

EDITORIAL

Over the last decade, increasing interest in policy circles to establish the poverty impacts of microfinance has led to a number of high profile studies, and concern by donors to collect evidence of the development impacts of their investments. While few would argue with the need for evidence-based policy-making, the 'evidence' is by no means easy to establish. A recent CGAP/DFID workshop in London brought together a number of development organisations and researchers to address impact assessment in programming for financial inclusion. Representatives from the various FSD organisations operating in the region attended the workshop, arguing strongly for a pragmatic and innovative approach to impact research under a *making markets work for the poor (M4P)* approach.

The workshop sparked some lively debates on key questions. As development investors, how can we best deliver on accountability to our funders (including tax-paying publics) through proportionate spending on impact research? Does a concern with 'proof' of impact override, and sometimes counter, the need to 'improve' impact? Under an M4P approach, how do we attribute impact given that our programmes operate strategically to facilitate market development at retail, industry and policy levels, often via network effects and synergies that cannot be examined independently? Lastly, given that M4P programmes are designed under a *theory of change* that identifies the market as a prime driver of financial inclusion, do we as implementers and funders need to re-examine the theory, or focus on assessing our direct impacts on markets and financial inclusion?

FSD Kenya addresses some of these issues under our new impact research programme. The programme offers a cost-sensitive, pragmatic design to improve and assess impact. On the one hand, we are tracking project-level impacts on market development. On the other, we are analysing the impact of our programme as a whole on pro-poor financial sector development through longitudinal market case studies in six sites in Kenya, and a price-index which tracks impacts on affordability. The first of our project-level impact synthesis reports will be available in June this year, while the next round of market case-study data will be out by December.

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Head, Knowledge theme, FSD Kenya

NEWS AND VIEWS



17th December, 2012: Michael King from the Department of Economics, Trinity College, Dublin makes his presentation during FSD's 10th research colloquium.

FSD's 10th research colloquium

As 2012 came to a close, FSD hosted the 10th of its research colloquiums to an audience drawn from research institutions, policy makers, the microfinance sector and development organisations. Adopting a two-part format, the colloquium examined financial inclusion in sub-Saharan Africa and new frontiers of financial inclusion research. The presentation was conducted by Michael King from the Department of Economics, Trinity College, Dublin.

The first part of the presentation commenced with the question: What do the family of FinScope surveys tell us about the state of play of financial inclusion in sub-Saharan Africa? By pooling eleven surveys, the presentation explored the characteristics of financial exclusion in the region and examined the determining factors of formal financial inclusion on a comparative basis. Identifying constraints to greater financial inclusion remains an important goal for policy makers and the presentation therefore examined relevant lessons from the FinScope surveys. The second part focused on recent directions in financial inclusion research. For more on these, read our in depth article on page two.

FinAccess surveys 2013

In 2006 and 2009 FSD Kenya funded FinAccess, a nationally representative survey on access to financial services in Kenya which measures the national demand for and use of financial services at the individual level. A cross-section of stakeholders was assembled to oversee the project, and the

resulting stakeholder group - the Financial Access Partnership (FAP) - has been active in doing so, chaired by the Central Bank of Kenya (CBK).

Harmonization of the FinAccess survey with the FinScope surveys across a number of countries in Africa was undertaken in the first quarter of 2012. The fieldwork for the latest FinAccess study, now re-branded *FinAccess Retail 2013 - Demand*, will be completed by the end of February 2013 with headline results due towards the end of the second quarter. Detailed analytical papers on various topics of interest to academics, policy-makers and industry practitioners will be generated to enrich the debates around financial inclusion. An online database of raw data and survey results will be made available for the public to extract greater value from the dataset.

Building on the success of FinAccess Retail - Demand, the *FinAccess Business - Supply* study, being conducted in collaboration with the World Bank and due for release in Q2, will provide a snapshot of current financial services being provided to businesses. The *FinAccess Business - Demand* study to be released in Q4 will provide much needed information on usage of financial services by businesses. The data collected through the FinAccess Business study is expected to fill a significant gap in understanding the provision of relevant financial services to businesses. A major data collection effort will be undertaken in partnership with the Gates Foundation under the *FinAccess Retail - Supply* study to establish a comprehensive spatial mapping of all financial access points. This is part of a global drive by the Gates Foundation to capture the geographical dimensions of financial exclusion.

Value Chain Finance Centre (VCFC) update

In November 2012, VCFC commissioned a study on cotton value chain analysis in Nyanza Region. This was to obtain information on financing at different levels of the value chain, barriers to financing, identify opportunities and make recommendations to increase access to finance and enhance functionality of the cotton value chain. The entire cotton value chain was studied through interviews conducted with major players ranging from input suppliers, cotton farmers, gineries, buying agents, textile mills, government agencies, risk managers and financiers. The study's report is expected in March 2013. Other value chain studies lined up by the centre include expansion of the cotton value chain study to other regions, dairy (refreshing the 2009 study and expanding to other regions), livestock, mangoes and wheat.

FRONTIERS OF FINANCIAL INCLUSION RESEARCH



The busy Municipal market in Kitale. Access to appropriate financial resources can enable low income households and micro-enterprises to manage their own resources more efficiently to support livelihoods. According to FinAccess Kenya, which asks individual respondents whether or not they have any one of 12 types of formal financial products, access to formal financial services in Kenya increased from 17% in 2006 to 24% in 2009.

Over the last decade, the FinScope surveys and more recently the first Global Findex survey have added greatly to our understanding of financial inclusion across sub-Saharan Africa. The FinScope surveys provide significant detail on financial product usage for eleven sub-Saharan African countries, while the Findex Global survey provides globally comparable annual estimates of financial inclusion.

According to FinAccess Kenya, which asks individual respondents whether or not they have any one of 12 types of formal financial products, access to formal financial services in Kenya has increased from 17% in 2006 to 24% in 2009. In contrast, the Global Findex survey asks respondents whether they have a bank account in their own name or 'together with someone else'. Thus the Global Findex inclusion rate is likely to measure somewhere between the individual inclusion rate and the household inclusion rate, depending on how respondents use access opportunities through family and friends.

There is reason to believe that a particular bias in the Global Findex inclusion rate may be important for Kenya. Before respondents answer the Global Findex inclusion rate question respondents are prompted on the use of accounts, specifically suggesting that an account can be used to save, receive/send payments, remittances and wages. It is conceivable that this may lead to an upward bias in the inclusion rate, as respondents engaged in similar transactions through informal or mobile banking, incorrectly respond positively to the question.

The Global Findex inclusion rate for Kenya is 42%, placing Kenya second behind South Africa in sub-Saharan African rankings.

The Global Findex inclusion rate for Kenya is 42%, placing Kenya second behind South Africa in sub-Saharan African rankings. With funding in place for ten years from the Gates Foundation for the Global Findex survey, Kenya will be able to track its performance on an annual basis.

At a recent FSD research colloquium, I presented four focus areas for the financial inclusion research agenda; impact on welfare, product innovation, short run-constraints and financial stability. First, while the financial inclusion agenda starts with the reasonable notion that access to financial services improves welfare outcomes for households and individuals, a healthy openness to pursuing further research on impact is worthwhile, not least to sustain the recent donor interest in financial inclusion. The reality is, however, that evidence for sustained positive welfare outcomes of access to financial services for the world's poor is weak. Recent evidence, for example, in the area of microfinance from Banerjee et al (2009) in Hyderabad and Crépon et al (2011) in Morocco show weak impact on welfare of new found access to microfinance products.

Further research on impact can play a key role in product innovation, the second focus area for research. It is highly unlikely that standard microfinance or formal banking offerings are optimally designed to improve welfare outcomes, meaning much can be achieved through financial product innovation. In many cases, product development will be led by profit seeking banks, however, there are likely to be occasions where market failures leave the financial needs of the poor un-served, opening up roles for donors and researchers to support innovation. Opportunities exist to evaluate the impact (and sustainability) of new savings products, more flexible credit services and unique product combinations. Special attention could be given to the affects of new products on intra-household behaviour, whether borrowing and savings are complements or substitutes and the product portfolio decisions of consumers.

Third, the search to identify the binding constraints for increased financial inclusion will continue. Poverty is the most cited reason for financial exclusion in FinScope surveys and undoubtedly plays the central role. However, research that defines the nature and contribution of financial illiteracy and documentary informality to financial exclusion can bear fruit. Specific unanswered questions include the degree to which strict documentary requirements lead to financial exclusion and whether the role played by financial illiteracy is knowledge or behaviour based. Answers to these questions can help inform inclusion policy.

Finally, regulators need to understand the changes in risk structures when millions enter the formal financial system as broadening access may not necessarily be related to increased financial stability. Given that financial sector growth and greater financial inclusion are important national priorities, there is a temptation to avoid the development of institutional mechanisms and cultural norms concerned with systemic risk. In parallel, the inclusion of millions into the financial system brings the importance of consumer protection to the fore. It is conceivable that ill-thought out and inappropriate products offered to consumers with low levels of financial literacy will lead to adverse welfare outcomes.

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EVENTS CALENDAR

8 - 12 April

CGAP Course for Funders of Microfinance, Kathmandu - Nepal.

For more information, visit: <http://www.cgap.org/events/cgap-course-microfinance-funders>

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

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