

# FSD News

## EDITORIAL

Welcome to the inaugural newsletter of the Financial Sector Deepening Kenya programme – FSD Kenya. Our aim is to provide information about FSD Kenya's work together with news and comments on important developments in the financial sector relating to access.

FSD Kenya was established in early 2005 to support the development of inclusive financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry our goal is to significantly expand access to services among lower income households and smaller scale enterprises. FSD operates as an independent Trust under the supervision of professional trustees, with policy guidance from its programme investment committee. Finance is provided by a number of development partners including the UK's DFID, the World Bank, Ministry of Trade and Industry and the Swedish International Development Agency (SIDA).

To ensure coherence in activity and maximise impact, FSD's work is guided by focal themes. Reviewed annually, these themes will evolve as financial markets develop, priorities change and new opportunities are presented for FSD. We currently have five theme areas:

- **Building core capacity**, working with banks, SACCOs and MFIs;
- **Pushing the frontier** through community based financial services;
- **Agricultural finance** to support smallholder agriculture;
- **Finance for growth** – targeting small & medium enterprises; and
- **Deepening the payments systems** to reach excluded markets.

**David Ferrand**  
Director



This quarter FSD will publish results of a demand side study of financial services in the ASALs. Here, participants in Turkana describe their spending and savings habits.

## NEWS AND VIEWS

### Microfinance Act

The Microfinance Act passed into law at the end of last year providing the legal basis for microfinance institutions (MFIs) to expand into deposit taking. This development is good news for the sub-sector allowing licenced MFIs to compete more effectively in a market which has seen commercial banks downscaling to serve lower income markets and SACCOs offering banking services through front-office operations. Strong progress has been made by the Central Bank of Kenya (CBK) in developing the new regulations in close consultation with the industry. These are expected to be gazetted during this quarter. FSD Kenya is partnering with the leading candidates for early transformation to deposit taking status under the new act.

### SACCO regulation and SACCO Fund

The last ten years has seen a significant expansion in the SACCO sub-sector. According to FinAccess survey data 2.3 million Kenyans are now reached by SACCOs. Responding to the need to manage the risks this rapid growth brings the Government is planning to introduce a new regulatory framework and a bill is expected to be presented to parliament shortly. FSD Kenya, working with the Ministry of Co-operatives, is establishing a SACCO Fund to support

the development of SACCOs. SACCO Fund's immediate priority will be to provide technical assistance to SACCOs preparing for this regulation.

## PUBLICATIONS

### Transforming Microfinance Institutions by Ledgerwood & White

This recently published book follows in the footsteps of Ledgerwood's 1998 Microfinance Handbook and is set to become a must have for those working in microfinance. This book is based heavily on the experience of MFI transformation in Uganda and also discusses examples from Kenya including K-Rep Bank's earlier transformation into a bank and Equity Bank's change management and expansion of voluntary savings. Available from the Legacy Bookshop at the Yaya Centre, Nairobi.

### Basic Report on Well-Being in Kenya by Kenya National Bureau of Statistics

The Kenya Integrated Household Budget Survey (KIHBS) recently undertaken by the Kenya National Bureau of Statistics (KNBS), provides new data on poverty in Kenya. This initial report includes basic poverty indicators, expenditure patterns and some findings on inequality in Kenya.

## EVENTS CALENDAR

### August

**August 20-23**

**Consumer information survey** to be published by CBK reviewing the price of retail banking services  
**Africa Microfinance Conference** in Kampala, Uganda. Limited funds are available from FSD Kenya to support travel costs and fees for Kenyan delegates who would otherwise not be able to attend. Contact Felistus Mbole at [Felistus@fsdkenya.org](mailto:Felistus@fsdkenya.org)

**August 28-29**

**African SACCO Regulators' Roundtable** to be co-hosted by Ministry of Co-operatives and WOCCU

**September 10-21**

**School of Applied Microfinance (sam)** is holding its annual 'Practical Skills & Tools' course in Mombasa. [www.samtraining.org](http://www.samtraining.org)

## finaccess

### What is the FinAccess Survey ?

During the International Year of Microcredit in 2005, various stakeholders identified a need for a comprehensive study on how Kenyans access and use financial services. It was agreed that this information would be invaluable to the financial sector, providing them with the necessary information to develop new products and services. It could also serve as a benchmark, helping policy makers in the government and its development partners measure and evaluate the impact of their initiatives to deepen access. Finmark Trust in South Africa, which launched Finscope, their first financial access survey in 2004, were an inspiration to action here in Kenya.

### How was the FinAccess Survey carried out?

A stakeholder group was formed – the Financial Access Partnership – which provided direction on the questions they wanted answered by the survey. The partnership continues to steer the whole process. A tender sent to five research companies in Kenya was won by Steadman Associates. The final questionnaire was designed by a group with representatives from the Central Bank of Kenya, Steadman, and FSD; additional support was provided by Finmark Trust. The questionnaire, which covered four main financial product areas: savings, credit, insurance and money transfers, was translated into the various languages commonly used across Kenya. Before the field work began, the questionnaire was piloted to verify that the questions were well understood by respondents. Field work in July and August 2006 was preceded by intensive training for the fieldworkers and their supervisors. The cleaned dataset was available by the end of the year and after preliminary analysis, the topline findings were launched in January 2007.



Project Manager, Dayo Forster answers questions about FinAccess.

### How reliable is the survey information?

Very reliable! We spent a great deal of time and effort to ensure that accurate results were produced. The rigorous sample methodology was based on Government approved sample clusters. Clear guidelines were given to field workers and their supervisors to ensure that respondents were selected randomly so that the final sample was random, and nationally representative. This sample was then weighted back to national population figures. Lastly the figures were compared against other survey data to verify that the figures were broadly similar, which they were.

### What are the most interesting findings?

The survey showed that only 19% of Kenyans have access to formal financial products such as bank accounts and that 38% are unbanked. One of the surprising findings of the survey was the extent that Kenyans use informal credit from shopkeepers. Another interesting result is the frequency of local money transfers within Kenya, 28% of Kenyans had sent or received a local money transfer in the previous 12 months. Only 3% of Kenyans had been involved in international transfers over the same period. The penetration rate of mobile phones is also astonishing – over half of Kenyans either own a phone or have access to one through a family member or friend.

### What's next?

The project is currently in the dissemination phase, sharing the survey information with the stakeholders in the financial sector and the government.

We are also helping to develop the capacity of local research institutions to further analyse the data. Going forward, it is planned that the survey will be carried out every two years with the next survey due in 2008. In addition, the Financial Access Partnership with FSD's support is also embarking on



Joseph Kinyua, Permanent Secretary Treasury, giving his keynote speech at the FinAccess launch in January 2007

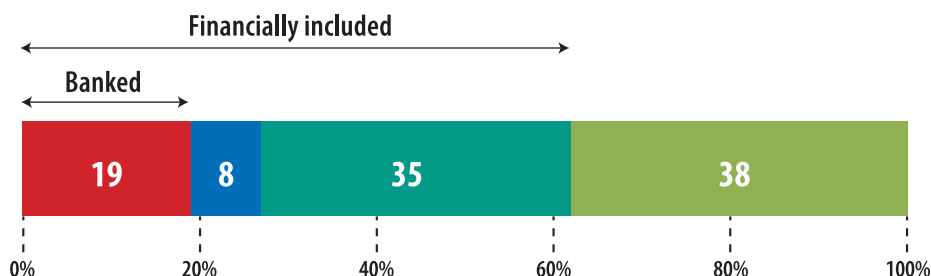
collecting more information about the supply of financial services by different kinds of providers in order to complete the picture of the financial landscape in Kenya.

### Where can I get this information?

Activities already planned by the Financial Access Partnership, with support from FSD Kenya, include publication of detailed reports on the data, further research, workshops, technical training and briefings.

If you have specific questions which you think the survey data could answer then let us know and we'll try to see how we can address them. In general, during this early phase of the FinAccess we will undertake this work free of charge provided that the results can be used by a wider audience. If confidential analysis is required and the outputs proprietary, then there will be a charge and we would be pleased to discuss this with you.

If you would like to receive additional copies of the leaflet, arrange a top-line presentation to your company/organisation, obtain a copy of the data and receive brief training on how to use it, or request further data analysis please complete the request form at [www.fsdkenya.org/finaccess/index.html](http://www.fsdkenya.org/finaccess/index.html) and email it to [FinAccess@fsdkenya.org](mailto:FinAccess@fsdkenya.org)



### Type of financial products used

- Formal - regulated banks, building societies or Postbank
- Formal other - SACCOs and MFIs (microfinance institutions)
- Informal - ASCAs (Accumulating Savings and Credit Associations) and ROSCAs
- Unbanked - no formal or informal financial products used

