Community level impacts of financial inclusion in Kenya with particular focus on poverty eradication and employment creation

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UN Expert Group Meeting
8th to 11th May 2017
New York
Lay of the Land

- Kenya’s population - 46 million.
- 52% females and 48% males.
- 37% and 63% in urban and rural areas, resp.
- Close to 40 % < $1 per day and 33.6 percent < $1.90 a day, resp. in 2005.

Challenges in the past decade:
- High poverty incidences.
- High levels of exclusion.
- Missing markets and missing institutions.
- Highly segmented markets.
- Late 90s - cost pressures and performance targets - declining branches.
## Barriers To Financial Inclusion

### Supply Barriers:
- Infrastructural challenges.
- High costs (entry requirements, maintaining accounts).
- Lack of traditional collateral; stringent requirements for opening and maintaining accounts.
- Lack of appropriate products for each market segment.
- Information asymmetry.

### Demand Barriers:
- Poverty levels.
- Low incomes and lack of permanent income flows or employment.
- Physical distance to the access points.
- Low education and financial literacy levels.
- Cultural, religious and social barriers.

### Reforms were needed
- Kenya Vision 2030 of 2008 to 2030 - transforming Kenya into an industrialised, middle-income country providing a high quality of life to all its citizens based on three pillars.
Reforms and Initiatives (1)

Sending Money Back Home: The revolution of Digital Financial Services

• 2007 as a money transfer - efficient, scale, cheap, safe, convenient.
• More than doubled from 23.4% in 2009 to 67.5%.
• 161,583 agents handling over 30 million customers.
• 456.7 million transactions valued at Kshs. 1.2 trillion (USD 11.2 billion).
• 85 percent of the total number of transactions; 9 percent of the total value of transactions.

![Graph showing Performance period March 2007 - December 2016](image)
Taking Microfinance to the Community: The emergence of microfinance banks

- Microfinance banks focus on low income households and micro, small and medium enterprises (MSMEs) in rural and peri-urban areas.
- 13 MFBs - 113 branches, 105 marketing offices and 2,066 banking agents.
- 0.87 million deposit accounts valued at Ksh. 40.22 billion (USD 398.9 million)
- 0.29 million loan accounts with OLB of Ksh. 48.57 billion (USD 469.6 million).
Democratising Banking: The agency banking model

• Customer friendly, convenient and lower cost delivery channels for Kenyan consumers.
• Since May 2010:
  o 18 commercial banks and 5 MFBs) - 53,833 and 2,068 agents.
  o Over 322 million transactions worth over Ksh. 1.9 trillion (USD 18.65 billion).
Expanding Access to Credit: Credit Information Sharing (CIS) Mechanism

- Opportunity for individuals and businesses to rely on good credit history as an alternative form of collateral, to secure cheaper credit facilities from banks.
- Since 2010,
  - 3 credit reference bureaus (CRBs).
  - Cumulative credit reports requested by commercial banks, microfinance banks and customers as at December 2016 was 15,597,122, 584,775 and 248,026, resp.

Islamic banking (Sharia compliant banking)

- Introduced in 2005 to expand financial services to users restricted by non-availability of banking services compliant with their religious beliefs.
- So far,
  - Two full-fledged Islamic banks (3rd in April 2017) and Shariah compliant .Windows.
  - Control 1 percent of market share.
  - Enhanced supervisory framework for Islamic banking, catering to its unique aspects.
Contribution of the financial services sector to GDP continues to increase as access to financial services increase.

Banking sector growth with micro-accounts dominating the banking sector – with balances below Kshs. 100,000 (USD 1000).
**Key outcomes: Increased access**

**Overall access:** 75.3% of Kenyans are now formally included from 26.7% in 2006; over 50% increase in the last 10 years.

There has also been an increase in the number of financial access service points reaching larger segments of the Kenyan populace.
Key outcomes: Supporting Change

- **Expanded financial services:** DFS is now an integral part of everyday life with increased demand for, and usage of, digital finance and non-cash based transactions.
- **Gender Empowerment:** Due to the advancements of mobile money, which provide women a distinct reason to own and use a mobile phone, Kenya has a relatively small gender gap of about 7 percent.
- **Lowering Barriers** to Entry and Transacting in the Banking Sector to enhance access
  - Waivers on charges and reduction of ledger fees
  - Alternative methods of identifying and authenticating clients
Key outcomes: Supporting Poverty Reduction

- Access to mobile-phone financial services had increased daily per capita consumption levels of 194,000 Kenyan households (2 percent), lifting them out of extreme poverty.
- Low-income households and vulnerable groups have used money transfer platforms to expand their social networks and diversify risk, enhancing their resilience to unexpected negative shocks.
- Greatest beneficiaries have not been the poorest customers but middle and lower middle class groups. More inclusive financial systems required to ensure the poor and low income are served with appropriate financial services.
Key outcomes: Supporting Employment Creation

Employment Creation

• Opportunities: Reduction in the cost of doing business and effective distribution of capital and risk across the economy.

• Leveraging on these opportunities jobs have been created - 75,700 thousand jobs of the 2,687 thousand jobs in the formal wage-employment sector.
Key Risks and Lessons

Key impending risks

- **Vulnerability of the poor consumers** to the financial system given the complexities of the new financial systems or their consumer rights.
- **Resilience of technology** - to mitigate the risks of cyber-attacks, fraud and breach of privacy, among other new risks.
- **Financial stability concerns**: as more technology-based, unregulated or less-regulated non-bank players enter into the formal financial sector.

Lessons Learnt

- Clear vision and strategic policy.
- Understand emerging innovations, potential risks and how to regulate them.
- Learn from others rather than reinventing the wheel. Also be brave enough to blaze the trail.
- Working together achieves much.
- Private sector players must have “skin in the game”.
- Need for deep understanding of the financial lives of the poor.
- No “silver bullet”
- Maximise opportunities for innovative and inclusive finance and minimise risks.
Next Steps

• Advances in technology and communication, combined with the explosive growth in data and information, are giving rise to a more empowered global consumer.

• As the face and shape of finance responds to innovation and our changing preferences and needs, finance gets democratised.
  o Better calibrated and more informed and empowered citizenry who will be have more choices and customised services.
  o Product pricing will be competitive and transparent,
  o Financial institutions will dispense services at lower transaction costs,
  o Greater capital efficiency and stronger operational resilience.
THANK YOU