



## EDITORIAL

Last month saw the launch of the latest round of the FinAccess survey into financial access in Kenya. This quarter's newsletter highlights the key findings from this important survey. It cuts through some of the hyperbole which sometimes clouds our understanding, offering some cold, hard facts. And in short the news remains very positive with clear evidence of continuing progress in expanding financial inclusion. In the seven years covered by the surveys, more Kenyans have been reached by the banking system than in the whole of the previous century. More than 60% of the population now use a mobile money service providing a vital connection to the modern economy.

But before we allow these signs of success to overwhelm us, it is important to remind ourselves of what the ambition needs to be here. Mass poverty is the result of a failure to fulfil human potential in the context of the extraordinary progress in science and technology since the Enlightenment. Understood in this way, tackling poverty is all about inclusion – enabling people to achieve their potential. Financial inclusion needs to be understood as one dimension of a broader concept of social and economic inclusion. Although on one hand this should encourage some degree of modesty – finance cannot solve poverty alone – on the other it also increases the demands of an inclusive financial system. To be effective in helping low-income people manage their scarce resources effectively and invest in creating a better future, we need to go beyond current services. The formal financial system still only meets the day-to-day and long-term needs of a very small proportion of the population. Alongside our continued emphasis on reducing exclusion we need to improve the quality of what is offered.

The prospects for developing a truly inclusive financial system are better than they have ever been. Used effectively the prospective economies of scale are enormous. Technology has the capacity to further reduce costs by an order of magnitude. But to achieve these gains we need to be bold and look beyond the short-term. Fortunately perhaps the pace of change, which the recent data emphasises, no longer makes this optional.

**David Ferrand**  
Director, FSD Kenya

## NEWS AND VIEWS



24th September, 2013: CBK Governor Prof Njuguna Ndung'u delivers his keynote speech at the second regional credit information sharing conference.

### Nairobi hosts second regional credit information sharing conference

The second East African regional credit information sharing conference took place on the 24th and 25th of September, 2013 in Nairobi. In attendance were various credit providers from Kenya and about thirteen countries from sub-Saharan Africa, and was opened by the Governor of the Central Bank of Kenya (CBK) Prof Njuguna Ndung'u. The two-day conference had the theme: *Unlocking access to affordable credit*.

In his keynote address, Prof Ndung'u noted that the credit sharing mechanism launched in 2010 commenced with negative information sharing which was regarded as merely an entry point. Three years later, the regulatory environment would be widened to mandate credit reference bureaus (CRBs) to include positive information sharing with full file sharing a real prospect.

"There has been many developments since the first regional conference was held in 2011. As we examine the past gains and challenges in this conference, the CRB 2013 regulations currently being formulated are expected to address some of these challenges, and also allow CRBs to engage third party agents to extend their reach and services," the Governor explained.

The Governor thereafter launched the Association of Kenya Credit Providers (AKCP) to spearhead a more comprehensive credit information sharing environment in Kenya resulting in more affordable credit. Further information on the AKCP can be obtained at [www.ciskenya.co.ke](http://www.ciskenya.co.ke).

### Moveable asset register stakeholder workshop

On the 12th of September, a moveable asset register stakeholder workshop was organised by the Leasing Association of Kenya (LAK) and FSD to determine the parameters for the establishment and operation of a viable moveable asset register for effective SME leasing. The keynote presentation was made by Dr Marek Dubovec, a senior research attorney from the National Law Centre for Inter-American Free Trade contracted by FSD Kenya to undertake the assignment. Dr Dubovec noted that having a moveable property secured transaction in Kenya through an online registry could increase access to credit for smaller scale enterprise.

One of Kenya's Vision 2030 long term national policy aims is to improve access to credit. This target can be met by reforming the efficiency in the registration of collaterals. More than twenty secured transaction reform projects are on going in African countries. These include Ghana, Malawi, Rwanda, Liberia, South Sudan and Lesotho.

### GrowthCap project updates

GrowthCap, the core purpose of which is to help the financial services industry better serve SMEs, has now been running for almost a year. During this time GrowthCap has established strong relationships with four financial services institutions and has undertaken five projects with them, mostly of a strategic nature.

Over the coming months, GrowthCap will be undertaking further related projects and starting to disseminate the learnings from the work done so far with the wider industry. GrowthCap is committed to ensuring that the widest range of financial services organisations wanting to better serve SMEs, are given the opportunity to engage with the project.

In addition to the individual projects themselves, 2014 will see the publication of implementation toolkits relating to various core components required to serve SMEs effectively. Selected consultants from local business services industry will be invited to partner with GrowthCap, trained on the use of the toolkits and supported in their use across the industry. In addition, concept papers and briefing notes will be published across a range of different, innovative subjects to give the Kenyan financial services market the opportunity to become the pace setters for the region. Having laid good foundations in 2013, GrowthCap is likely to be very busy in 2014.

## FINACCESS 2013 FINDINGS



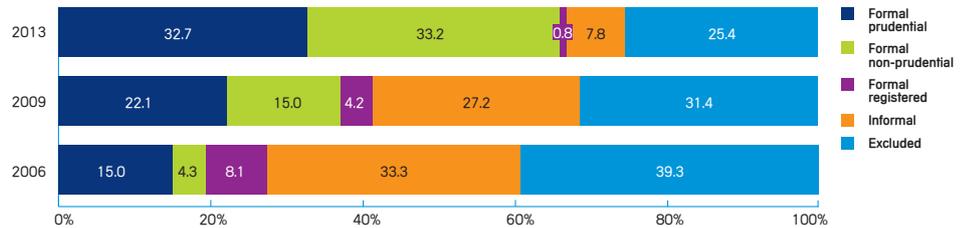
CBK Governor Prof Njuguna Ndung'u and FSD Director David Ferrand holding the FinAccess 2013 report at the launch event on 31st October, 2013.

In October this year, Central Bank of Kenya (CBK) and FSD launched FinAccess 2013, the third national survey on financial inclusion in Kenya. We now have time series data over a seven year period, which allows us to identify clearly many important trends in Kenya's financial market development, providing a solid empirical basis to evaluate the effects of various government, donor and industry initiatives.

The latest survey data shows that we have made strong progress towards financial inclusion. Exclusion has reduced from nearly 40% in 2006 to a quarter of the adult population in 2013, ranking Kenya second only to South Africa in reducing exclusion on the African continent. Usage of formal financial services has gone up substantially, with 12.4 million Kenyans representing two thirds of the adult population now using formal financial services, as opposed to just over a quarter of the population in 2006. While this is mainly driven by mobile money, the proportion of people using a fully regulated deposit-taking institution such as a bank, deposit taking microfinance institution or SACCO has more than doubled in 7 years, to 33%. The survey also shows that people are increasingly using financial services as a portfolio, with nearly half of Kenyans now using combinations of service - chamas, banks, mobile money, SACCOs etc to meet their different financial needs.

While we continue to see strong progress towards financial inclusion, especially in urban areas and among middle and wealthier groups, our data points to a number of continuing challenges. Over 50% of the poorest remain financially excluded, while over 90% of the top wealth quintile enjoy the benefits of full formal inclusion. Contrary to popular misconception, the poor need appropriate mechanisms to manage their finance precisely because they are poor.

Access strands by year (%)



Usage of bank services is still low, particularly for women, and price continues to be a challenge as services are delivered at a high relative cost to consumers. While the cost of saving is not a barrier for the wealthiest, nearly 40% of the poorest state that it is just too expensive for them to save! In rural areas, access points are still not sufficiently ubiquitous and a quarter of rural Kenyans have to pay over KSh 50 to reach their nearest bank branch. The effect is that, despite the fact that the majority of Kenyans are still rurally based, rural exclusion has only been reduced by 7% over seven years, compared to a 26% reduction in the urban excluded.

We also need to remind ourselves that financial access doesn't mean financial empowerment. While over half of the population use transactions and savings, the figures drop sharply when it comes to credit, investment, insurance and pensions. For the poor, access to liquidity - whether through savings, credit or insurance is vital for smoothing consumption and meeting emergencies in an unpredictable livelihood scenario. Data on frequency of usage underlines the point that many people are still relying primarily on mobile financial services and informal groups for their daily and weekly transactions. Banks SACCOs and MFIs on the other hand, are mainly catering to monthly and seasonal income patterns. At these levels of usage, not only are we not meeting people's needs, the sector is also missing a huge business opportunity.

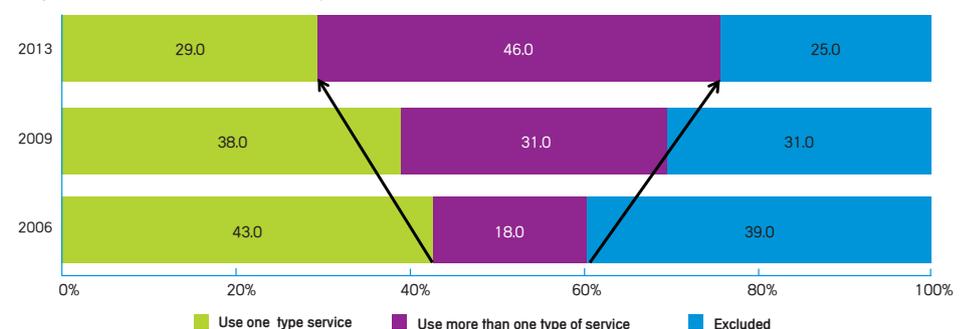
Lastly, consumer protection issues are of increasing concern in policy circles. The FinAccess 2013 data underlines the attraction of formal services, with 16% of informal service users reporting loss of money. At the same time people are still concerned about using formal services. Nearly 20% of bank users report that they have experienced unexpected charges. We also found that banks are perceived, mostly incorrectly, to have the highest interest rates. Without full transparency on the part of formal providers, people's perceptions and experiences will continue to constitute a barrier to full formal inclusion.

From these results we see strong potential for expanding outreach and harnessing market opportunities. If we are to achieve meaningful financial inclusion, it is clear that prices need to be slashed, access points increased, and formal financial intermediaries such as banks need to communicate more effectively with low-income consumers and deliver more appropriate solutions to meet their needs. Digitisation has tremendous potential to contribute to these goals, and we are beginning to see a number of new developments on this front that could make for impressive results in the next FinAccess survey. The FinAccess 2013 report can be downloaded from our website [www.fsdkenya.org](http://www.fsdkenya.org).

### Amrik Heyer

Head, Knowledge theme, FSD Kenya

Progression of financial access overlap: 2006 - 2013



## EVENTS CALENDAR

13 - 15 January, 2014

**Cracking the nut: Improving rural livelihoods and food security**

Kigali - Rwanda. For more information, visit: <http://www.crackingthenutconference.com>

**FSD Kenya is an independent Trust established to support the development of inclusive financial markets in Kenya**

5th Floor KMA Centre, junction of Chyulu Road and Mara Road, Upper Hill | P.O. Box 11353, 00100 Nairobi, Kenya

T +254 (20) 2923000 | +254 (724) 319706, (735) 319706 E [info@fsdkenya.org](mailto:info@fsdkenya.org) W [www.fsdkenya.org](http://www.fsdkenya.org)