



## EDITORIAL

Information is the lifeblood of financial markets and a growing focus for players in the Kenyan market. Few institutions would now consider developing a new product without undertaking market research. Information technology once regarded, almost dismissively, as a mere back office issue, is now recognised as one of the most crucial strategic decisions faced by a financial institution. Sharing of credit information between banks is on its way. At an industry level the launch of FinAccess last year provided comprehensive information for the first time on the usage of services across Kenya.

Clearly the flow and usage of information from consumers to institutions is improving. How about in the other direction? It is equally important for market efficiency that consumers understand the financial services available to them and make the right choices. This can only be achieved if they have adequate and reliable information on what is available in a form which can be understood. In the context of a market where levels of financial literacy are low this presents challenges.

FSD Kenya is supporting a series of initiatives to improve the flow of information to users. Last year we worked with the Central Bank of Kenya (CBK) on providing price information on banking services in a simplified form. Building on this, CBK, the Kenya Bankers Association and FSD Kenya will develop a standard way to calculate and present interest rates. Financial education is likely to be the key to producing truly informed consumers. Although raising levels of financial literacy in Kenya will be a huge undertaking, FSD Kenya is looking forward to contributing to working with the industry on tackling it. We've already received a number of creative ideas from stakeholders which provide a good starting point.

**David Ferrand**  
Director

## NEWS AND VIEWS

### Warehouse receipts system (WRS) launched

FSD Kenya is supporting a warehouse receipts system (WRS) project in partnership with the Eastern Africa Grain Council (EAGC). The aim of the project is to develop a sustainable warehouse receipts system which will provide collateral to enable short-term lending to grain farmers.

The system, the second of its kind in Africa, has opened a window for smallholder farmers to access credit from financiers for acquisition of farm inputs without having to dispose of their grain at the low prices usually seen immediately after harvest. Bulking of the grain by the smallholder farmers and storage in a certified warehouse will enable them to maintain the quality of the grain and obtain better prices later in the season. The pilot phase of the project started in November last year and is spearheaded by a partnership between Equity Bank-financier, Lesiolo Grain Handlers – warehouse manager, and EAGC which is co-ordinating the WRS.



The EAGC chairman, Nicholas Hutchinson, addressing guests at the Warehouse receipts system (WRS) launch in Nakuru

### Survey on Bank Charges and Lending Rates

In April 2008, the Central Bank launched an update to the above survey. While releasing the report, the Director of Bank Supervision, Ms. Rose Detho noted the very lively debate that followed the launch of the previous survey in August 2007. "This we believe contributed significantly to raising consumer awareness on bank charges and lending rates". She added. "It cannot be over emphasised that competitive markets thrive on availability of information amongst consumers and the accuracy with which such

information is processed. Information is indeed power and if the customer can understand the pricing structure within banks, then we believe that they can make informed banking decisions. Allow me to underscore that the aim of the survey is not to categorize banks as cheap or expensive but to provide information to the consumer," said Ms. Detho. The survey showed changes from the previous survey; a reduction in interest rates, a drop in the average cost of operating a current account and a large increase in the branch network offered by banks. The survey can be viewed at; [www.centralbank.go.ke](http://www.centralbank.go.ke)

### FinAccess 2008: The next round

FinAccess 2006 provided the first nationally representative survey of financial access in Kenya. The results are now widely used by policy makers and researchers, in addition to a growing number of financial service providers (Reports can be accessed online at [www.fsdkenya.org/finaccess](http://www.fsdkenya.org/finaccess)). The next round of FinAccess is now in progress, and the new questionnaire is being designed. Stakeholders are encouraged to contribute new questions for the next survey. Although the first round was fully funded by FSD Kenya, a partial syndicated approach is being pursued for FinAccess 2008. Institutions that contribute to the costs of the field survey will also benefit from customized analyses and in-house presentations of the changes in demand for financial access. The past couple of years have been a particularly interesting time in Kenya, with widespread opening of new branches as well as the launch and increasing adoption of mobile phone based products. For more information please contact [finaccess@fsdkenya.org](mailto:finaccess@fsdkenya.org).

### New FSD Kenya Publications

- (1) MicroSave Project Completion Report
- (2) Study of the Operations of Procurement and Supply in Kenya with Respect to Small and Medium Sized Enterprises
- (3) SME Risk Capital Funds: Constraints to Kenyan Institutional Investment
- (4) Capacity Constraints Facing Risk Fund Managers in Kenya

All available now or shortly on [www.fsdkenya.org](http://www.fsdkenya.org) and in hard copy from FSD Kenya.

## GOVERNMENT TO PEOPLE PAYMENTS (G2P)

### Background

In 2006 an intergovernmental conference on social protection was co-hosted by the Government of the Republic of Zambia and the African Union in Livingstone. The event brought together ministers and senior representatives from 13 African countries, (Kenya, Ethiopia, Lesotho, Madagascar Malawi, Mozambique, Namibia, Rwanda South Africa, Tanzania, Uganda, Zambia and Zimbabwe) together with Brazil, development partners, UN agencies and NGOs.

The conference discussed measures for protecting the poorest in Africa. The conference noted with concern the continuing high levels of poverty in Africa and the likelihood that the Millennium Development Goals will not be reached in the region unless development strategies incorporate direct action to enhance social development. Social protection directly tackles poverty, contributes to economic growth and stimulates local markets. It was also noted that providing social protection in the form of social transfers is affordable in African countries with the resources currently available.

The provision of cash directly to poor people enhances economic growth as the transfers are used for both investment and consumption. The transfers can stimulate local markets, benefiting whole communities. The delegates called for social transfer programmes, including the social pension and social transfers to vulnerable children, older persons and people with disabilities and households to be a more utilised policy option in African countries. This case for basic social protection in Africa became known as the Livingstone call for action.



Recipients of the pilot OVC-CT programme receiving payment from the post office..

### Why the payments mechanism matters

A carefully conceived payments mechanism can enhance the development impact of social transfers. Social transfers may create a critical mass that encourages financial service providers to improve an area's financial infrastructure. For example the introduction of financial infrastructure to deliver social transfers may include point of sale devices, ATMs or bank branches that also allow the delivery of savings, loans, money transfer and insurance products appropriate to the wider community. This enhanced access to financial services benefits both beneficiaries and non beneficiaries, creating opportunities in poor households for income generation, asset accumulation and reducing vulnerability to shocks.

Payments mechanisms are often regarded as an afterthought in social protection schemes but close attention should be paid to their design and structure to take advantage of opportunities for wider development impact. The aim is to select payment mechanisms that can both efficiently deliver social payments and expand access to appropriate financial services for low-income Kenyans.

### Hunger Safety Net Programme

The Government of Kenya (GOK), in partnership with the UK's Department for International Development (DFID), is introducing a new cash transfer scheme which will provide small regular cash grants to some of the poorest and most vulnerable households in Kenya. The Hunger Safety Net programme (HSNP) targets poor and vulnerable households in the arid and semi-arid lands (ASAL) which are subject to regular drought.

This programme will be piloted for a period of 36 months from 2008 to 2011 in order to learn about the optimal arrangements and design for the scheme. If approved by the British Secretary of State, DFID will continue to fund 60,000 payments (supporting 300,000 people) for a national rollout on a phased basis between 2011 and 2017. In addition, further resources may be provided by the Government of Kenya to enable 1,500,000 people affected by chronic hunger to be supported under the programme. Based on expected household size, this may lead to a requirement for approximately 450,000 small, regular payments in the full roll out. Over the longer term it is anticipated that the scheme will form part of a national

social protection framework which will address the needs of three million Kenyans living in extreme poverty.

### FSD Kenya's involvement

FSD Kenya has been working with the Government of Kenya and key international donors to help develop an innovative payments mechanism for delivering government to person (G2P) payments. FSD Kenya is contracting with a financial service provider to deliver the HSNP recipient payments to 60,000 households starting in December 2008. This organisation will set up an agency network of retailers to deliver these payments alongside other financial services. One such product being considered for the programme is livestock insurance. The financial services will be available through point of sale devices (POS) - a small device used to process card transactions in their agency network. These products and services will be available to the whole community not only the recipients of the HSNP payments.



A POS device with an electronic finger print reader being used by a shop keeper to authenticate the identity of a recipient of child benefit identity in South Africa.

### The future

In the future another procurement process may be initiated to select payment service providers to deliver payments to households with orphans and vulnerable children. Many different technologies and approaches can be considered. These may include the use of mobile phones, ATMs and POS in conjunction with post offices, bank branches and mobile branches. The innovative delivery of Government transfers should support the development of Kenya's financial infrastructure, ensuring that more Kenyans are able to access financial services in some of the poorest communities.

## EVENTS CALENDAR

- June 17 - 18** Partnership forum on Making Finance Work for Africa, Accra, Ghana  
**June 19 - 20** African SME Banking, Nairobi, Kenya