UNDERSTANDING THE UNMET FINANCIAL NEEDS AND OPPORTUNITIES OF KEY SEGMENTS IN KENYA

REGIONAL MARKET FARMERS

Focus note 1 of 7

MOTIVATION FOR THE RESEARCH

An inclusive financial sector is a key enabler for achieving the long-term development strategy set out in Vision 2030 as well as the “Big Four” agenda that prioritises manufacturing, universal healthcare, affordable housing and food security. The financial sector can catalyse change through providing access to meaningful financial products that empower individuals and contribute to broader economic development in Kenya.

This study used FinAccess 2019 data to segment adults in Kenya to better understand the financially underserved. Seven priority segments were identified as being crucial to the realisation of the long-term development strategy and stated policy objectives including the “Big Four” agenda. This series of focus notes explores each of the identified priority segments. Check the FSD Kenya website for more information on the segmentation and the other six segments.

The needs-based framework is a new measure of financial inclusion that has been adopted in Kenya as part of the FinAccess survey. Originally developed by insight2impact (i2i), the framework measures how effectively the uptake and usage of available financial services meets the needs of consumers. Needs that are unmet, or not fully met, present opportunities where regulators, policy makers, and/or financial services providers could better serve these customers. There are four universal financial needs:

- **TRANSFER OF VALUE**
  - The ability to send or receive money
  - 76% of Kenyans aged 18+ have received or made a digital payment in the past 12 months

- **LIQUIDITY**
  - The need to meet expenses in a single income cycle
  - 62% of Kenyans aged 18+ have experienced liquidity distress in the past 12 months

- **RESILIENCE**
  - The ability to deal with unexpected financial shocks
  - 36% of Kenyans aged 18+ have experienced a financial shock in the past 12 months

- **MEETING GOALS**
  - The ability to achieve life objectives that require large amounts of money
  - 59% of Kenyans aged 18+ are currently trying to meet a specific goal

This research was conceptualized by FSD Kenya and CGAP to better understand the profile, needs, and ambitions of financially underserved segments in Kenya. With funding from CGAP, CENFRI and 7point4 explored the data – including FinAccess 2019, a study by CBK, KNBS, and FSD Kenya – and identified 7 key segments that display unmet financial needs and are strategically important for policy objectives and economic growth.
REGIONAL MARKET FARMERS

1.1 Million adults 18 +
This segment accounts for 18% of farmers in Kenya (based on main income source) and 4% of Kenyans aged 18+.

LIVELIHOOD
Regional Market Farmers mostly sell cash crops such as coffee and tea, although some sell food crops (e.g., cereals and tubers) or livestock. They operate within relatively organized value chains, selling produce through farmers’ cooperatives or to a company, manufacturer or factory.

AGRICULTURAL ACTIVITIES
- Sell cash crops: 81%
- Sell food crops: 37%
- Sell livestock outputs: 25%
- Sell livestock: 16%

MAIN SALES PLACE FOR PRODUCE
- Farmers’ cooperative: 41%
- Company, manufacturer or factory: 41%
- Brokers: 7%
- Other: 11%

36% Have additional income sources, mostly casual work and support from family or friends

FINANCIAL HEALTH INDEX
- 72% Have the ability to cope day-to-day
- 47% Have the ability to cope with risk
- 20% Have the ability to invest in their livelihoods and the future

27% Are considered financially healthy
This is slightly higher than the national average; for all Kenyan adults 21% are considered financially healthy

DEMOGRAPHICS
While Regional Market Farmers tend to be poor and have low levels of education, they are noticeably better off than Local Market Farmers. Just over half of the segment are male and the segment tends to be older; more than half are 50 years or older. The segment is most concentrated in the Central Province.

GENDER
- Male: 55%
- Female: 45%

AGE GROUP
- 51+: 50%
- 36-50: 29%
- 26-35: 15%
- 18-25: 6%

MONTHLY INCOME (KSH)
- 15,001+: 21%
- 7,501-15,000: 22%
- 3,001-7,500: 22%
- <3,001: 34%

FINANCIAL PRODUCT PORTFOLIO

Transaction account
88% of the segment has a transactional account
This is mostly driven by mobile money uptake; 84% of the segment has a mobile-money account and 44% have a bank account.

Savings
88% of the segment is currently saving
82% of the segment saves with a formal financial device – in a mobile-money account or a SACCO
35% of the segment has an informal savings device, including a savings group, and 33% keep their savings with a friend or family member or in a secret place
Just 6% of the segment has a pension, most intend to live off their farms in their old age

Credit
56% of the segment is currently borrowing
38% of the segment has an informal credit device, mostly taking goods and services on credit from a shop keeper
30% of the segment has a formal credit device, mostly from SACCOS. And 10% are currently borrowing from their family and friends

Insurance
44% of the segment has insurance
This is driven by the NHIF: 37% of the segment is a member of the NHIF. A further 13% have other insurance.
Understanding the Unmet Financial Needs and Opportunities of Key Segments in Kenya

**REGIONAL MARKET FARMERS**

This segment of farmers is significantly more likely to receive and make digital payments for their farm-related activities compared to other farmers in Kenya. This is likely due to the more formalised value chains they operate within. However, there is still significant room for improvement in the digitisation of payments along the value chain.

**TRANSFER OF VALUE**

- Received a payment linked to their farming activities directly into their account in the past 12 months: 58%
- Made a digital payment for farm-related activities including paying suppliers and workers in the past 12 months: 44%

**LIQUIDITY**

This segment is the MOST LIKELY of the priority segments to have experienced liquidity distress. Many in the segment who have experienced liquidity distress use non-financial mechanisms to cope including assistance from social networks and changing their behaviour by reducing consumption (9%) or working additional hours or jobs (7%). Social networks may not be effective where liquidity distress is caused by a shock that impacts a wider area (e.g. a drought), which may affect these social networks too.

**RESILIENCE**

- Experienced a financial shock in the past 12 months: 23%
- Top 3 mechanisms used to cope (Experienced a shock)
  - Formal savings: 29%
  - Assistance from family/friends: 27%
  - Sold an asset/livestock/crops: 10%

This segment is the MOST LIKELY of the seven priority segments to have experienced a financial shock. This segment’s main shocks include a sickness or health problem (29% experienced this) and loss or damage of livestock or crops (21%). For health-related shocks, the segment relies on social networks. For farm-related shocks which may impact wider areas, social networks are likely also affected and so the segment relies on their formal savings to cope.

**MEETING GOALS**

- Currently trying to meet a goal: 57%
- Top 3 mechanisms to meet goals (Trying to meet a goal)
  - Formal savings: 29%
  - Assistance from family/friends: 20%
  - Formal credit: 19%

This segment’s main goals include education for themselves or their family (13% of the segment are currently trying to meet this goal) and farm-related goals including buying inputs or assets for their farm (12%) and buying land (10%). Many farmers in this segment who are trying to meet a goal are using formal savings and formal credit, mostly acquired from SACCOS. Regional Market Farmers have higher access to credit than other farmers in Kenya.
### SUMMARY OF FINANCIAL NEEDS METRICS FOR THE SEVEN PRIORITY SEGMENTS

<table>
<thead>
<tr>
<th>Segment size (adults 18+)</th>
<th>REGIONAL MARKET FARMERS</th>
<th>LOCAL MARKET FARMERS</th>
<th>SOPHISTICATED BUSINESSES</th>
<th>URBAN SMALL BUSINESSES</th>
<th>PUBLIC SECTOR WORKERS</th>
<th>URBAN WAGE EARNERS</th>
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<td>Income/payment from main</td>
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<td>% who are currently</td>
<td>58%</td>
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<td>79%</td>
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