

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

## SOPHISTICATED BUSINESSES

Focus note 3 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.

REGIONAL  
MARKET  
FARMERS

LOCAL  
MARKET  
FARMERS

SOPHISTICATED  
BUSINESSES

URBAN  
SMALL  
BUSINESSES

PUBLIC  
SECTOR  
WORKERS

URBAN  
WAGE  
EARNERS

URBAN  
ASPIRATIONAL  
YOUTH

### THE NEEDS-BASED APPROACH

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

Photo: FSD Kenya



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 71point4 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.

## SOPHISTICATED BUSINESSES

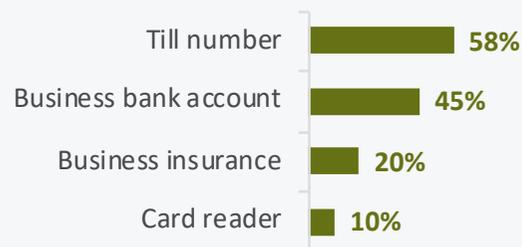
490,000 adults 18+

This segment accounts for 11% of business owners in Kenya (based on main income source) and 2% of all Kenyans 18+.

### LIVELIHOOD

Sophisticated businesses are registered and most have multiple employees. The businesses have access to business-specific financial devices such as business bank accounts and till numbers. Most are in the wholesale and retail trade.

#### FINANCIAL SERVICES FOR BUSINESSES

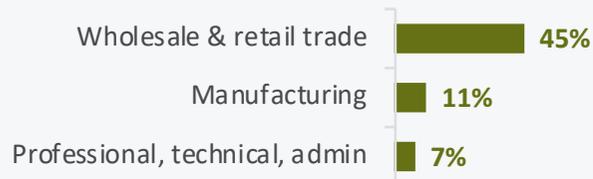


**31%** are one-person businesses

**23%** had five or more paid workers on average over the past 12 months

**98%** are registered businesses

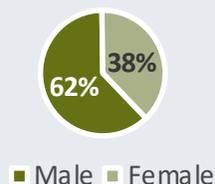
#### TOP 3 ACTIVITIES



## DEMOGRAPHICS

Sophisticated Business owners tend to be male and are relatively young. They have a very high level of education, almost half have some tertiary education. They are located mostly in urban areas, only 19% are in rural areas. They are most concentrated in Nairobi and the Central Province.

#### GENDER



#### AGE GROUP



#### MONTHLY INCOME (KSH)



**47%**  
Have at least  
some **TERTIARY**  
**EDUCATION**

#### FINANCIAL HEALTH INDEX

**87%** Have the ability to cope day-to-day

**82%** Have the ability to cope with risk

**67%** Have the ability to invest in their livelihoods and the future

**71% Are considered financially healthy**

*This is higher than the national average for all Kenyan adults where 21% are considered financially healthy*

## FINANCIAL NEEDS

### Transactional account

**97%** of the segment has a transactional account

Most of the segment has a mobile-money account (94%) and a bank account (83%). Almost 60% of the segment uses mobile banking.

### Savings

**96%** of the segment is currently saving

Most of the segment (96%) saves with a formal device – in a mobile money or bank account

42% of the segment has savings with an informal device and 36% keep their savings with a friend or family member or in a secret place

A third of the segment has a pension, with 32% having a mandated pension with the NSSF

### Credit

**64%** of the segment is currently borrowing

Formal credit devices are used most often; 51% of the segment has a formal credit device, mostly via mobile banking or loan from a bank

30% of the segment has an informal credit device. And 16% are currently borrowing from their family and friends

### Insurance

**71%** of the segment currently has insurance

This is driven by the NHIF, 67% of the segment are members of the NHIF. A further 31% have other insurance (mostly car insurance – 25%)

## TRANSFER OF VALUE



Received a payment linked to their business activities directly into their account in the past 12 months



Made a digital payment for business-related activities in the past 12 months



Most Sophisticated Businesses (70%) accept digital payments. They have POS devices and till numbers that allow them to accept digital payments from customers. In addition, just over half of the segment made a digital payment for a business-related expense (including paying suppliers or their employees) over the past 12 months.

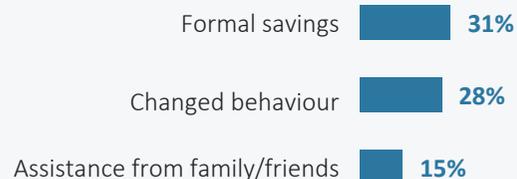
## LIQUIDITY



Experienced liquidity distress in the past 12 months



Top 3 mechanisms used to cope (Experienced liquidity distress)

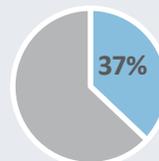


Sophisticated Business Owners are the LEAST LIKELY of the seven priority segments to have experienced liquidity distress in the past 12 months. However, more than one third say they were unable to meet their regular expenditure in the past 12 months. For those who have experienced liquidity distress, the main mechanisms used to cope include formal savings and changing behavior by reducing consumption (23%) or working additional hours or jobs (5%).

## RESILIENCE



Experienced a financial shock in the past 12 months



Top 3 mechanisms used to cope (Experienced a shock)

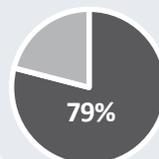


Nearly 40% of this segment has experienced a big cost from a financial shock in the past 12 months. The main shocks experienced by this segment included a major sickness, health problem or injury (experienced by 21% of the segment) and the death of a family member (11%). Most of those who have experienced a shock used formal savings to cope; 10% of the segment says that insurance was the main device used to cope.

## MEETING GOALS



Currently trying to meet a goal



Top 3 mechanisms to meet goals (Trying to meet a goal)



This segment is the second-most likely of the seven priority segments to be trying to meet a specific goal. Their main goals include expanding their businesses (25% of this segment are trying to meet this goal), buying land (15%) and buying or building a property to rent or sell (15%). Almost half of those who are trying to meet a goal are using formal savings and 22% are changing their behavior by working additional hours/jobs to accumulate funds.

# SUMMARY OF FINANCIAL NEEDS METRICS FOR THE SEVEN PRIORITY SEGMENTS



		REGIONAL MARKET FARMERS	LOCAL MARKET FARMERS	SOPHISTICATED BUSINESSES	URBAN SMALL BUSINESSES	PUBLIC SECTOR WORKERS	URBAN WAGE EARNERS	URBAN ASPIRATIONAL YOUTH
	Segment size (adults 18+)	1.1 M	4.2 M	490,000	2.2 M	900,000	2.2 M	1.2 M
TRANSFER OF VALUE	% who receive their income/payment from <i>main income source</i> directly into an account							
	% who have made any digital payment (including remittance payments) in the past 12 months							
LIQUIDITY	% of have experienced liquidity distress in the past 12 months							
RESILIENCE	% who experienced a financial shock in the past 12 months							
GOALS	% who are currently trying to meet a specific goal							