figure 4 and compared to results from FinAccess 2013 and FinAccess 2016. The results are varied in their consistency between the national dataset, having been undertaken in late 2014. They are perhaps surprisingly consistent with FinAccess 2013 for formal services and informal groups (*chamas*). The figure for mobile money was higher in market case studies (MCS) than FinAccess 2013 and is still higher than FA16 but may be on the high side because there were some issues in the data collection for this question and it required some follow up which might have resulted in higher reporting overall so we do not put too much emphasis on this figure other than that it indicates there is likely to have been some growth over the 2013 figure. Figures for saving in a secret place are rather variable and this likely reflects some sensitivity over this question and may reflect the nature of the survey instrument in each case in terms of the context in which this question was asked. The results are discussed further below.

Figure 4: Comparative use of financial services (% of adult population)



3.2 BANKS

3.2.1 Bank access

As figure 1 shows, the market case studies (MCS) survey finding of 28% of adults reporting access to a bank account is very similar to the FinAccess 2013 national survey figure of 29% and the earlier Landscapes study figure of 27% (for the two comparable sites).

Bank access had grown significantly from 18% in 2006 to 22% in 2009 according to earlier FinAccess surveys. The FinAccess 2016 data now indicates 32% which suggests some further increase, but the figures are of a similar order at around 30% and we must allow for the margins of error in these surveys. The breakdown across sites within the MCS sample is Mombasa 56%; Nyamira 25% and Kitui 16% closely reflecting the urban-rural divide we would expect to see as well as the relative poverty levels of the three locations.

The gender breakdown in which 38% of men and 23% of women have access demonstrates the ongoing significant gender divide in bank access and again closely matches other survey results. The gender gap is therefore 15% and women's access runs at only some 61% of the level of men's.

The qualitative fieldwork with respondents of the earlier survey demonstrated that main reasons for opening formal accounts (including SACCOs) were still to receive payments – a similar finding to that of the Landscapes study. In terms of changing gendered access, this interestingly involved women now being more likely to be opening such accounts (in the Karatina area) because of supplying vegetables to contract buyers, but also because they were being given coffee trees by their husbands leading them to open SACCO accounts. These changes are notable because they come after the lengthy debate over the last decade around inheritance rights for women in the constitution and its eventual enshrining of equal rights.[10] Interestingly two cases of men opening formal accounts involved reformed behaviour such that opening the account meant taking better care of their money as a result of this.

It is also worth noting that it is a pattern also to open an account for a new income stream. There are a number of reasons for this. First, for tea and cash crop incomes there are traditions of receiving these through SACCOs although banks have made in-roads into the tea sector. Second, companies tend to recommend particular institutions for recipients to receive payments through presumably because this lowers their own costs of transfer - a pattern in the market that contributes to high account dormancy for banks themselves. Third, from the point of view of borrowing against income streams, financial institutions making such loans do not expect these loans to be paid when revenues from these sources or cash crops are delayed or low (see also below). Hence even where financial institution accounts are held there is proliferation of new accounts where new income streams are received or anticipated.

With these patterns the dominant pathway to inclusion is engagement with formal sector economic activity through employment and business relationships. Second, diversified income streams among poor people tend to lead to a proliferation of accounts to receive each one. Where accounts are opened to save, this is also likely to be in a separate account, especially if there are inputs received, or loans taken against income to be received through an existing account.

3.2.2 Bank use

Figure 5 shows the frequency of use for those with access. Cumulatively these data show that some 78% deposit once a month or more but with some 27% doing this more often than monthly. This is consistent with a pattern of receipt of monthly payments from employers and cash crops such as tea. However it is interestingly higher than the earlier Landscapes study figure of 64%. For withdrawals this survey gives 70% reporting that they withdraw at least once a month, with 37% indicating they do so more than monthly so with a strong indication that this is driven by drawing down of monthly payments in single or multiple visits. This is down on the 77% figure of the earlier Landscapes study. Overall this suggests an increased intensity of depositing and lower intensity of withdrawal. This could well be associated with the availability of agents making deposits easier, although the flip side of this does not appear to be increased withdrawing. This is consistent with concerns regarding liquidity management that we discuss further below.

Figure 5: Last time the account was accessed

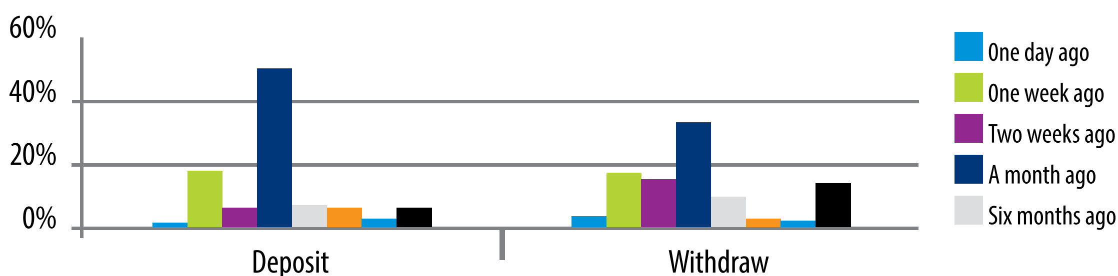
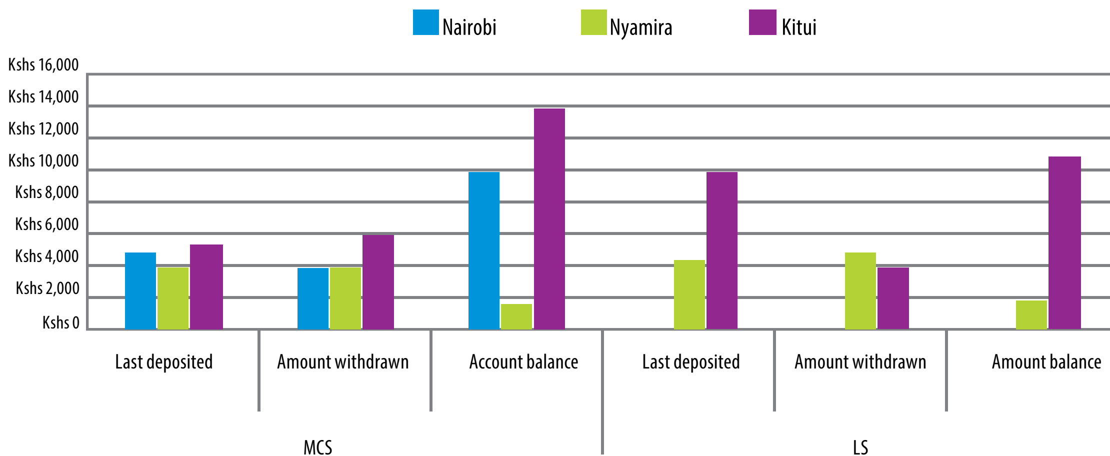


Figure 6 demonstrates that median amounts deposited are in the range of Kshs 4,000 to Kshs 6,000 and amounts withdrawn are similar. These amounts represent upwards of a month's expenditure at the rural overall poverty line (Kshs 4,091 in 2014) and a half or more of the urban overall poverty line of (Kshs 8133 in 2014) in Nairobi. Amounts deposited are lower than the earlier landscapes study findings in Kitui although amounts withdrawn are of the same order. Balances held and amounts withdrawn in Kitui appear highest. This is due to a small sample of bank users and a skewed distribution in Kitui as a result of fewer overall having bank accounts and those that do tending to be business people.

[10] See for example (Cooper 2012)

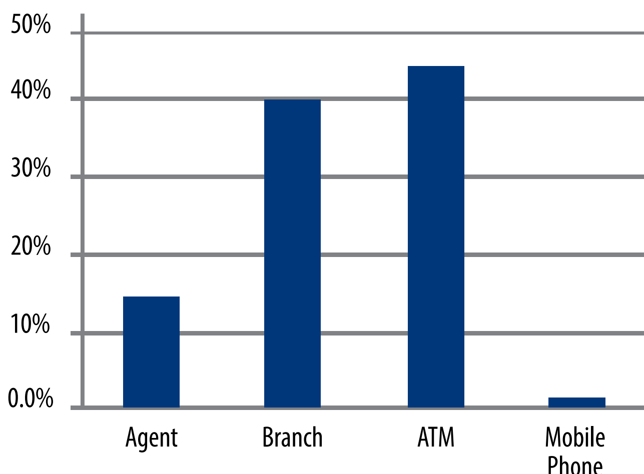
Figure 6: Median amounts deposits, withdrawn and balances held (market case studies and landscapes study data)



Despite the recent initiatives made by banks in reaching the wider population such as introducing agency and mobile banking, it is surprising that the usage of these facilities remains principally low (figure 7). Of the bank users, the dominant modes of access were ATMs and branches with only some 14% using agents and 1% using mobile phone platforms.

Further examination of this profile for rural users shows that 60% and 47% of bank users in Nyamira and Kitui use bank branches and the cost of reaching the branch ranged between Kshs 140 and Kshs 200 across the two sites respectively. By livelihood, 68% of those who depend on agriculture and had a bank account accessed their accounts via a branch whereas over 50% of the employed (all sites) used ATM services.

Figure 7: Access points (How do you usually access this account?) (% of users)



The qualitative research showed that there are norms around the deposit of funds in banks. When banks are used for voluntary savings (i.e. when not just the route for the receipt of salary or business payments which are to be withdrawn) money is put there to be more difficult to access and hence more illiquid. In this context funds may be accumulated in the house or in mobile money and then taken to the bank when they are large enough amount and not needed for daily use. The meaning of the bank for many people is therefore as a more illiquid place to put funds relative to those that are kept in other places. They are more distant in part because they take more effort and cost to withdraw. Where people use banks as a means of keeping funds illiquid, then decisions not to adopt mobile banking platforms are consistent with this strategy. In seeking to bring bank accounts into poor people's lives as a more liquid place to keep funds, this is therefore also running counter to a long culture of how people have used banks to construct illiquidity.

Moreover, the qualitative data clearly indicate that for whom different instruments are liquid or illiquid is not a result of the instrument in use but of the person using it: what is liquid for one person is not liquid for another. This involves structural factors of mobility, livelihood context, familiarity and nature of experience and interaction with the technology itself, and how these are also gendered: so for example men and women face different contexts and pressures on them to spend money. Men may experience this through socialisation in bars while women may face the demands of children for treats. What is apparent however, is that the increasing range and ease of access through mobile banking platforms is not necessarily purely a positive route to increased access for everyone but creates new challenges for constructing illiquidity. These challenges and their responses are explained further in box 1.

Box 1: Mobile banking platforms – a new challenge for liquidity management

Apart from mobile money itself, the banks now all offer mobile banking platforms through which to deposit and withdraw funds. The core concern of the sector has been to extend access by making such services more available. However, it is perhaps counter-intuitive that this new access creates new challenges for liquidity management as these new access channels proliferate. These were well illustrated in the accounts of Stephen (120-4) and Janet (917-2).

Stephen had started saving in mobile money because the agent was in the market centre where he also runs a pool table, he could therefore deposit his money very easily. This saved him the matatu fare of Kshs 60 for going to town and the time. But as indicated above he started to realise that he was using it to buy airtime - and implied also that when drinking with friends he could feel pressure to buy drinks. So he switched to saving in Equity and depositing with an agent in town. He found this easy because "I just give the money and go, they have my account number and I save time". It also meant he could send someone else with the funds if necessary, and has the security of getting a message on the phone that the money has been deposited. However, for amounts over Kshs 10,000 he preferred to have the security of handing it to the cashier at the bank rather than an agent. His weekly pattern of savings is also precipitated by wanting to build up his statement with the bank in order to get a loan to buy a vehicle. When asked why he did not instead register with his bank's mobile banking platform [Eazy 24/7] so that he could deposit his money in the bank via his local mobile money agent he responded saying "I have not upgraded because I don't know how to do that and I don't want to get the simple ways of getting my money out of the bank, that's why I don't want to register for the 24/7". Hence he understood that he needed an easy enough way to get the money into his account but a harder way to get it out. Hence the accessibility of an mobile money agent in his market centre which could allow him to not only deposit into the bank but also withdraw it at will reduced his transactions costs of withdrawal too much!

Janet had a similar concern. As reported above, she is a business woman with a market stand selling household linen and a boutique, a husband who works in Nairobi and they run 3 taxis – two in Kitui and one in Nairobi. She is a user of multiple bank accounts and mobile money and will put her takings in mobile money if she does not have time to go to the bank. She had registered for mobile banking but had done this on a separate SIM and given this SIM to her sister (who lived with her) to keep for her. This she did because she did not want to have easy access to the funds. She explained that if she wanted to use it she would have to persuade her sister that the expenditure was a good idea. She described how she had wanted to buy a flat screen TV in a shop one evening but her sister said that she should not. So this is a way she can build in a barrier to her impulsive use of funds to which she now has greater access.

This case illustrates rather eloquently, the need for this woman to have a human barrier to accessing the money. It raises the question of whether preferences for saving in a bank or through processes which involve having to receive the funds from a person rather than through an automated process present a barrier to access which may also be important. That going to the bank to withdraw not only requires effort, money and time, but that additionally this process - for some at least - involves time for greater reflection and need for conviction about the use of the funds being withdrawn. It involves facing someone to ask for them and additional consideration that the reason for withdrawing is a good reason – a process which access through the phone does not replicate.

3.2.3 Bank loans

Some 4% had borrowed from the bank in the last 12 months. Interestingly the highest proportion by location was of 7.1% in Nyamira followed by 4.8% in Nairobi and 2% in Kitui. This possibly signals the ability to access bank loans against tea incomes in Nyamira which is not the case in the other two sites. This figure is again comparable to FinAccess 2013 at 3.8%, and similar also to the FinAccess 2009 figure of 3% - which also indicates that loan access between 2009 and 2013 did not grow alongside account access.

By employment sector government employees were the most likely to have them and a higher proportion of men than women.

The mean amount taken in a bank loan was Kshs 136,673 (n=72) with the median at Kshs 50,000 with the minimum reported as Kshs 3,000 and the maximum of Kshs 1 million. This was actually a little lower than the figures for SACCOs with a mean of Kshs 146,466 and a median of Kshs 80,000 with a minimum of Kshs 5,000 and a similar maximum of Kshs 1 million.

3.3 MOBILE MONEY

This survey gives a headline figure of 72% for mobile phone use at the individual level which we treat with a little caution due to data collection issues that occurred during the survey.[11] This compares with a figure of 62% for the FinAccess 2013 survey and 71% for FinAccess 2016 data. This suggests that there has been further

expansion but that the growth rate is slowing. The Nairobi level of access in this sample is 83% compared to 68% and 69% in Nyamira and Kitui respectively and given the higher relative weighting of Nairobi in our sample[12] the higher figure from this survey is unsurprising. For FinAccess the urban-rural divide is 75% to 54% but this is not significant in regression analysis (Johnson, et al. forthcoming). Further, some 54% of those without mobile phones were able to use the service through others in their households.

Gender differences for mobile money usage are much lower than for bank access. In this data men's access is 76% compared to 70% for women. These differences are similar in order to those of FinAccess 2013 (65% compared to 58%). In regression analysis on the FinAccess data, this difference was not significant when factors such as education, income, occupation and so on are controlled for.[13]

From the perspective of age, use is over 70% in all age groups except the over 55s for whom it drops to 64%. Interestingly when adoption was at 39% in 2013, age was not significantly associated with access but it had become so in the FinAccess 2013 survey results when access was 62% (Johnson, et al. forthcoming). This suggests that as a technology it diffused quickly through younger groups but that older people have caught up and that the disadvantage of younger people with respect to access has re-asserted itself.

Use is more clearly linked to education levels rising from 55% among those with no education to 70% among primary school educated, 77% to secondary educated and 82% for tertiary education. This steep gradient was also significant in regression analysis of both FinAccess 2009 and 2013 data. Income was a significant factor associated with use in regression analysis of the FinAccess 2013 data and this differential is again evident with 70% among the below poverty line group using it and 78% above the poverty line.[14]

The qualitative research suggested some new access for men and women (see box 2) including for some younger women who had not had phones at all previously.

Box 2: Acquiring mobile money – "late" adopters

Three young women acquired mobile money during the period, all of whom were included in the informal sector via groups in 2011. It is notable that none of them had actually owned a phone at that time. Interestingly one of these acquired the phone when she separated from her husband and moved to another town to work because of the need to communicate. Moreover, it is now the norm to register for mobile money when a phone is acquired whereas this was not the case until the mandatory SIM registration drive in 2010.

Apart from these three, a tea farmer who had reformed his behaviour and also acquired a tea SACCO account to more safely receive his money and avoid the temptation of misusing it, had also got a phone and mobile money account. He had been too wayward in his ways to even have a phone up to that point. Another older woman reported having been given SIMs by her daughter and husband to use mobile money but having not used them.

In terms of the use of mobile money, it was notable that respondents reported using it as a place to save to an extent that had not been the case in 2011. Although earlier research has frequently reported the use of mobile money for saving, this was not a strong feature of mobile money use among respondents in the 2011 research. At that time mobile money was mainly a transfer device in these communities, with some people using it to keep an emergency reserve of saving but little evidence of voluntary savings intent on a level of accumulation. FII2014 data appears to confirm the change observed in this research and suggests an increase in those reporting using mobile money for savings/setting money aside from 10% in 2013 to 17% in 2014. Box 3 discusses this in more detail.

However the way in which the liquidity characteristics of saving in mobile money were dependent on the experience and circumstances of individuals was also evident, in a similar way as the issues raised for mobile banking platforms discussed above. For some it is an option that enables them to put funds a bit further away from their daily use rendering them more illiquidy, with some using it as an intermediate mechanism to put funds before then moving them to the bank. For others, is an instrument that is too liquid compared to others - see box 4.

[11] The use of mobile money was included in the main schedule of financial service use rather than as a separate section. It was asked as mobile money and not always supported by explanation that this referred to M-Pesa, as a result initial response rates were lower than expected. Follow ups were made and data combined from other questions in the survey which indicated MM use. This may therefore have resulted in an over-estimate of use.

Box 3: Saving in mobile money: an emergent phenomenon

The factors leading to this are not easy to identify and the understanding of it as a safe place to save is of course not uniform. Indeed, it must also be remembered that mobile money services are not able to advertise the mobile wallet as a safe place to save. Its use for this is - in the language of complexity theory - an emergent phenomena.

There is a somewhat classic adoption and diffusion curve underway in that the early adopters are young, male, urban and employed, followed by women, older, and more rural people. As people increase their experience of using mobile money, it leads to different understandings and degrees of trust in it as a place to keep money.

The use of mobile money as a secure place to put money was nicely illustrated by the account of a woman (from diaries research) where she recounted using her mobile money account to keep her money safe when she went to the market in Nairobi to buy her goods[15]. However she had a sophisticated strategy – while she understood that she could recover her funds from M-Pesa if she lost her SIM, she also knew that this would take time and if her phone was stolen she could then be left without funds for a couple of days. Her strategy therefore was to keep a SIM with her mobile money wallet on it separate from her phone so that if her phone was stolen she would not be without money. Interestingly she then tied her SIM into her clothing in the classic way that women have long carried their cash!

So while some have very good understanding of the ability to recover money from M-Pesa when things have gone wrong, others are more cautious or have had had the opposite experience. As one of our respondents reported, his loss of his phone and inability to remember his backup PINs resulted in him having to travel from Karatina to Nyeri to prove his identity and therefore took him a lot of time and money.

While fears that money can be lost in M-Pesa were not expressed as a lack of trust in M-Pesa as a service, the fears largely relate to the interaction of people with the technology itself. Hence the fears expressed were that phone can be stolen; fear that the PIN can be forgotten; fear that PIN can be stolen by others seeing you use it and experiences of SIMs being blocked although the reasons for this were not clear.

It is clear that the increased familiarity and trust in mobile money as a tool - and specifically the M-Pesa brand – has brought the service closer not just physically but also through the experience of use. This experience of reliably receiving funds and of transparent fee structures leads to a level of trust in the instrument that has not been experienced in other financial devices. In particular the clarity of charges is much clearer than for banks where withdrawals from accounts frequently result in charges that are often not understood. The widespread and precise knowledge of mobile money transfer and withdrawal charges is notable.

However a key issue in using mobile money for voluntary saving is the withdrawal fees. As Kate told us the fee is sufficiently large to deter withdrawals. For her, a farmer in a remote part of Kitui whose income is below the poverty line, the withdrawal fee of Kshs 27 on amounts between Kshs 100 and Kshs 500 is significant. Although now only about half of the cost of a kilo of maize, whereas Kshs 30 represented the cost of a kilo of maize in 2011, the escalation of food costs has been severe, and in such a poor and rural context this still represents a significant expenditure. Although M-Pesa tariffs introduced in August 2013 involved some lower charges, this was a reduction in transfer fees not withdrawal fees.

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12 One third of respondents in the dataset which is slightly above the national figure of 25% (World Bank data http://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS accessed 19/11/2015)

13 See (Johnson, et al. forthcoming)

14 FII data with respect to the poverty line calculated using the PPI method gives use of 75/50 in 2013; and 74/42% in 2014 suggesting the gap has widened.

15 This example is taken from a different research project, qualitative interviews with FSDK's Financial Diaries Project respondents.

Box 4: The challenges of managing liquidity management in mobile money accounts

Catherine - a tea farmer - reported how she now uses mobile money to save by moving money from her cash in the house to mobile money when it had reached a few hundred shillings. She was pleased with this strategy because it enabled her, for example, to more easily resist the demands of her children for treats. However, asked why she did not deposit more frequently in the market centre some 1 kilometer away, she said that even walking there took too much time out of her busy day. She was treating her funds in mobile money as an emergency reserve and also thinking that she might use them to fund a computer course for her son who was just completing form four.

This account is in stark contrast to those of others who find the liquid character of funds in mobile money too problematic. This was clearly explained by Charity, a separated middle-aged woman farmer with children in their twenties and living at her parents home some 5 kilometers outside Karatina town:

> "When someone sends me money through M-Pesa, I always withdraw it immediately. You know you always have your phone at hand, in case I do not have money I would just withdraw from M-Pesa about Kshs 100. But when the money is in the bank, it's better because right now I do not have money for transport to go to the bank. If I had money in M-Pesa I would just withdraw any money I felt I needed. I never even have a cent on M-Pesa."

Dennis who was a barman in Nyamira town reported that:

> "The difference is the money I put in Equity is much safer than the money on Mpesa. Reason is I can impulse spend money in my phone over money in Equity bank." (621-1)

These accounts indicate that for some the liquidity of funds in mobile money is too great compared to putting those funds in the bank. But where banks and mobile money agents are equally proximate, mobile money can also be sent from the phone and for those familiar with sending and receiving, for example, as they use it for business operations. Dennis is a barman who also takes payment from clients through his mobile money account. This familiarity with it leads to the experience of it as a place into and out of which money constantly flows. The reasons they find it liquid may also be to do with their situation of being in town and being subject to more temptations to spend the money and the increasing ease of spending it through mobile money. Additionally for them the withdrawal fees may seem rather less significant when Kshs 20 or Kshs 50 is used to buy a soda or lunch more regularly than for someone living in the village for whom these are a treat. Clearly these can be the case for Charity too, but it was clear that it was women in rural areas who were now using mobile money as a savings device to get funds out of the house.

This account of liquidity concerns supports the evidence reported in box 1 above regarding the use of mobile banking platforms, to show that (i) those seeking illiquidity have to find instruments that have this property for them but this is not the same for everyone; and (ii) that instruments are rendered liquid or illiquid depending on a range of individual circumstances both in terms of their personal experience of a service and their social characteristics such as gender and age alongside location, livelihood characteristics and so on.

3.4 M-SHWARI

This survey gives a headline figure of M-Shwari accounts of 9.1% (end 2014) which compares with a FII2013 figure of 10% and FII 2014 figure of 16.8% and the latest FinAccess 2016 figure of 17.5%. In the Nairobi site in this survey access is much higher at 25% than in the rural sites Nyamira at 2.3% and Kitui at 4.6% demonstrating a significant urban rural divide. The gender gap is 11.5% of men compared to 7.6% of women [need new figure] , that is at 66% of the level of men's. This is a similar order of differential as bank accounts (60%) which is higher than the the gender differentials of MM accounts where women's access runs at around 90% of men's.

There is a strong age differential with under 35 year-olds using it at double the rate of those over 35. Approx 12% vs 6%. The education gradient is very steep indeed: 22% of those with tertiary education use it; 13% of those with secondary education; 4.4% of those with primary education and only 1.2% of those with no education. Of the 9.1% using M-shwari, 52% of these also had a regulated sector account (bank, SACCO or MFI) while 9% used only an informal group service, leaving 39% with no other service than MM.

This evidence therefore supports the view that this product is initially being used by primarily urban, educated and very educated, young people, many of whom already use bank accounts but also suggests a significant level of outreach to those in this educated group who are not using other formal services (excluding MM). This is consistent with the male biased and young profile above as young men in particular tend to lag behind in both formal and informal group access.

In terms of what it has added to formal access, 6.1% of the overall population who do not otherwise have a bank account now use M-Shwari and this is biased towards men (7.7% of men and 5.4% of women) a 70% ratio which is again akin to the imbalance in access for bank accounts. By region the proportions who have no other formal access (except MM) are 24.1% of those in Kariobangi; 3.6% in Kitui and 1.5% in Nyamira . In terms of addition to access if informal groups are treated as access, then the addition falls to 2.9%, but this is very unevenly spread: 8% in Kariobangi have new access to any formal service compared to 1.7% in Kitui and 0.5% in Nyamira.

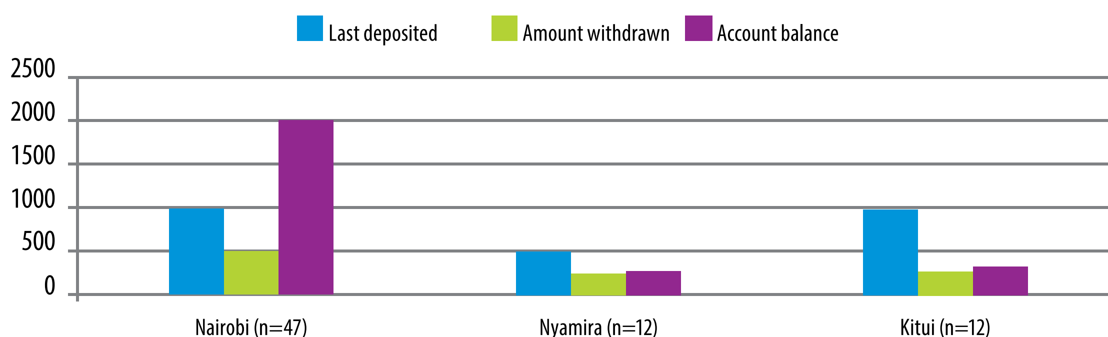
In terms of use, 44% of users reported having saved in the last month – lower than bank accounts; while 22% had never withdrawn. This suggests it is either regarded as a safe and inaccessible place for keeping funds or that users are seeking to build their borrowing limits. The FII 2014 survey found that 35% were depositing in M-shwari for this purpose.

In terms of amounts transacted reporting was low at approximately half of users and shown in Figure 5 shows these. This is suggestive of much lower amounts deposited, withdrawn and for balances than bank accounts.

To date 3% of the adult population, that is some 33% of M-shwari users had taken loans. 79% of these were under 35, 48% were male and 75% were above the Kenyan national poverty line, with 90% above the US$ 2.5 per day poverty line. 56% used data on their mobile phones, suggesting that they are more sophisticated technology users.

Loan amounts were a mean of Ksh 1,280 and median of Ksh 800 confirming the completely different market segment this is targeted at compared ot mainstream bank loans, and why bankers appeared unconcerned about it as competition.

Figure 8: M-Shwari - median amounts deposited, withdrawn and account balances



The qualitative evidence was consistent with the above in that in rural areas there was quite high awareness but very little reported use (see also FII2014). For one better off business woman who had tried it, she found that it did not deliver a loan of a size that was useful to her in the context of running two business and two taxis. For those interested in borrowing, early experimentation often did not lead to loan amounts offered that were much different to deposited held creating a disincentive to engage with it.

Three of 14 of the Nairobi in-depth interviewees had used it - all were women under 25 - and another young man also spoke about saying that he did not see the point of it as he could use MM to put his funds in his bank and preferred to withdraw his savings than borrow from Mshwari.

One young woman who was otherwise financially excluded reported saving in both her brother's Mshwari and also in her own account saying that sending funds to her brother helped her not to withdraw as she would herself would not be able to let her children go hungry if there were funds there – further suggesting the issues of illiquidity construction indicated above. Another who was a staff member of an MFI that had converted to a Bank and therefore quite educated and formally included, complained that she had a high savings balance but could only be offered a much smaller loan of around 10% of that balance.

A young woman who had borrowed used it for saving small amounts such as Kshs100 in it and then borrowed two small loans of around Kshs300. She said that putting money away in a a conventional bank was a problem in that "struggling is the policy and you would like your children to be proud of you so you try to buy them everything. So if you get Kshs200 and then you take to a bank, that would be a problem." Having borrowed, she found it difficult to pay finding even providing flour was a problem and reported switching off her phone to stop seeing the SMS messages reminding her to pay, until the day she had money: ***"I used to fear. I used to think that if they can take my number then they will know where I am living. I don't like problems of the bank. . . . I never used it again, I feared. You know they can come and want to carry something and I have nothing. I only have my children, so they cannot carry one of them, that can be very painful.***"

These reports are few and do not present any clear patterns. What they do present is an indication of just how diverse the response to such a product is for both savings and loans. They raise issues of overlap with other services, managing liquidity, along with the hazards of engaging with new technologies for borrowing and how these spill over into everyday life.

3.5 SACCOS AND MFIs

SACCO and MFI accounts run at 6.1% and 1.3% of the population respectively in this survey, with a further 1.3% in financial service associations which are a particular intervention that FSD Kenya has supported, primarily found in Kitui. These figures are down on both FinAccess 2013 figures of 11% and 3.5% respectively and the previous 2011 landscapes study. This likely due to the composition of the sample: the landscapes study had two areas with a lot of cash crops with SACCOs attached and did not capture as big a sample.

Pathways to SACCO access are still primarily through cash crops and employment – as indicated in the discussion of bank access above which highlighted the gender dynamics of women gaining coffee trees which had given new access in two cases.[16] Although many, if not most, SACCOs have opened their common bonds in recent years to expand their outreach beyond these core domains, this is not resulting in a rebound in the figures. Indeed the story is also clear here from the supply side data that SACCOs are under a lot of pressure from banks in the competition for loans and the regulatory requirements of SASRA have reduced their loanable funds at the same time making it harder for them to compete.

Loan access runs at 3.5% in SACCOs and 1.5% in MFI. The high ratio of borrowing to saving in both cases is notable: around half of those who save with a SACCO also borrow from one; and for MFIs this is actually at 100%. This is very different to the pattern for banks who are lending to only some 14% of their depositors. It of course reflects the rationale of MFIs which were mainly set up to supply credit but also the practice of SACCOs in which loans are much more accessible as a result of membership. However loan sizes were noted above and are very similar to those of banks.

These data also suggest that the MFI sector has not grown substantially. Qualitative interviews also suggest that this is in part due to the rigidity of their offer – similarly to bank loans, MFI loans lack the flexibility and negotiability of other sources, a point we discuss further below. Loan sizes (n=22) were a mean of Kshs 57, 545 and median of Kshs 50,000. That is, median loan sizes the same as for banks which again indicates that these are not serving very dissimilar market segments.

3.6 GROUPS AND THE INFORMAL SECTOR

This survey indicates use of groups that respondents primarily identified as a rotating savings and credit association (ROSCA) at 18.2% and accumulating

[16] This shift in gender relations appears to be an ongoing trend. This shift in coffee mirrors the trend to women being allocated tea numbers and as a result being able to have their own SACCO accounts that was noted in the Financial Landscapes report. However in the case of tea it is not that women are given the tea bushes, rather that them having the tea number gives them access to the income which is a result of their tea-picking labour. It is most often women who pick tea because it is close the homestead and a periodic and part-time activity they can undertake while men are pursuing livelihood activities away from the homestead.

savings and credit association (ASCAs) at 7.8% and use of either of these is at 24.8%. When other savings or investment groups are included, overall use rises to 29.1% of the population. This data on group use seems to have been somewhat consistent with the FinAccess 2013 figure which indicates use of ROSCAs or ASCAs at some 26%.

This apparently contrasted with a previously rising trend. In 2006 use of rotating savings and credit association (ROSCAs) or ASCAS was at 31% and a further 10.7% reported using groups of friends to save giving a total of 36.5% using any of these types of groups. However, in 2009 the use of either a ROSCA or ASCA had risen to 36% with 5.5% savings with groups of friends and yielding a combined figure of 37.6%. Hence the market case studies (MCS) and FinAccess 2013 data suggests falling group use.

However this contrasts with the most recent figure of 41.4% for FinAccess 2016 which suggests quite the opposite. It is likely that this apparent inconsistency can be explained by the timing of data collection. Both market case studies (MCS) and FinAccess 2013 were carried out at the end of the year when groups - especially ROSCAs - have often completed their cycles which run up to November or early December and then restart in February. For the sites in this survey, the problem seems especially strong in Nyamira. The latest FinAccess figures appear to confirm this hypothesis regarding the timing of data collection since the survey was carried out mid-year and indeed that groups remain extremely popular.

Use of ROSCAs continues to run at much higher rates for women compared to men - in this case double (22% compared to 11%); rise with age from 12% for the eighteen to twenty five year olds, peaking at 23% for the 45 to 55 age group and then dropping back to 15% for those over 55. It also remains higher in rural areas (Nyamira – 21%; Kitui- 19%) compared to urban Nairobi at 13%.

For those in ROSCAs, 45% made monthly contributions and the medians of those reporting ranged from Kshs 200 in Kitui and Nyamira and Kshs 500 for Nairobi. The expected median pay outs (ROSCA) as at the time of interview was Kshs 3,000 for Kitui, Kshs 7,000 for Nyamira and Kshs 6,000 for Nairobi. These payouts were larger than in Landscapes where medians were around Kshs 2,000 in all areas. This may be a result of inflation although these amounts have increased by far more than the 23% rise in prices.

The qualitative evidence did not suggest that groups were falling out of favour though they do continually highlight the difficulties of finding a good group – that is one that reliably intermediates the funds and pays out on time.

Finally we consider family and friends. Only some 3.1% reported saving with them which is much lower than earlier FinAccess survey results. The reasons for this are not at all clear and whether there are issues of data collection involved. On the other hand 11.6% reported having borrowed from family and friends and this is similar to the FinAccess 2013 figure of 11%.

Chapter 4

LIVELIHOODS, WELLBEING AND FINANCIAL SERVICES: IMPACT PATHWAYS

Routes out of poverty are not simple or straightforward. Evidence from Kenya suggests that such transitions take many years (Muyanga, et al. 2013) and the recent debates over the weak impact of microfinance (Banerjee, et al. 2015) fits with an understanding of the fact that poverty reduction requires many convergent conditions for sustained increases in incomes or assets to result.

This chapter draws on an in-depth qualitative research study to examine what role inclusion in financial services has made to livelihoods and wellbeing of respondents over the past four years. It draws on findings from 35 in depth qualitative interviews with respondents who had also been interviewed in the 2011 study. The interviews sought to identify change in their lives and livelihoods, to assess how they had managed their finances in relation to these changes, and also find out what they themselves attributed the changes to and the role financial services had played.

4.1 LIVELIHOOD CHANGES

How respondents make assessments of their lives is, of course, not straightforward. It is a multi-dimensional and dynamic issue. We asked a broad question about whether or not they felt their lives had improved, with the following results:

- Improvement - 13
- No change – 9
- Mixed statements of things getting both better and worse – 9
- Decline – 4

This broad assessment did not specifically focus on sources of income or material welfare. In some cases the assessment made by the respondent was at odds with how they were progressing from a livelihood perspective relative to our first visit. For example:

Esther (115-2) had left her husband which also meant leaving her contract vegetable growing and more stable agricultural sources of income. She was now working in a restaurant in town and paying her own rent and school fees for her daughter whom her husband had disowned. She judged her situation as improved because she had left an abusive husband (and now gained some coffee trees which she interpreted as an attempt to bring her back) but her overall situation was objectively rather more precarious and difficult.

Statements of decline mostly involved significant family dynamics involving separation or significant illness. This is also consistent with the findings on wellbeing below regarding what is most important to people, centrally their relationships. Respondents' statements do not therefore pick up marginal declines very well – it was more likely that respondents would indicate mixed statements in such cases.

This case was not the only one of separation and there was a case of a wife returning also, the impact of these dynamics varying significantly for both men and women. And of course the range of livelihood dynamics is huge. The discussion below therefore seek to situate cases in a wide perspective to illustrate improving and declining trajectories and the wider dynamics at work, and then to link these to the role that respondents reported that financial services had in these dynamics.

4.2 IMPROVING LIVELIHOODS

It was notable that there were three respondents clustered in Kitui town who seemed to have done particularly well since our previous visit. It was pointed out in the supply side analysis above that Kitui is a highly vibrant market - also evidenced by having shown the highest increases in deposit mobilisation by banks – and this appeared to have provided a strong context in which they could develop their businesses. Interestingly all three were involved in the transport sector.

Box 5 below provides a case study of John. John exhibits the features of successful livelihoods that many other studies indicate are a strong basis for success. Most importantly he had a portfolio of activities: his first (apart from farming) was his schools supplies business which he had developed through selling on commission for a friend who was a wholesale supplier, and shows the importance of business connections with people who have larger business. He had then added taxis, paying the supplier on instalments. This base gave him multiple assets and income streams which he could juggle in different ways. He was able to take profits from his supplies business to buy a plot and sold a taxi to restock his supplies. He keeps his money moving - or "working"[17] for him – and is able to sell assets or remove funds from the business when opportunities come up. This ability to keep money working is also evident when he bought motorbikes to sell-on to local young men as taxis – perhaps emulating what he had himself observed in buying vehicles from car traders - while this is also "uplifting"[18] these "needy persons". His business success was supported - according to him - by two personal dimensions – first his faith in God, as he underwent a process of conversion at the time of an illness. Second, his aspirations which are fuelled by his observation that he has peers who were doing better than him, which leads to his becoming more frugal with his own personal expenditure in order to direct his efforts more firmly into business.

How had financial services supported this process? He used the bank for receiving payments for his business and an account in a separate bank for keeping funds, alongside accounts for his children into which to put funds for school fees.[19] His business cashflow had also given him access to an overdraft. However, he was reluctant to take loans, preferring to be able to take this short term liquidity and repay it when the schools were ready to pay. Although he might have been able to get a loan to help with the plot purchase, he took funds from the profits of one business and re-stock it by selling an asset that he was having difficulty managing.

Box 5: An urban businessman - John's story of "climbing slowly"

John lives in Kitui town, is 44 and married with four children ranging from a new born baby to a son in form one. He supplies schools with maize and books. He got into this through a friend who has a large wholesale maize business from whom he sold on commission. In 2011, he also had one taxi which he had bought via credit though a vehicle supplier in Mombasa; and his wife also had a small business selling second hand clothes. He has farm land at his rural home which his Uncle manages.

By 2014 he had expanded the supplies business and although it has "ups and downs", he now has 50 schools which are "serious". He made it more stable by consolidating into schools he could trust to pay him. This was particularly important with the introduction of VAT at 16% by the Kenya Revenue Authority (KRA). Initially it caused him cash flow problems, but he now gives a delivery note to the school when he supplies the goods, and issues the invoice - on which the tax is due - when the school is actually ready to pay.

He had also purchased a plot in the town and built 42 rental rooms on it by taking funds from his business, and then building five rooms, getting the rental from these and investing further. However, he and his family were still living in two small rented rooms in a plot in the town.

His taxi business had grown to three vehicles (also financed by the supplier in Mombasa) and a pickup by the time of our second visit at end 2012. But in 2014 he reported that he had sold one to put funds back in the supplies business because he had taken funds from there to purchase the plot. He now had two taxis – one of which he drove himself, and a pickup. He reported that monitoring four vehicles had caused him a headache so now he was more comfortable with two taxis, one of which he was able to now monitor through a gadget linked to his mobile phone.

In 2011 he reported having two bank accounts plus savings accounts – one for his business and one for savings. The former was also able to give him overdrafts to assist his business and he has continued to use this facility as his business has grown. He much prefers taking an overdraft to taking a loan, and does this a few times a year when he is supplying the schools. Although it is more expensive than a loan, he can repay after about a month. He also has child savings accounts for all except the baby, into which he saves Kshs 500 per month for the child in secondary and from which he withdrew when taking him to Form 1, and tries to save something monthly for the other two.

He had also purchased three motorbikes which he sold to three of his friends who he called "needy persons". They paid daily instalments and he made a profit overall. He reported that one of these friends now owns three, and another takes him to lunch saying "you made me to be where I am".

In 2012 John reported having few friends he could rely on. He had been ill for some time and was somewhat bitter that it was only his wife and close family who assisted. He explained how he had visited a church father who had advised him to stop running to witchdoctors and hospitals and surrender his life to God: "And from that day my colours come true, whatever I dream of comes true". Having experienced the difficulties of organising a funeral with a friend without the assistance of groups, which he had tended to shun, he had subsequently joined four. When his own father died he was able to raise Kshs 270,000 and 14 minibuses to bring mourners.

He attributed his success to having seen his friends getting ahead when he was not, so he decided to cut down on his personal expenditure on beer, clothing and other things. "I have reduced the unnecessary friends, not needy you know, there are some friends who just need you when you are taking beer, they don't give you ideas, those I have had to drop, so I am remaining with friends who can assist". He did not report that he had a particular strategy for storing the money he did not spend. He did however say that it was not possible to take as little as Kshs 1,000 to the bank.

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[17] See Kenya Financial Diaries. . .

[18] See "What do low income people know about money?" FSD Insights No. 7.

[19] However, note that Kshs500 per child per month, if done consistently for 10 years would yield a cash value of Kshs 60,000. At current rates a reasonable secondary school costs upwards of Kshs 30,000 for the initial costs and first term. So this would by no means fully fund a child through secondary school.

His attribution of his success was to his increased frugality in his personal expenditure. For example, reporting only taking beer on the weekend. John's social network had also developed significantly and he seemed much more at ease with this aspect of his life than he had been in 2012 when he was rather bitter about the lack of support he had had during his illness. While he discussed his new welfare groups as largely just involving an hour's meeting a month, it was clear that this was also a means to meet other business people in town since two of the groups involved them. Moreover, while he had first reported an aversion to groups he had also now joined the business people's SACCO that has been growing in the town. Interestingly, his motivation here was in fact to gain access to loans which would be at 7% (per month) though he had not got one yet.

A further dynamic of John' story is finding God, to which he attributes that his "dreams come true" and hence a sense of direction. This also resonates with the two men mentioned in chapter 3 above who became involved in the church and reformed their behaviour, also leading to them opening bank accounts. Their reformed behaviour, now involved not spending their money on alcohol and a greater ability to manage their money towards household needs and school fees as a result, again demonstrating a new sense of purpose and direction.

Other case studies involved some similar themes. Similarly to John, Daniel was a businessman who avoided the bank for loans. He repaired car bodies and his growth was the result of being adopted as a Toyota branded agent for work under insurance. This had involved significant investment. However, he did not turn to a bank, he finished insurance jobs he was already doing and collected the funds and called in debts owed to him and invested in moving to new premises, upgrading them as was required and buying a couple of new machines. This had in total required about Kshs 700,000 and taken some months. Daniel noted that it is necessary to be friendly with the bank when you have a business of the scale he now has but his source of financing is not the bank. He prefers to take items on credit from suppliers in Nairobi, and in Kitui's highly competitive bank environment he has moved to a bank which enables him to draw down on cheques he deposits before the funds have in fact cleared.

Along with these two businessmen, Janet, was the third case in Kitui who had done particularly well. She had a market stand selling household linen and a taxi when we met her in 2011. Her husband is a police officer who recently gained a job in the anti-corruption commission which paid particularly good salaries and allowances. With her husband, they have expanded to three taxis and she has opened a boutique in Kitui staffed by her sister. They were currently concentrating their investment on building houses for themselves in Nairobi and at their home place in Western province: a loan from the Police SACCO had assisted in buying a plot. For her the bank was a place to keep savings, she had now joined a table banking group which she preferred for taking loans, complaining that the bank would take too long. Having tried M-Shwari, she found the loan too small for her needs and decided not to engage with it further. In the previous interview in 2012 she had explained how their taxi expansion had been funded by savings and loans from the family, explaining that she did not want to take a loan from somewhere that would charge interest.

As indicated, this clustering of these cases of improvement in Kitui is in itself of interest. Kitui town in particular has a huge population in its hinterland compared to Nyamira and despite its poor rainfall and frequent food insecurity, this makes it a vibrant business hub and now a county headquarters. It is also notable that these three were all operating in the transport sector. John and Janet have been able to grow their taxi businesses and Daniel is busy repairing cars at a time when incomes of the more middle income groups are growing and creating demand. Our earlier research suggested that the matatu sector is saturated and that being successful in that sector now requires owning multiple vehicles, so making this a hard sector through which to grow through investment in an initial vehicle. It appears that John and Janet were poised for growth in the taxi market at the right time. Never the less there are many hazards to managing such businesses – Janet for example reported how important having a trustworthy driver had been in dealing with a breakdown when the vehicle had been far from home; John had sold one taxi due to the difficulties of monitoring and now used a GPS gadget for another.

Catherine (see box 6) was one of a number of cases of rural livelihoods that were doing quite well. The case of vegetable farming opportunities was also encountered in Karatina (see section on account opening above). Vegetable farming for companies requires little capital to start with inputs being given on credit against production sold and land rental for a season being quite cheap in this area. She had been successful with her tea farming and selling milk on a daily basis gave her income to manage daily household expenses.
Her comment about having no time to rest as a result of the vegetable farming, is an interesting one. The expansion had been a response to the increasing needs for funds for their children's education in particular. The theme of being busy and responding to the increased demands that the responsibilities of a growing family involved was evident across a number of interviews. As Daniel (see above) also explained:

"I just work hard because I wanted children so I have to be responsible for them. I've come to understand that as life progresses, new responsibilities emerge, that where you get your earnings is not the same. Like for instance what I'm earning today is not what I earned 4 years ago. Things are changing. ….That is the only happiness for a man. If you have children that cannot go to school then there is no need to work. …Why should you work if you don't have any expenditure? If you don't have any responsibilities all you need to work for is your stomach which is not too much."

Here, he clearly indicates what is important, and that without these responsibilities the need to generate income would look rather different. This is interesting because it clearly indicates the way in which seeking out and

taking up opportunities responds to the needs for expenditure to support family wellbeing rather than being the result of an abstract desire for income and accumulation for one's own current or future welfare.

How have financial services supported her development?

Catherine's experience of borrowing from an MFI clearly was a setback but in this case not one that was severe enough to heavily affect her welfare. It did however take her over two years to extract herself from a group that she did not wish to be in and because of this she lost more funds through borrowing again and incurring penalties because she got sick. The savings group (SG) experience was salutary but she has been able to substitute a table banking group for this. It is notable however that it is borrowing from the bank against tea income that now provides a more manageable source of funds, since the bank does not expect payment except via the deduction at source and hence is patient if that is not there. Morevoer, in Nyamira it is straightforward for tea farmers to be able to sell via the open market when they need cash and hence easily obtain funds when they are strapped for cash. Selling via KTDA is advantageous over the open market because in this case some of the income accumulates into the annual bonus which is then a lump sum, which either enables loans to be cleared [and hence new loans to be taken] or is received as a payout.

Her saving was now concentrated in her mobile money account and table banking group. The mobile money account enabled her to achieve greater security than saving in the house, as well as a constraint to impulsive expenditure. This was a notable pattern for a number or rural women farmers. Transferring funds to this from the house when they get large enough was also a reasonably common strategy, with some then moving funds from mobile money to a bank account and suggesting a need to move funds further away as they got large enough and are not immediately required, rather than treating this as a transaction account which is used daily and incurs constant charges for withdrawing. The labelling of these funds as an emergency reserve was noted in the previous study, however interestingly as they accumulated she could also see other possible uses now that her son was leaving Form 4 and she was wondering how to further educate him – in this case with a computer course.

Box 6: A rural farmer - Catherine's story

Catherine is a tea farmer in Nyamira. She is 35 and has 4 children, the eldest of whom had just gone to Form 1 at the time of the original interview and was just finishing at the last interview. Since our first visit, she and her husband (who is also a pastor) have expanded her tea farm by renting in additional tea, increased their dairy cows by one, and recently added vegetable farming for a company that exports. This was mainly her husband's responsibility but on which she also contributed labour and commenting "You cannot find time to rest. The crop is supposed to be well supported and off the ground so you have to check on it always". Selling milk on a daily basis was giving her a good income with which to fund their daily needs and the vegetable farming was also now yielding a good income. Tea for which she was mainly responsible and for which the funds went through her husband's bank account brought variable income depending on the weather and kept her very busy too.

At our first visit she reported a venture to start a retail shop with an MFI loan, on her plot which fronted a reasonably busy road, but which had not been successful. She had wanted to leave the MFI but found it difficult retrieve her savings. At that time she was raising funds to put her son in a better school further away and which cost more than the local one, and had been helped by her brother and subsequently also by his children. Due to not being able to leave the MFI she then borrowed to help fund her son's school fees. However, she fell sick and this had resulted in having difficulties in paying and the group's penalties for covering her payments of Kshs 2,000 led to her losing most of her savings of Kshs 17,000. She had also had a bad experience of an SG group[20] which failed in the second cycle, and from which she had not borrowed but others had taken large loans and disappeared so that she lost Kshs 2,200. She is now a member of a table banking group of ten people. Her and her husband shifted to borrowing through her husband's bank against tea income because (418-2) "When the rains failed and yield was low they never harassed me to make the payments. They would wait until things were better." Alongside this, the existence of "soko huru" in this area, means that when funds are needed at home and these are being deducted at source to pay a loan, some tea can be sold on this market to gain funds for what is needed. This is a common strategy.

When her daughter entered secondary school, she saved funds from her milk sales to fund these and help rent the second tea farm through which to further fund the education. She had adopted mobile money as a place to save her revenues reporting that she had learnt this from her friends and saying it helped her to save more by taking them there. When they reached about Kshs 1,000 saved in the house she would move them to mobile money. She said this reduce her impulse buying by the roadside eg of bananas. She had experienced her savings being stolen from the house and her preference for the bank at an earlier interview (check), she had also had the experience of losing her phone and being able to replace her line so finding mobile money to be a safe place. She said that she did not take them to mobile money more often as this involved time in going to the local market place which was about 1 kilometers away. She now had funds in mobile money which she treated as an emergency reserve in case of need but was also considering using to pay for her son to do a computer course now that he was just about to finish form 4.

[20] Trained by IFAD.

4.3 STRUGGLING LIVELIHOODS

To contrast to these cases of success we review cases of people whose livelihood had worsened compared to our first visit and had clearly struggled and although in two cases they indicated that things were improving –this was clearly relative to the intervening period when things had been worse and it was clear that there had objectively been some set backs in their standard of living.

The case of Kate (box 7) is unusual in many ways. It illustrates how illness of a main income earner and, now how caring for him, constrained his wife's ability to generate income. She had been doing rather better when her husband was away being taken care of by his family, because she could establish a business with their help. Indeed this support from her brother's family was a family obligation since the husband was not able to provide for his wife and children due to his illness.

Further cases of decline involved two cases of separation. The case of Esther mentioned above and a further one where it seemed that the woman might have been to blame. In this latter case, the husband was himself in an unchanged income earning situation but what was interesting was that it was clear that this situation had involved huge expenses in organising and paying elders to help mediate with the family and transport to Mombasa from Kitui to where she had returned. She had now taken him to court for child maintenance which he was refusing to pay because he wanted her back and she would not come.

How had financial services supported Kate?

Kate quit her informal groups at the market when her source of regular income stopped. The main development for Kate was the use of mobile money to save for her maternity expenses, this was a substitute for her previous use of a local money bank which she would have buried in the shamba. For her the withdrawal fee was a sufficient deterrent not to withdraw the funds. She reported that she did not have funds that she could save in mobile money under normal circumstances. Instead when she had some Kshs 8,000 from her greengram harvest she sought to invest them somewhere they would double rather than leave them sitting idle in a bank. In particular this was aimed at being able to sell the cow in a year's time when her daughter's form 1 school fees were due. Again the strategy of purchasing a cow – especially with secondary school fees in mind, was one we heard about on repeated occasions.

For her the mobile money agent was in a local market place where there was also now a bank agency which had not been there in 2011. In terms of transactions costs and accessibility there was little difference between the bank and mobile money, although mobile money withdrawal fees are lower for amounts under about Kshs 5,000. However, she had also clearly become familiar with mobile money over the preceding years as her brother in law had frequently sent her funds.

While the main cases where people reported decline involved illness and separation, the case of Paulina (Box 4) importantly illustrates the impact of saturated and highly competitive local markets. As pointed out above with

Box 7: From business back to farming in rural Kitui - Kate's story

Kate is now 37 and has 3 children, one of them is in the final year of primary school and the last born was a recent addition. She has a mentally ill husband who had been in hospital in Malindi supported by his brother at the time of our first visit. At that time, Kate was running a very small business selling vegetables in the market making sales of a few hundred shillings a day. She was also getting some support from the brother-in-law, whose shamba was next door. During our second visit in 2012 she had opened a canteen in the market place with finance from her sister-in-law that was going very well.

This time, her husband had returned home but was not sufficiently stable that he could be left alone all day, nor was he able to work on the farm. It was also apparent that the brother-in-law had lost a job and had setbacks of his own so this source of support had reduced. She had therefore had to give up the canteen and was now depending on farming in Kitui's agro-ecologically challenging environment. This also meant that she could no longer belong to the three informal groups in the market that she had been using to manage her cash flows when in business.

She had also given birth to a further child. She had saved for the items she would need for the child's birth in mobile money, having learnt the need to do this from earlier experience and having used a box[21] buried in the shamba on previous occasions and saying that because the withdrawal charges were so high, she could not withdraw. However, she complained that it and the bank were not places she could save at other times because the withdrawal fees were too high.

She had used funds from her last greengram harvest - one of the few crops that are regularly sold to raise cash in this area of Kitui - to purchase a calf which she was planning to sell for her daughter's form 1 school costs in about a year's time "when I save it in a bank, it won't double the amount but when the cow gives birth it will double the price". When asked about the riskiness of this approach compared to the bank as the cow might die, she replied "it cannot die by the grace of God, God is watching".

On another visit to the area some six months later, we found she had started a small retail shop in the market place. She explained that she had sold maize to get funds to start, that she could open later in the day than the restaurant and hence could leave the child to look after the husband after she had left the homestead.

matatus, many areas that have been the mainstay of opportunities for business expansion no longer offer these opportunities. Indeed, credit availability from MFIs has probably also contributed to some of this saturation. While we do not know the details of her husband's business, it is clear that although this pressure has existed for some time, he has not managed to diversify or move into higher return businesses despite taking loans to boost the business.

This case also illustrates the wider dynamic of university fees which is a new dimension of the education investment pressures for poorer households. A further case of this in Nyamira was Joseph, who ran a joinery and carpentry workshop. His wife had been a nurse at the local maternity hospital and brought home a salary which was the mainstay of their income but had lost her job after falling sick. While the maternity hospital had looked after her for some time, they had ultimately dismissed her. So they were now dependent on his business. The clear marker of their shift in status was that they were now living in part of the workshop area where they had previously been renting other rooms. In these circumstances he had not been able to accumulate savings and in order to pay for his son to go to University - which for the first year was costing over Kshs 100,000 in fees alone[22] - he had sold a piece of land for Kshs 300,000. He was keeping the funds he had not yet used in the bank and had also borrowed Kshs 60,000 from his brother for a year to pay for his child in form 4.

These cases involving university fees need to be placed in the context of it being some ten years since the government of 2003 made secondary school "free". While not entirely "free", there was an expansion of those going to school. This along with the growing youth population has produced high numbers of young people educated through secondary school, but the rate of formal sector employment creation has not kept pace so creating huge competition for the jobs there are and high levels of unemployment also. For most Kenyans, that education is a route out of poverty is an article of faith. The pressure now is therefore for low-income families to invest in tertiary education if they are able and the new growth of local Universities and parallel programmes in the established ones is making this more possible. Although the costs of the mainstream programme were probably no higher than for school fees, there is a double whammy here. Form four leavers are not only not getting jobs and starting to cover their own costs and/or become potential contributors to the household economy, they are now requiring further investment while other children are moving into secondary school and costing more. The pressure to make increased investments in education is therefore rising at a time when returns to it appear increasingly uncertain.

How have financial services supported them?

Paulina reported that her husband had secured a business loan from Equity on our first visit, but it is clear that the perils of the business have significantly increased her anxiety over being able to pay it.[23] Her SG group is therefore an alternative and she spoke very positively about this in earlier interviews. To this she has added a table banking group which runs on an indigenous ASCA methodology. In this, a lump sum is put in as shares at the beginning of the year. Loans are taken and repaid and the share out at the end of the year brings some profit. The reduced pressure of saving in this was preferable for her to the SG's monthly requirement.

Another respondent, Tracy, was very happy with the way her SG had supported her to the extent that it had enabled her to become a moneylender herself and benefit from the high interest that is paid for short term liquidity:

> *"If I was not managing my money well, I wouldn't have this shamba, if I was not managing my money well, I wouldn't have this house, buying the iron sheets is not easy, but keeping my money in groups and managing well has helped me achieve all this. It is good to be in a group because the money you get you can buy assets and even make profits. Even when you have Kshs 5,000 in the house, when someone is taking their child to school, they can ask for the Kshs 5,000 and after two weeks they pay you back with an extra Kshs 1,000."*

Paulina's perspective on interest rates between the formal and informal sector looks erroneous – but the reality may be rather different since frequently interest is not in fact paid every month on SG or table banking loans and they can be 'repaid' when the share out is made while still receiving a distribution of the profit on the savings deposited.[24] Her strategy of resorting to the informal from the formal sector is one that therefore ensures that she has greater voice in negotiating with the groups in which she is a member compared to her position with respect to the bank, and is a way of cushioning the impact of the debt cycle that they appear to be in as a result of the business decline and pressure of university fees.

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[21] Interestingly she reported that the boxes made locally which only have a hole in the top were called "bank". It is notable that this "bank" does not grow your money or give more back than you started with – a clear similarity to the experience of poor people with commercial banks. See Johnson et al. 2012.

[22] This was a "parallel" programme and therefore costing significantly more than the mainstream programmes.

[23] It is not clear whether they have considered shifting to leveraging their small tea income as Caroline above has done, but likely that this would not give a large enough loan since they have a small plot.

Box 8: Urban business decline: Paulina's story

Paulina lives on the rural edge of Nyamira town and supports her husband in a second hand shoe business at the local market that they have run for many years - according to her they used to bring a van full of shoes but now only bring 10 pairs at a time and are lucky to sell 2 pairs a day due to the stiff competition. They also have a small tea shamba (with poor revenues this year), cow's from which they sell milk daily, and chickens. They had also borrowed from Equity more than once to boost it but struggled to repay although said that the bank do understand a bit because of the low tea payments in the area.

She has a daughter who had recently joined university and this had been extremely hard to finance – although she had accessed a Higher Education Loan Board loan, this only financed some Kshs 4,000 out of each of the first term Kshs 19,000 and the second term Kshs 15,000 and complaining that the maintenance component for the first year did not arrive until after the end of the year. Some of the profits from shoes bought with an Equity Bank loan had been used to finance the fees and they were also therefore paying for the girl's upkeep.

She had also joined a table banking group – this is an indigenous ASCA format in which an initial amount is saved and then loans are taken and returned but no new savings are made. She preferred this to her CARE group because it did not require saving every month. In both groups she was ultimately able to offset her loans against the share-out.

She reported that she and her husband had decided to focus more on borrowing from the groups than Equity because they were "relatively more relaxed and less expensive". She said that she feared Equity because it had a "cell" where they threw defaulters. She preferred instead borrowing from her savings group which had been originally trained by CARE. Her perspective was that the interest rate of 10% per month was lower than Equity Bank of some 17% a year and hence was a better deal.

The situation for this household therefore involved a decline in their core business driven by saturation in the second-hand shoe business and the added pressure of university fees, with a risk of a debt cycle through resort to financing this through relatively expensive informal group loans, but cushioned by the more "relaxed" potential for repayment.

4.4 MANAGING EMERGENCIES

In the earlier round of research we found that people liked to have a reserve to use in case of emergencies. Again we heard of this and now three cases – all women - where this was held in mobile money [611-2; 418-2; 819-2]. However, only in one case was it reported that such a reserve was actually used – in this case a retired school teacher who had used funds saved in his SACCO for eye treatment for his wife. These funds were in fact saved out of a loan he had taken to invest in ventures for his livelihood after his retirement, and he was not actually satisfied with the level of reserve he was able to hold. He wanted to have between Kshs 20,000 to Kshs 40,000 rather than the Kshs 5,000 he had there. But in most cases of illness the coping strategies enumerated did not include withdrawal from savings – they emphasised taking loans, getting money from friends, doing additional work, cutting back on expenditure and selling livestock.

The explanation for this may be that these reserves are relatively small - as little as a few hundred shillings. Such funds enable either the purchase of tablets or a trip to the clinic for something minor, but the incidences of illness reported to us looking back over a few years were more major ones where larger funds are needed. While such reserves may assist in some aspect of managing the problem, there is resort to other strategies to gain larger lump sums. As indicated above, this therefore fits with the finding from the Kenya Financial Diaries project that financial assets are frequently kept in relatively illiquid forms.

Only one case of borrowing for a major illness was clearly identified in the interviews. This case involved pregnancy related complications prior to the birth which led to admission at a level 5 hospital after two admissions to local clinics and hospitals. In this case borrowing from a CARE promoted SG helped with the expenses. Support from friends was also a key feature of the support received to manage expenses at that time. The loan had not yet been repaid and the respondent was expecting to be able to clear it at the end of the year against her expected share out.[25]

As also pointed out in the report on the Kenya Financial Diaries research (Zollmann 2014), narratives of trips to clinics and treatment frequently refer to the ways in which people known at these facilities help in negotiating access and in particular making the payment a negotiable feature of what then happens.

[24] See Malkamaki (2015) for a detailed discussion

4.5 ACHIEVING BETTER MONEY MANAGEMENT: THE CONSTRUCTION OF ILLIQUIDITY

The use of mobile money and bank accounts in the context of mobile banking platforms has already been discussed in Boxes 8 and 5 above. These revealed that for some people mobile money is a tool that aids illiquidity while for others it is too liquid; and that mobile banking platforms potentially make it too easy to access funds that users are seeking to render more illiquid by putting them in the bank. Apart from these issues of accessibility, a strong set of themes from the qualitative case studies and which also resonate through the previous sections are the factors that contribute to the need to create illiquidity.

There are a number of factors identifiable from the case studies which created both the demand for illiquidity and the ability to adopt a formal service to fulfil that demand.

First, is purpose. Most respondents have a purpose in mind, whether it is Joseph keeping the funds from his land sale for future fee payments or needing to accumulate funds for school fees. Of course such purposes change over the lifecycle but education is a dominant narrative here and now extends into tertiary education as indicated above., or other basic needs such as building houses. However, it has also been pointed out above that the purpose cited is not necessarily linked to how the funds are used such that a stated purpose such as education may have traction beyond that purpose

Second and relatedly, is that this purpose can arise from a change in lifestyle or responsibilities. We have noted above the case of the drunk who becomes sober and rediscovers his responsibilities. Additionally is the case of getting married and taking on the responsibilities of taking care of wife and child that married life involved changing the need for better money management compared to the life of a single man.

Third, as seen in the case of John, while the demands for education, housing and so on are life cycle responsibilities, aspiration to develop further and do better can also lead to new intention to manage funds better and reduce expenditure in order to achieve more.

Fourth, is the wider economic environment. The ever increasing cost of living was frequently referred to as a reason why small scale expenditures were no longer possible or that there was not now enough money to 'save' – that is in big lump sums, so that better money management of small amounts was now seen as necessary. In particular coffee or tea payouts used to provide lump sums through which larger scale expenditures could be financed – with falling farm sizes and uncertain payouts which have already been leveraged for credit, these are no longer a sufficient means to accumulate lump sums.

Fifth is learning and experience. As discussed above, Catherine explained how she had heard from her friends about using mobile money as a place to save; on the other hand Charity had learned from her daughter to save small amounts in a home bank. As pointed out above trust in mobile money and its use as a savings device also depends on individual experiences of retrieving funds when something has gone wrong or finding this a difficult process which deters further use.

Sixth, in the case of using mobile money, it is necessary to actually have access to the technology. While this is now widespread and cheap phones and charging are much more accessible, there are still cases where the phone gets lost or is not working, or the SIM is blocked or not functioning for some reason.

Seventh, as has been discussed the particular mix of proximity and how this relates to mobility affects the illiquidity that a particular device involves. As Catherine's case shows, since she spends most of her days around the homestead and in the tea farm this restricts her access to agents. On the other hand, Janet has to place her sister between herself and temptation to use mobile banking out of hours.

Eighth, gendered roles also affect the kinds of demands that men and women face to spend funds that they have to hand. Women's role in the home mean they face the frequent demands from children for treats more frequently than men. While depending on whether men spend time in bars, they may face the peer pressure of buying their friends drinks.

Ninth, as Stephen explained it was a matter of "self-control" that determined how he saved. For him in the context of facing potential demands as a result of his need to talk to others and buy airtime and the likely pressure of buying beers for his friends in and around his pool table business in the market place, his need is to put the funds out of reach in a different way.

Finally, relative incomes affect the perspectives on withdrawal fees. For Kate and another respondent (Rachel) in the depths of rural Kitui, saving in mobile money which involved a withdrawal fee was either a useful way of creating illiquidity because it was too expensive to withdraw her funds except for the maternity situation, or for Rachel that this would simply mean that when she had a need she would waste funds on a withdrawal charge when she get the goods on credit from a shop and pay the same amount in cash when she had the money.

Recognising this array of factors which create reasons for illiquidity helps to understand that it is the convergence of these that creates an actual demand for it, and this demand then needs to come together synergistically with the availability and understanding of a particular tool in order for it to be used for that purpose. Seen in this way, it is easier to see that the adoption of either bank accounts or mobile money to create illiquidity requires a range of factors to converge.

These factors can be brought together using the perspective of complexity theory[26] to understand them as operating in an open system occurring in time. This approach suggests that new ways of doing things - emergent phenomena - can be seen as arising from the context specificity of the environment in which it is happening along with dependence on the past sequence of events (history/path dependence); these influence the wide range of factors occurring in the present which operate as a system and in which change occurs as a result of features in this system acting synergistically.

It is when the groundwork has been laid over time and these factors come together that produces significant shifts in the use of services. This analysis can operate at the level of individuals whose behaviour changes as a result of the way these come together. For example, the drunkard who reforms and now receives his income through a SACCO account to ensure that he does not spend it all at once, may in part be driven to better money management through the need to send his children to school, alongside his route to reformed behaviour through finding God. At the wider level, learning and experience of technology makes mobile money systems understood and trusted, which synergises with periods of economic growth to result in people having some funds which they wish to save for the future further away from themselves.

The implications of this are that impact pathways are not linear and straightforward but are contingent on a wide range of causes and conditions that occur in time. Shifts in use, for example, the use of a certain instrument to achieve illiquidity, is not a mechanical result of a particular cause- effect path. The above factors may be synergistic, but they also require that providers have produced financial tools that fit with their preferences which may be deeply path dependent as they are embedded in underlying values and meanings of what it means to live well, as the next chapter shows.

4.6 CONCLUSION

These cases of improvement and decline highlight a number of points. The path to improvement is a long, slow and risky one and as John put it: "The stairs are very high. So you have to climb slowly." "Climbing slowly" seems a rather modest description of John's asset building trajectory over the last four years – but interestingly little of this investment has yet been converted into material wellbeing improvements for himself and his family.

This account has emphasised the importance of the livelihood opportunities available as improvement requires a context of overall economic development. Two specific areas that have offered new livelihood opportunities were noted in the case studies: taxis in Kitui and vegetable growing on contract. Rural areas are still largely dependent on traditional livelihoods – with tea and coffee experiencing their perennially uncertain prices, weather, growing conditions and hence income flows. Off-farm diversification is challenging in the context of the rural market saturation that was particularly evident in the case of Paulina. We have also discussed the new pressures for investment in further education in the context of high youth unemployment. This means that investments in skills for the labour market are also experiencing saturation and higher investments are needed to gain entry to the limited pool of higher income earning opportunities.

It is clear that formal banking services were important to those with larger businesses in managing their cash flows and requiring being "friendly" with the bank in order that these can be managed effectively – through either overdrafts or cashing a cheque before it has cleared which is an informal practice.

The availability of savings instruments clearly assists with the ability to "climb slowly" – but the key feature of formal sector use that is evident here is that the bank is a place to put funds when they are not needed for other purposes. In this sense the bank is "far" away, it aids illiquidity and is for putting larger amounts. A clear development in the use of mobile money for illiquidity management has been noted and discussed in boxes 5 and 8 above, and the way the factors underlying the demand for illiquidity as well as the ability to adopt it have been discussed in the previous section.

Moreover, there is an indication also that putting savings away may be for a specific purpose, but this might not in fact be the use of those funds. The intention to save for education might result in funds that are eventually used for a pressing need[27]; while those put away for a pressing need may in fact be used for education. This suggests that people find reasons to motivate themselves to save but may decide to use those funds for completely different uses.

There is little evidence of formal sector loan use - whether bank or microfinance - enabling business growth. The exception is John's overdraft but this is in a context of lumpy but certain sales income.[28] John obtained finance for his taxis from the suppliers which enabled him to grow and he provided similar opportunities to acquire motorbikes – making a profit – for his "needy" friends. Daniel also financed his business expansion to his new body repair workshop by drawing in funds owed to him and doing jobs that would bring him lump sums of income.

As the microfinance literature has long understood, successful borrowing for

[25] As noted above and discussed in detail by Malkamaki (2015) this is a common practice. Repayment is often not enforced prior to the share out.

[26] See Johnson and Boulton (2014).

business depends on diverse income streams enabling liabilities to be taken on as uncertain business environments make loans against sole sources too risky. Where there are established income streams such as tea and coffee these are heavily leveraged but lenders who lend against them are cognisant of their uncertainties and prepared to weather them, as are those who borrow against them – in the cases of tea and coffee we see that they often result in zero incomes being received from these sources for some time. But lenders who lend against them are therefore patient and do not demand repayment from other income sources. Indeed this came out very clearly in one case.

The cases of decline also provide evidence of the difficult of managing formal loans. Joseph's microfinance loan had caused him to struggle to repay and he sold trees to help him do this. Paulina and her husband's shoe business for which they had borrowed formally was leading to a fear of formal loans and a shift to more expensive but more flexible informal group finance. Moreover, financing university attendance can be seen as a new challenge for these low income households in matching investment plans and revenue streams to liability terms.

[27] As was the case of Jonathan who said he was saving for his daughter's education but had repeatedly borrowed from his chama at the beginning of the school year. When asked why he did not withdraw from the bank he said that he was saving there so that he could get a loan for her college education in future. He had in fact withdrawn from the account to send some relatives home as they had had insufficient funds for travel.

[28] He reported that he had concentrated his business on schools he could trust to pay, and drop those who were problematic payers.

Chapter 5

WELLBEING AND FINANCIAL SERVICES: IDENTIFYING WHAT MATTERS

This chapter examines the role financial services play in people's lives from the wider perspective of what matters for their wellbeing. This draws on in depth interviews with 16 respondents who were new to this round of research and who took part in the market case studies survey reported above. The interviews first discussed what respondents regarded as important for their wellbeing - what makes a good life - through a life story interview. This was followed by an interview discussing with them how they managed their money and used financial services.[29]

Respondent's narratives show that people primarily talk about what it means to have a good life in terms of their economic achievements and with reference to family and household improvement. This means being able to provide for the family and send children to school. However, the importance of this is not purely or even predominantly a concern for material welfare but these achievements support the ability to conform to local social and cultural norms which build identity, self-esteem and social status. For instance, getting married and having children are important life stages which yield identity and social status, and are therefore a source of pride. Conforming to the cultural norms associated with such life stages are also important for self-esteem and identification with the community. For example, paying bride wealth remains very important, even though men are finding it harder to pay for it. Living in peace within the community was also regarded as important for people to live well. In particular, belonging to a community, feeling understood and being respected are all important for a sense of self and identity.

Importantly, respondent's stories also showed that people become part of a community by conforming to the moral norm of mutual support. Participating in and nurturing relationships of support is indicative of a collective morality, where people identify themselves with a community and its development. Ultimately, wellbeing is not seen in an individualistic path but is created though social relationships within the family and with the wider community. Hence the importance of resources is centrally embedded in these wider goals and values.

With this understanding of wellbeing, the ways people manage their money and resources can also be understood in the ways they differently contribute to these goals of wellbeing. Three main ways of managing resources are, first, support networks in which resources are exchanged; second, ***chamas*** (informal financial groups); and third banks, and each way these services function can be seen to have different implications for the ways in which wellbeing goals can be achieved. Each of these types of financial service has ways in which it contributes to achieving economic wellbeing goals (which we call instrumental). In addition, they present dimensions that contribute to the goals identified above through their interaction with the wider social and cultural norms of achieving identity, self-esteem and social status and connected to norms of mutual support and community development (which we call intrinsic).

First, is the case of the networks of financial and economic support that people operate by giving, lending and borrowing to and from each other. This is not only a valuable way to cope with emergencies and develop as a family and community (e.g. investment in education), but they are also a way to create and nurture those social relationships through which people's identity, social status and self-esteem are constituted. In particular, "helping each other out" appears to be a strong social and moral norm within community dynamics. People feel good when they can help others, while at the same time it is socially appropriate to ask for help. Moreover, asking for help is not an individualistic and selfish behaviour. Indeed, people recognise that they develop as a community and consider personal achievements in a collective perspective. Most importantly, when help is received it indicates mutual recognition and the presence of trust within a relationship. These support networks are therefore constitutive of people's identification with and belonging to the community, as well as their social status and self-esteem.

Second, being part of a ***chama*** is also a case where financial and social relationships strongly overlap. Chama members are motivated to save more and plan better on how to use their contribution/loan. However, ***chamas*** are not only important for providing economic support but also because people within groups share cultural and moral values, therefore being important spaces for the creation and recognition of people's identity and social status. Moreover, groups allow their member to share with the community/family and to behave according to the morality of mutual support. Indeed, group members are not only improving their situation but they are also participating in other people's improvement, thus strengthening social networks through an acceptable and appropriate mode of communal development.

Third, in the case of banks, respondents reported that having an account gave them an incentive to save and spend less on unplanned expenses. In this sense, bank accounts represent safe places because they are physically safe and 'distant' from people. It also enabled them to preserve their money from community requests. But this behaviour can also be understood in that it therefore runs counter to behaving according to a morality of mutual support.

[29] This material is a summary of the report "Intrinsic and instrumental values of money and resource management for people's wellbeing" which is an interim report to FSDK of the research project entitled "Financial capabilities: conceptualising and investigating their role and relevance for financial inclusion in Kenya"

Indeed, a bank account operates with a stronger individualist morality, where people put aside money for a personal development which is not directly connected to the community. Hence having a bank account per se does not improve people's social networks and does not intrinsically contribute to people's sense of belonging and identity in the wider community. Indeed, having a bank account does not directly help people to create and nurture social relationships, this is only a result of people's agency and decisions on how to use such accounts. For example, although putting their funds in the bank has not helped others, they may still withdraw funds to assist a friend or relative in the case of need.

This wider perspective on how wellbeing is constructed in relationship to identity, status, self-esteem and belonging through interaction with others, presents an alternative perspective on why social networks of support and informal groups remain so important in the ways that people manage their money. It shows that the mode of development in which respondents identify themselves collectively and with a morality of mutual support guides people's behaviours and thinking. This lies in contrast to the perspectives of providers and policy-makers who approach the use of financial services from an individualist perspective of how it is most rational to manage resources for self-advancement.

Chapter 6

EXPLAINING PERFORMANCE AND IMPACT

6.1 SUMMARY OF FINDINGS

This report has, first, explored patterns of access and use including triangulating these findings with other major access surveys. The conclusions from this are that:

- Bank access over the past 2 to 3 years has stabilised at 28% of the adult population. The main routes to access are still through the receipt of incomes from business or employment and accounts proliferate as people receive multiple income streams or even open them to receive specific payments. This in turn creates high dormancy rates.
- Use of mobile money also has stabilised at a level of around 70%. This suggests that those who still do not have registered accounts are excluded for reasons such as inability to afford a phone or a lack need.[30]
- M-Shwari growth has been the main change in the market since 2011, this has overall outreach of 9% in this survey and 17.5% according to FA16.[31] There is particularly strong outreach in urban areas (25% in low-income Nairobi, this survey), while penetration of rural markets is much weaker. Its use is concentrated among young people, the non-poor and better educated. Over 50% were already formally financially included but some 39% do not have a formal service or informal group and it is therefore reaching a hitherto excluded demographic. This may be the beginning of a more extensive diffusion curve as people learn about it and advise others on how to manage it. However, the limited qualitative data available suggests that its value proposition is not straightforward and therefore that it is less likely to experience an adoption growth rate similar to that of mobile money.
- SACCOs appear to be experiencing some decline, and MFIs are also static as a small share of the market.[32]
- Data on use of informal groups is down on other surveys but the data from FA16 indeed suggest that this may be due to timing of surveys[33] it certainly does not appear from in-depth qualitative data that groups are struggling or that there is a major shift to the use of other mainstream services for savings or credit. The demographic being reached by M-Shwari is not the core demographic of informal groups and only 9% of current M-Shwari users also use informal groups.

Second, it has added insights gained from the qualitative field work on the reasons for use and non-use, particularly focusing on how new digital channels of access - both mobile money and mobile banking platforms – interact with intentions to manage them.

- This indicates that keeping funds in the bank for saving requires that users experience a degree of inaccessibility. As a result, technological developments such as mobile banking platforms that increase access can be a hazard to effectively managing liquidity. While access 24/7 in case of emergencies may be appreciated it creates new challenges as to how the discipline for its use is managed
- Moreover, what is accessible for some is inaccessible for others. Hence for some respondents – especially rural women – there is evidence of greater use of mobile money as a place to save which puts funds a bit further from daily use in the house. For those who are more mobile and used to using mobile money for payments and experience it as a place through which funds flow, then this is too liquid a place to save.
- These insights demonstrate how liquidity and illiquidity are a results not solely of the products features but of the social and economic circumstances of the individual (eg. gender; livelihood type such as business versus agriculture; location and proximity and so on) as well as their own dispositions towards savings discipline.
- The demand for liquidity is therefore a product of a number of causes and conditions such as the purpose for the funds which can be related to life-cycle factors such as marriage and taking responsibility for a family; building a house; future aspirations to educate children; access to and experiences of services and the technology involved; as well as personal dispositions towards self-control and discipline.

Further, it investigated in greater depth how financial service use supports changing livelihoods. This highlights that:

- Wider economic conditions are critical to impact. The use of financial services is linked to these changes and cases of success in livelihood development appeared related to areas of economic expansion. But this is within an overall context of highly competitive and frequently saturated markets.[34]
- These wider market conditions include the increased demand for education

30 Household penetration rates are not available from this data. Among FSDK's Financial Diaries project sample (298 households), household level penetration is 93% while individual level penetration is 51% for over 15s.

31 M-Shwari reported 7.2m accounts and 2.8m active borrowers in December 2014. With an adult population of approximately 45m of whom some 50% are under 18, this suggests a penetration rate of 33%. However, similarly to bank accounts people may have signed up but having not used these accounts do not report in surveys that they have done so. However, the number of unique borrowers at 2.4m would suggest an approximate borrowing penetration rate of 10% which is also much higher than our survey findings though the timings are comparable rather than the FA16 data which was collected in late 2015.

32 Although MFI outreach is growing in absolute numbers, if this does not keep up with or exceed population growth then they decline as a proportion of the market.

33 If surveys are carried out in November and December groups have often finished their rounds and re-form early in the following year, people therefore do not report having a group in the survey.

to compete in highly competitive labour markets such that poor families whose children are unable to find jobs are now seeking to invest in university education creating new demands on their resources and new challenges for matching investment with liability terms.

- Businessmen continually juggle their resources to make the most of them and mobilize funds for new ventures when these opportunities arise fitting with the insight that money must be constantly working.
- It was noted that even in cases where business were more formal, bank lending paid a rather small role in this although being "friendly" with the bank was necessary to ensure good services.
- Social networks for business people are vital, mobilising funds can take place in different ways through these relationships, whether this involves getting payment for services rendered in the past; calling in debts; or an opportunity to sell on commission when working capital is short.
- Formal lending (including MFIs) was seen as problematic because claims for repayment do not relate to the income stream. Rather lending is preferred when it is against a specific income stream as the lender is likely to understand non-payment when this stream fails. This has the effect of confine the consequences of a failed income stream and preventing its spilling over into other livelihood activities.
- Investment is both a financial and social process and cases showed how opportunities for others to do well are valued. For example , employing relatives or being able to uplift "needy" friends by enabling them to acquire motorbike taxis. This solidifies friendships creating social value for those involved.

Finally, the report presented a broader perspective on the ways people manage their money by connecting them to a wider perspective of what it means to achieve wellbeing.

- Living well involves providing materially for the family. Being able to house them and send children to school enables conforming to the social and cultural norms of marriage and having children so bringing social status, identity and self-esteem. Other values identified were being able to identify with the community, achieving a sense of belonging, being respected and understood, and living in peace.
- Being part of a community involves conforming to the moral norm of mutual support and nurturing relationships of support enables this identification. In this way wellbeing is not individual but is achieved through social relationships within the family and community.
- This perspective means that financial practices of asking for funds and helping others, and belonging to ***chamas***, contribute to these goals. This is in contrast to putting funds in banks since these do not have this sense of identity with family and community or enable networks of support. Banks do not even necessarily lend to the individual saving there!

6.2 RELATIONAL FINANCE AS A FINANCIAL REPERTOIRE

The material on wellbeing highlights the wider context of the way financial practices interact with wellbeing through a set of underlying values. As has been outlined above, these encompass: identity and belonging; mutual support; generosity; community development; and living in peace.

These findings also converge with insights into underlying values found in other studies. The earlier Landscapes study showed that transfers involved a much wider range of purposes and relationships than was captured by its "send money home" domestic remittance entry point. It argued that the rapid adoption of mobile money was due to the dynamics of reciprocity in the way financial resources are managed. This approach was in contrast to the way in which banks respond to customers – they do not offer a reciprocal dynamic – the possibility of getting a loan from a bank to "climb higher" in a relationship of support is remote, and when loans are given their terms and conditions are difficult to manage as they take little account of the circumstances that borrowers may face.

These findings were further illuminated by research on the "genealogies" of transactions, showing that the exchange of resources establishes affective dimension in relationships and that a relative can become a friend when resources enter into the relationship. This is convergent with a value framework in which the use of resources is for upliftment - the achievement of wellbeing goals that enable providing for the family and supporting the community - hence investing is both a social as well as financial exercise (Johnson and Krijtenburg 2014).

Moreover, this is also convergent with the findings of the Financial Diaries project that respondents sought to keep their money working. But "working" is not just a financial or economic perspective, it is one in which resources help others when they have need in case of health problems or hunger, and enable them to develop their livelihoods including for example through education of siblings, nieces and nephews. In this sense money that is in the bank is "***sitting idle***".[35] It neither works in a material way nor builds relationships in the family or community[36]. For many, if not most users, it does not result in support for livelihood development by enabling access to loans, but when it does – and repeatedly does this, then it is highly valued. As a respondent who had received ongoing support from her bank over a number of years exclaimed "it is my mother" (Johnson and Krijtenburg 2014:9) so indicating just how emotional and close a relationship is evoked through receiving such support.

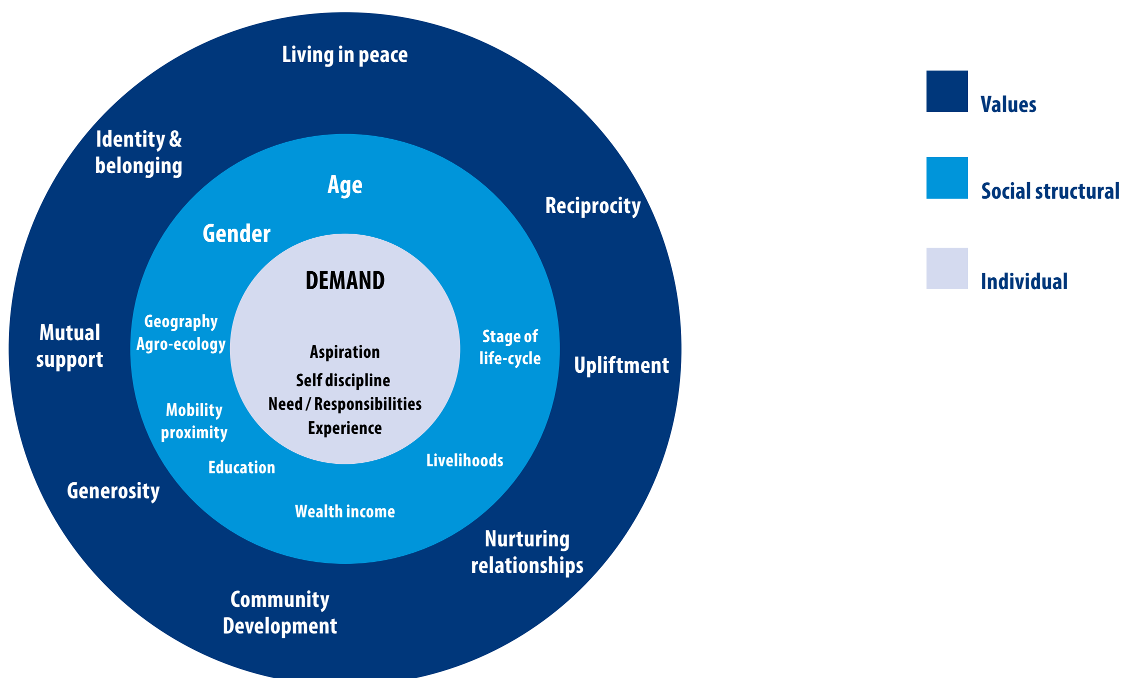
[34] The market for MM agents is such an example too see (Khan, et al. 2015)

This evidence therefore suggests that underpinning Kenyan financial practices and repertoires is a set of values that we can term "relational". This of course does not mean that these values can always be fulfilled, they may present an ideal. Moreover, the ability to operate in ways consistent with these meanings and values are constantly under pressure from a free market economy in which competition extends to deceit and fraud; mobility and urbanisation lead to more fragmented families; political and ethnic conflict over resources at many levels both create some logics of community while undermining others. However, this relational understanding of the way financial resources build wellbeing through the way they bring social networks and relationships into play can also be recognised as becoming more – rather than less - important under these conditions. Where unemployment is high and social networks rather than merit determines access to employment, then providing jobs for relatives or finding ways to share resources with others with higher social status who will then employ a struggling friend or relative are vital strategies. The need to build networks with those with more resources and social status was revealed as a means of both developing aspirations and increasing the potential to achieve them (Johnson 2015), so also offering ways in which new communities are built when they are no longer determined primarily by geography.

With this underpinning set of values, relational financial repertoires can be schematically understood through figure 9. This demonstrates demand as being embedded the result of a set of factors. At the base is this wider relational set of values and the meanings they invoke. Within this there is a set of social structural factors such as age; gender; life-cycle stage (married / widowed / children's ages etc); geography/agro-ecology; livelihoods; education; mobility and proximity to services and so on. These all influence the ability to access financial services (see eg (Johnson and Arnold 2012) in a range of ways and are reflected in the ongoing differentials in access that were shown above.

Within this, the above analysis has shown how a set of individual characteristics such as aspirations and purposes drive use of a service – which in turn may be embedded in life-cycle stages, age, gender and so on. So for example a young man recently married with a small child has to find new ways to manage his money in response to these responsibilities. Alongside the aspirations and purposes are the individual's degree of self-discipline, and their experiences and learning about services and technology and how this influences their choices.

Figure 9: Demand and relational financial repertoires



6.3 CLASHING REPERTOIRES: TRANSACTIONAL FORMAL FINANCE

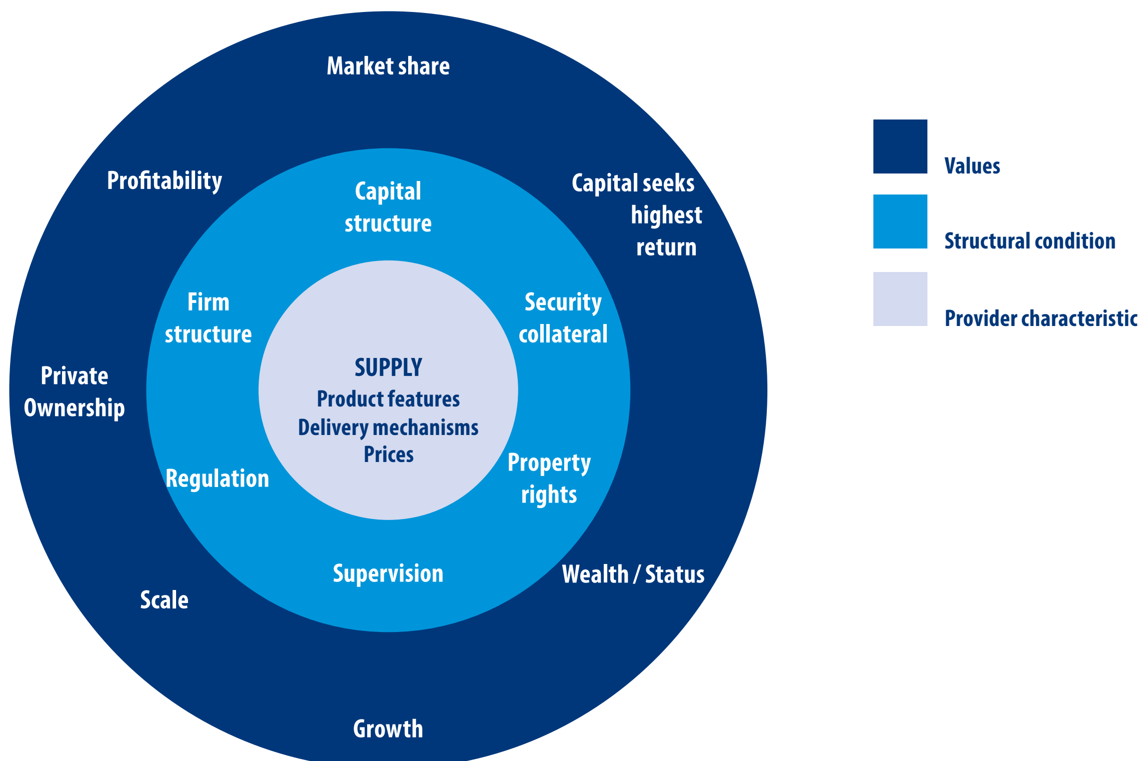
This set of relational values contrasts substantially with the values that underpin the formal financial sector's approach to finance - these can be termed transactional. Formal providers – specifically banks – operate with a quite different repertoire of financial practices. One in which the relationship they have with their low-income users is not central, but instead underpinned by a quite different set of values. The context of formal financial repertoires is illustrated in figure 10.

The values that underpin the formal sector banking system are primarily those of private ownership; market share; profitability; wealth/status; scale; growth; capital seeking its highest return. Within this, there is a range of structural conditions that influence the way in which supply is created. These include (but are not limited to) the firm structure (incorporation and its implications for governance); capital structure (shares; debt etc); the regulatory and supervisory environment; property rights and security/collateral arrangements for lending. It is in the context of these two wider sets of conditions that products and services are created with their particular mixtures of product features; delivery mechanisms and pricing.

The space in which these two repertoires meet is the space for financial inclusion – figure 11. We have illustrated the overlap in this diagram as rather limited - and the evidence above suggest that this space is not currently expanding significantly - except for the case of M-Shwari.

Indeed this analysis enables us to examine the three notable shifts in financial inclusion through this new lens of how their repertoires meet.

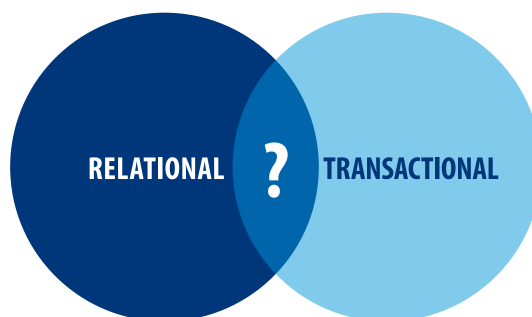
Figure 10: Supply and formal transactional financial repertoires



35 A term that is commonly used by Kenyans and was used by one of the professionals on the research team during a workshop for this research!

36 It is notable that Equity Bank runs videos in its branches of the many projects that they are involved in that support development. Its secondary education scholarship funding also has a high public profile. In these ways it clearly seeks to emulate these value frameworks.

Figure 11: Expanding inclusion is where relational and transactional repertoires meet



6.4 SUCCESSFUL FINANCIAL INCLUSION IN KENYA: WHEN PROVIDERS MEET RELATIONAL REPERTOIRES

There have been three notable shifts in formal financial inclusion in Kenya in the last ten years. First, and most dramatically is the case of M-Pesa; second is the increase in banking sector outreach which was led by Equity in the mid-2000s; third and most recently is the case of M-Shwari. Each of these can be better understood when they are viewed through the lens of the underpinning values frameworks that they bring into play.

M-Pesa

First, is the mobile money transfer expansion from zero in 2007 to 62% of the adult population in 2013. A significant part of the story of this growth has been given to the demand side of the picture - the need for lower prices for domestic remittances in the context of labour migration and poor existing supply and the "send money home" marketing entry point this resulted in. In addition emphasis has been put on the success and incentives that Safaricom offered agents for transacting making this a good business for them; their virtual monopoly position in the market and the network effects for expansion that this offered. The pricing and convenience of the product also hit the mark.

However, the analysis is significantly deepened by an understanding that the ability to send money in such a simple, low cost and convenient way fitted into the underlying existing and extensive practice of inter-personal transfers. This is a nexus of informal financial practices that precisely support the values frameworks of reciprocity; mutual support; upliftment; generosity; and nurturing relationships. Moreover, the ability to identify with the home place or village through sending such support also fits with values of identity and belonging. Finally, it is important to note how Safaricom has built its brand as one that places emphasis on its national identity so also building the wider sense of belonging and identity with Kenya as a nation.

This perspective therefore helps to explain the rapid adoption curve of mobile money in that it enabled precisely these relational dimensions of finance to be enacted and even extended to operate across s pace in ways that had previously been constrained by distance. Between FinAccess 2006 and 2013 the proportion of Kenyans who had not received a remittance fell by more than half - from 73% to approximately 35%. The evidence suggests that this penetration rate has reached a peak, and this can be understood as a result of a combination of structural and more proximate factors - such as those who still cannot access a mobile phone or do not have social networks within which to transfer funds.

Equity Bank

Second, is the case of expanded bank outreach from 17.8% in 2006 to 29.2% in 2013 – a 11% expansion. The expansion of Equity's own outreach (according to FinAccess surveys) during this period was from 3.6% to 16.1% - a 12% expansion (of course there is frequently multiple account holding). No other major retail bank has seen a similar expansion - see table 1. So virtually the entire expansion of banking outreach is due to Equity alone – how can this be understood?

As other studies have indicated, Equity led a pricing revolution in the banking sector in shifting away from ledger fees to transactional charging (Stone, et al. 2010). As shown above, inclusion is largely driven by engagement with the formal economy and this expansion also came during a period of economic growth and development in the mid to late 2000s. However, the story is much deeper than this and can be understood as keying into the underlying value framework indicated above. First, when Equity developed its business in Central Kenya this was in the context of the poor economic performance of the late 1990s and a time when government owned banks were hardly

[37] Data for individual banks in the 2009 dataset are not consistent with other years and we therefore do not present it here.

lending to ordinary people.[38] It focused on ensuring that money was lent out as well as deposited. In this way it presented itself as a bank with a reciprocal proposition for savers and keyed into this underlying value. Second, in giving loans it identified itself as investing local communities – if one stood in the queue at an Equity branch one would be shown on a video all the projects in which Equity was investing. Hence it identified with the value of upliftment. Third, its chief executive officer (CEO) – James Mwangi - took a lead role in the development of Vision 2030, Kenya's development strategy. In this way it has identified itself with the value of community development at the national level. Further, its "I'm a member" campaign in the late 2000s demonstrated a concern with identity and belonging. Finally, the Equity Foundation has supported scholarships for disadvantaged children in every district across the country. This initiative is widely known and appreciated and keys into the underlying value of mutual support.

Understood in this way, the analysis takes us beyond the narrow characteristics of the products and services to the deeper way in which Equity has keyed into underlying value frameworks in explaining its ability to virtually single-handedly expand the outreach of the banking sector. However, it also helps to understand why Equity's growth has not continued to rise apace as Equity remains constrained by the underlying structure of its business as a bank which still limits its offer to a wider range of Kenyans through the way this influences its products and services offer. Equity's reciprocity in terms of lending did however result in a non-performing loan portfolio that had to be reined in and cleaned up in order to meet the requirements of regulation. Its lending to everyday low income markets has more recently therefore, for example, targeted income streams - as in the case of tea lending above. Finding ways to develop the lending offer is challenging within the constraints of market lending norms.

M-Shwari

The third example is that of M-Shwari. Currently it has made the third largest contribution to outreach of the formal banking sector by giving some 5% to 8% of adults new access to a savings product and related loans in this survey. Of course its ongoing trajectory is not yet known but again, we can illustrate how it fits into this deeper value framework – though perhaps rather less firmly than the above examples.

First, it makes use of the trust and identity of Safaricom and values surrounding M-Pesa by being embedded in the M-Pesa menu on the phone. It offers loans which makes good on the reciprocity dynamic that is largely missing in the mainstream banking sector. As Eric Muriuki of Commercial Bank of Africa (CBA) says the product is part of shifting the trust relationship with the client such hat the bank "will trust you with (its) money before you trust it with yours".[39] Even qualifying for a loan – although it may not be large or initially much bigger than the savings held – is a significant shift. The data shows us that the proportion of M-Shwari account holders borrowing is twice that of the banks at approximately 40% compared to a bank ratio of 15%. It is interesting however that M-Shwari has had to invest in much more direct contact with customers to encourage repayment and this confirms the need for more deliberate relationship building even within a digital product. On the other hand the privacy of borrowing in this way is also appreciated such that this offers a new dimension to a reciprocity relationship that has previously been likely to be known about by family or friends.

Table 1: Proportion using specific banks[37]
(% of adult population)

	2006	2013
Equity	3.6	16.1
Co-operative	3.0	4.7
Postbank	5.6	5.1
KCB	3.3	3.8
Barclays	1.6	1.4

Source: (Upadhyaya and Johnson 2015)

38 The political economy of Equity's rise in the 2000s is an important part of this story.

39 See http://www.cgap.org/photos-videos/m-shwari-empowering-kenyans-financial-services

40 See (Johnson 2015; Johnson and Krijtenburg 2014)

41 For example, the need to embed a culture of on time repayment which drives out the flexibility and response to relational values. For a discussion see (Johnson 2013).

6.5 CONCLUSIONS

Financial services cannot have impact unless they are used, and this first requires access. This analysis has identified a financial repertoire among low-income Kenyans which is based in a relational value framework which underpins the pursuit of wellbeing goals, and is structured by the way social structural and individual characteristics interact with each other and this wider context to create demand. As pointed out above, the relational values framework is an ideal, and is not always practicable or practiced in an environment of significant competition along with market opportunism, deceit, corruption and fraud. But even in this context, related research demonstrates the way in which financial resources are used to support affective ties with family and friends and that having such social networks is both consistent with values and in turn supports and sustains the development of aspirations.[40] It therefore offers an alternative perspective on the successes of the formal sector to date which highlights the way in which services provided do, or rather do not, key into these underlying values.

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This approach identifies that the products and services of the formal financial sector are themselves embedded in wider structural constraints and value frameworks which we have termed transactional, and which have a rather limited convergence with this relational financial repertoire. Most banks tend to remain distant from the relational perspectives of family and community, they do not present themselves as investing in these, they have little local presence beyond their branch premises. However as shown above, Equity's growth can be understood through this lens because its behaviour is most akin to these parameters at the local level such that their financial repertoire fitted more closely with the values and meanings of behaviour of the relational repertoire. That said, Equity also appears to have reached a plateau of outreach constrained by its organisational structure within the transactional repertoire. Of course its potential through thin-sim technology to compete with Safaricom may significantly change this equation to drive a new wave of inclusion. This argument suggests that it is more than simply technology that is required but a breakthrough that adheres to this relational dynamic, one which Equity has already developed the foundations for.

It is also possible to reflect on the development of the microfinance sector through this lens and the limited outreach that this has had of some 3% of the adult population. While MFIs started with group lending that sought to key into and operate with local group norms and relational values, the way in which this sector has evolved has become increasingly externally driven by the dynamics of external capital and the values of the transactional repertoire as MFIs have transformed into DTMs and MFBs. The dynamics of this trajectory are too extensive to be discussed here,[41] the point to note is this evolution away from an initial attempt to key into relational repertoires through connecting with the informal group dynamic has been transformed over time into institutions fundamentally driven by the transactional repertoire. It is however notable that KWFT has led in terms of scale in the sector for many years (now with some 700,000 members[42]). While focused on women, it has pursued a path that more closely resonates with some relational values - in particular that of identity and belonging for women as members of a larger network. Moreover, this also has the potential to explain why research respondents frequently report their disappointment when it uses heavy tactics to enforce repayment. Apart from its scale which means that the research encounters more respondents who have experienced such incidents, it also conflicts more clearly with expectations regarding its relational value frame.

Some NGOs in the microfinance sector have responded to this with the development of Savings Groups as a further wave of intervention to support informal financial groups whose character has been left behind by the formalisation of MFIs. These seek to improve transparency and accountability through introducing a technology of management and share-outs. They too struggle with governance and accountability arising from the interaction of relational values with governance (see Malkamaki, forthcoming). Arguably, this is the core problem of financial institutions in Kenya that operate within the more relationally focussed repertoire – it is getting the balance of "institutionalised suspicion" (Johnson and Sharma 2007) to operate effectively that is the nut that has not yet been cracked.

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[42] See http://www.kwftbank.com/our-story/who-we-are/overview accessed 18/11/15.

On the other hand, it could be argued that this nut has been well and truly cracked by M-Pesa by opening the way for informal inter-personal transfers to reach a new level of use while clearly keying into the underlying relational values and leaving the formal institutionalised financial sector behind. In this sense the promise of the supply-side reform of recent years is still a promise that is essentially unfulfilled.

6.6 POLICY IMPLICATIONS

The implications of this analysis are as follows:

First, by analysing the growth of inclusion in Kenya through this lens, it suggests that the bid for financial inclusion in developing countries more broadly must pay attention to the underlying wellbeing goals and value frameworks of those that policy seeks to include. While service provision in terms of price, proximity, design and convenience are important, it is when financial services converge with these goals in ways that are not solely about financial management they are more likely to be successful.

The implications of this for formal sector providers are not simply to seek to achieve marketing and branding that connects with these values but to genuinely enact them. This goes beyond corporate social responsibility initiatives - though these can clearly be relevant as the case of Equity Foundation's educational scholarships shows. It goes beyond the rhetoric of a double bottom line of financial and social to the very fabric and underlying culture of how providers do their business.

Third, this raises some alarms on the above evidence of SACCO decline since SACCOs as formal providers have been institutions that have historically fitted this relational value frame most closely. This is despite their troubled political economy history and frequently poor management – which itself is a result of the problems of such relational repertoires[43] and the opportunistic opportunities they embody for fraud and corruption. Their fit with the relational repertoire is due to their mutualistic form which enables their value frameworks to emanate from their members rather from the dictates of external dis-embedded financial capital Their apparent decline resulting from the impact of SASRA regulation, and the intense competition from banks for their core clients such that they have opened their common-bonds, suggests a weakening of the underlying value frameworks of identity and belonging that have underpinned them. Whether or not they can renew these in the face of this competition remains to be seen, but the current climate appears to signal a diminishment of the range of services available. While it might be argued that this signals the ability of banks to do this better than SACCOs, the frequent formation - and demise - of small SACCOs demonstrates the ongoing demand for these frameworks to be effective. One potential route for public policy is therefore to seek to regenerate this sector.

The weakening of the SACCO sector, the limited outreach of the MFI sector, and the rise of savings groups suggests a new need to re-consider the community development finance sector. Policy could give consideration to how small scale SACCOs or new forms of institution can be developed and institutionalise which better bridge the relational to transactional divide. The advent of devolved digital ledger technologies such as that of the blockchain[44] used by BitCoin may have the potential to revolutionise decentralised financial systems.

Finally, alternative forms of finance that are on the rise globally clearly have potential here and may offer avenues to leapfrog formal provision using transactional financial repertoires: these are peer to peer lending networks and crowdfunding platforms. While these represent a huge potential lowering of transactions costs, it is less straightforward to see how the asymmetric information problems of saving and borrowing can be overcome, where external finance is involved rather than local finance which is embedded within the relational repertoire.[45]

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43 See (Johnson and Sharma 2007)

44 See (The Economist 2015) http://www.economist.com/news/briefing/21677228-technology-behind-bitcoin-lets-people-who-do-not-know-or-trust-each-other-build-dependable Accessed 18/11/2015

45 Kiva's most recent attempt to cut out MFIs in their Kiva Zip approach and use local trusted intermediaries yet again signals how problematic reputational lending is in the context of huge information asymmetries. Inter-personal transactions via mobile money obviously avoid this and are more directly based in relational repertoires rather than this case which connects people to funds that have no local relational context (See http://nextbillion.net/weekly-roundup-10-2-15/).

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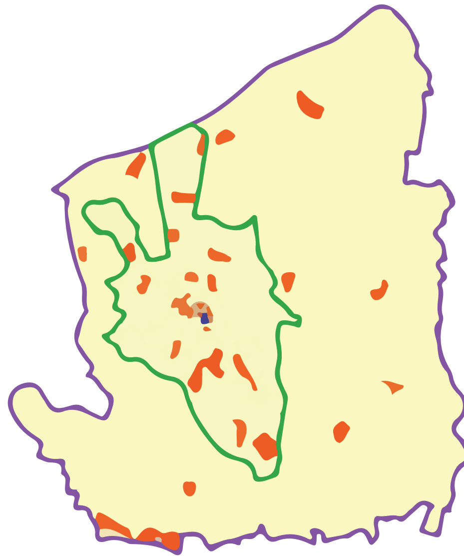
ANNEX 1: MAPS OF MARKET HUBS

NYAMIRA



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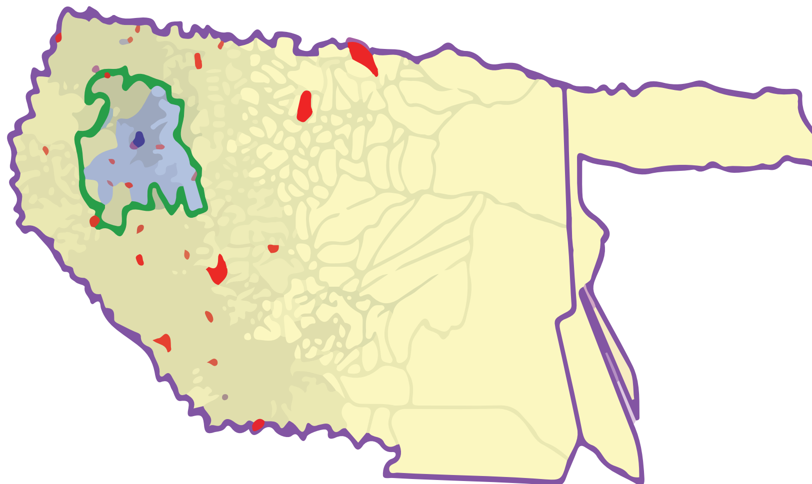
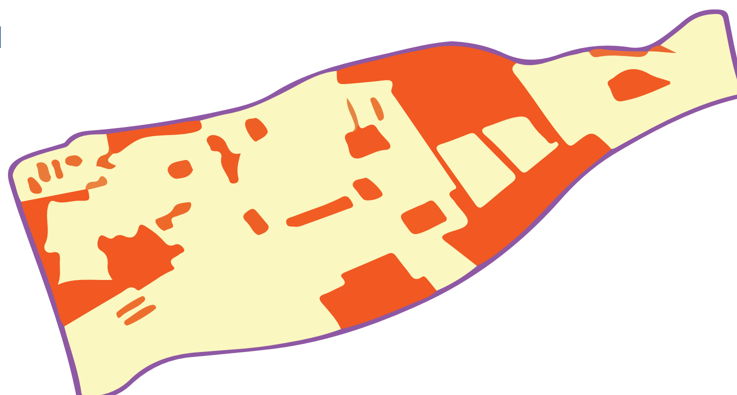


KARIOBANGI SOUTH



FSD Kenya

Financial Sector Deepening

FSD Kenya is an independent trust established to support the development of inclusive financial markets in Kenya. **A** 3rd Floor, 9-Riverside Building, Riverside Drive
• P O Box 11353 - 00100 Nairobi, Kenya • **T** +254 (20) 2923000
www.fsdkenya.org • *info@fsdkenya.org* • *FSDKe*